

NEWS & ANALYSIS



Zaya Younan: He's buying elsewhere because 'Southern California's valuations have gotten way ahead of the fundamentals.'

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Land Office Business

Mogul forsaking L.A. to bargain hunt in Chicago, Houston and Dallas

By **ANDY FIXMER**
Staff Reporter

ZAYA Younan moved his family to Los Angeles to retire from a life of working long days and nights streamlining business practices at some of the country's largest corporations.

The idea was to spend the rest of his days with his wife and children and in his spare time run a small firm to manage his money. That was five years ago. Instead, Younan ended up building one of L.A.'s largest real estate companies.

And he won't rest until his company is bigger than Equity Office Properties Trust, the nation's largest landlord.

"I have promised not take vacation until I

become a bigger office owner than EOP," said Younan, who hasn't had a day off in five years and typically works 12-hour days.

So much for taking it easy.

In early 2001, **Younan Properties Inc.** bought a \$2 million office building in the San Fernando Valley. Today his company controls a portfolio of office buildings scattered across the country worth close to \$1.2 billion.

The returns Younan delivers make his investors downright giddy. Earlier this month his company sold the Sepulveda Center office building for close to \$50.5 million, generating a 125 percent internal rate of return. His five year average return is 85 percent.

Those stellar results also commonly stem from Younan staking out strategies that run

counter to the what the rest of the real estate industry is doing.

For example, right now most real estate investment firms are selling assets and putting everything into office buildings in New York, Washington, D.C. and Los Angeles.

Not Younan. He likes Dallas – so much that he owns 4 million square feet of buildings and has become the city's second-largest office landlord. And while others flee Dallas and other similar cities, Younan is liquidating the last of his L.A. assets and snapping up properties in cities such as Chicago and Houston.

That's because Younan believes the price of office buildings in this region has gotten out of hand. He said during the last two years office property values have risen 60 percent

while rents during that time have only gone up 8 percent.

While the company will remain based in Woodland Hills, Younan said he's selling the company's last remaining L.A. County office building, the 275,000-square-foot Pacific Center in Torrance, to Houston-based **Transwestern Commercial Services**.

"Effectively 30 days from now we will have no assets in Los Angeles or Southern California," he said. "We feel Southern California's valuations have gotten way ahead of the fundamentals."

Money markets

Not everyone agrees that Younan's thinking is correct. Real estate brokers and other investors say that Younan, among a number of real estate rookies, has benefited from a strong market.

However, if the market dips significantly, investors like Younan could find themselves holding mortgages on buildings worth far less than the properties are worth.

Real estate investors are increasing the number of assets in markets like Southern California because the belief is that the market can withstand a downturn due to its fractionalized economy and lack of new construction.

Institutional investors, the type who come from Wall Street, believe Southern California's office market is in the beginning of a long stretch during which rents will spike tremendously.

"When the market changes and adjusts, 'A' grade properties in 'A' locations retain value better than 'B' grade buildings in 'B' locations," said Bob Safai, a principal at brokerage **Madison Partners**. "That's a fact that history has proven out."

Younan said he's unfazed by the criti-

cism. He agrees that rents will rise, but he believes rates will go up nearly proportionally nationwide. For that reason, he is convinced the returns will be better outside the L.A. region.

"More than two years ago, we started buying assets in Phoenix and everybody said we were crazy," Younan said. "Now we're selling those buildings for three times what we paid for them. And now we see the same patterns in Phoenix happening in Dallas, Chicago and Houston."

Younan's path into real estate has been a winding one. Younan was 13 when his family arrived in the United States just before Islamic rule was established in his native Iran, a result of the country's 1979 Islamic Revolution.

In 1984 Younan graduated from the University of Illinois, Champagne-Urbana with a degree in mechanical engineering and began advising companies on methods to increase quality and efficiency at their plants.

For 17 years he worked for companies such as **General Motors Corp.** and **Johnson Controls Inc.**, and then during the dot-com era Younan worked as a start-up specialist and turn-around consultant for tech companies.

Now Younan is applying the lessons he learned in those industries to real estate. His company looks at each building for ways to lower costs without impacting quality.

"The question we ask ourselves is how can we provide our product and service, which is our space, to our customers – our tenants – better, faster and more efficiently," Younan said.

Rapid growth

Dr. Narinder Grewal is one of Younan's

first investors. Grewal still remembers the day he met Younan and the pair went to look at the first office building they would buy together.

On the drive out, Younan explained his unorthodox approach to real estate but what sold Grewal was the results it produced. Within a year Grewal had doubled his money.

Since then Grewal has put money into 40 percent of Younan's acquisitions. Grewal wouldn't say how much money he's invested but he said his returns are averaging 85 percent.

"I trust that guy with my money," Grewal said. "For four years I haven't lost a dime and he's always made us a lot of money."

Younan says his company is phasing out using outside investor money for acquisitions. Instead, he said the company is now funding most of its purchases internally.

And his acquisition pace isn't slowing down. Not satisfied with being No. 2 in Dallas, Younan is buying the KPMG tower, a 1 million-square-foot landmark office building, for \$75 million. The deal won't make him the city's No. 1 but it gets him a lot closer.

Still, Madison Partners' Safai warns that Younan should be mindful that Dallas has historically been a topsy-turvy real estate market. "Dallas is feast or famine," Safai said. "You time that market wrong, and you could find yourself in a large hole."

Still, from an unknown upstart, Younan now competes with some of the biggest names in the real estate industry for properties. If that pace holds, Younan's elusive vacation may not be too far off in the future. "And I'm dying for a vacation," he said.