



UpClose with

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Younan's Zaya Younan

Assets seem to be flooding into--and out of--the Younan Properties portfolio these days. Founder and CEO Zaya S. Younan, who over the past few months has debated--and ultimately backed away from--plans to go public, says there's a strategy behind the spree. The Los Angeles-based company in recent weeks has landed 2.1 million sf of office assets (from Transwestern) in Chicago and Dallas and shed assets in its home base of Los Angeles. In fact, the \$58-million sale of Pacific Pointe marked the five-year-old firm's exit from the L.A. market. Younan, in an exclusive interview with GlobeSt.com, says it's a simple matter of watching the up-and-coming markets and bailing from those where values have topped out. The executive, who claims that average IRRs over the past three years was 45%, says very simply that you can't question success. In our discussion, he went on to outline the strategy underpinning that success.

GlobeSt.com: There's been some rapid-fire buying and selling coming from your office. What's up?

Younan: Some markets see recovery before others do. We try to understand and monitor that and grow our business plan and asset allocation through the economic growth and changes in each of these primary markets. When we started five years ago, the recession had impacted the entire country. We thought that coastal cities, such as Los Angeles, would be the first to recover. They were hit hard but they're really resilient. So we started buying heavily in L.A., and we bought 25 assets in a very short time frame. This was from 2001 to the end of 2002.

We saw appreciations in markets such as L.A. going up faster than Chicago and Dallas, so we stopped buying in Los Angeles because we had a healthy portfolio there and started looking to the next areas of

recovery. That was 2003, and that's when we started investing in Chicago and Dallas.

Now, we're seeing recovery in those markets as well, with more consistent positive absorption and office employment going up while cap rates in markets like L.A. and Phoenix had compressed significantly. That's when we decided to sell our assets in markets like Phoenix and California and redeploy our capital where the recovery was around the corner.

GlobeSt.com: You figured that valuations in those markets you were exiting were as high as they were going to be?

Younan: Absolutely. First you have to determine the metrics you're going to use to do those calculations and understand the market. We have a background as economists, so we're not interested in interpretation of data by others. We are gatherers of raw data, and we analyze it the way we feel comfortable.

GlobeSt.com: So what do you look at?

Younan: We look at office employment growth. This is specific, not manufacturing or farm-based. We look at historical absorption and population growth. We look at the density of population growth per square foot and we look at costs per earnings ratio, which is the cost of the acquisition and the earnings of that acquisition per square foot. But we're not so much interested in what has happened in the past. We study the past, but we focus more on anticipating what is going to happen. Most people in this industry look in the rearview mirror. That's how you get into accidents.

Look at Chicago. Right before the recession Chicago had a single-digit vacancy and very consis-

tent positive absorption. The recession hit and Chicago took a big hit. Vacancies went to double digits and office employment Downtown alone dropped from 1.2 million to 680,000. But we knew recovery would happen. Now is the time to get very aggressive.

GlobeSt.com: So how long do you anticipate holding the assets you just picked up?

Younan: The recession was the longest in the history of this country. We feel the recovery would take as long, which means we are at the beginning of a four-to-five-year recovery in those markets. So our hold period will be much longer than it was in the past.

GlobeSt.com: You're not turning your back on L.A., I assume. It's a temporary thing, no?

Younan: Absolutely. Southern California will always be a high-demand office area. There is a lack of land and new construction and there is heavy population growth. But 70% of all the buildings traded in L.A. in the past 12 months traded below replacement cost, so valuation still has a way to go. You're not going to see valuations drop, but you are going to see one to three years of insignificant growth. In that period you'll see far higher valuation increases in Dallas and Chicago.

GlobeSt.com: Talk a little about the thought processes behind the decision not to go public. I assume it will be revisited at a later date.

Younan: Yes. As fast as we're growing, it's natural to be a public entity. We have an ambitious plan for growth, and it's not based just on buying available assets. We want to leverage our expertise by buying publicly traded REITs and integrate our way of operation to squeeze more productivity out of them.

Our thinking was that, to execute a leveraged buy-out of a publicly traded company, it was easier for us to be public to gain access to significant capital at better cost. But clearly, it's not a good climate for

public companies today, and most of them are biting their lips. There's a clear advantage in the private sector, and we'll wait until the valuation multiples are more in line.

GlobeSt.com: But are the dispositions enough to cover all of your growth plans in the private sector?

Younan: Capital has never been an issue for us because of our track record and our ability to run an operation efficiently. Our lenders are starting to invest equity with us, and I think you'll see more of that in the market because this is one way for them to differentiate themselves. In the past two years we've purchased more than \$1 billion in assets. You can't grow at that rate if you don't have very flexible access to equity and debt.

GlobeSt.com: And if your next acquisition is a company rather than a building?

Younan: The next acquisition might be a public company or a portfolio of a privately held company with significantly larger assets than we have today. Digesting that sort of acquisition will require more complex financing and a bigger channel to equity. The public market has many avenues for that and that's one of the reasons we're still considering going public sooner rather than later.

GlobeSt.com: How soon is soon?

Younan: In the next 12 months, the valuation of the private sector will be very much the same as a publicly traded company. At that time you'll see migration from private to public, but that can take 12 to 24 months.

GlobeSt.com: So where will you be a year from now?

Younan: We'll be three times bigger than we are today. We might be a \$4.5-billion company. In every market where we own an office building we will be one of the largest owners.