Small-Deal Scouts Active in Los Angeles:
Younan Properties reenters L.A. market with two office acquisitions
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By Keeley Webster

Though the transactional volume for Los Angeles office properties is not yet reflecting it, some value players who exited the Southern California market as prices skyrocketed are coming back.

Zaya Younan, chairman and chief executive officer of Woodland Hills-based Younan Properties, is among investors now looking for opportunities in Southern California.

"When I initially started the company in 2002 our focus was to buy commercial real estate in California," Younan said.

In its first four years, Younan Properties built up a portfolio of California properties by acquiring office buildings in Los Angeles, San Jose and Sacramento.

In 2006, Younan began liquidating those properties and purchasing properties in Dallas, Chicago, Phoenix and Florida - markets where prices had not appreciated as much, Younan said.

"We felt it was a good time to come back and selectively build a portfolio in Southern California because the valuation is so attractive - like we have not seen in 15 years," Younan said.

Younan has started out slowly on its reentry program, purchasing two office buildings in and around Los Angeles over the past six months. The first was the two-story, 62,356-square-foot 555 S. Charles located in Thousand Oaks that was bought from Arden Properties in January.

Younan also purchased a 62,000-square-foot, three-story office building at Warner Center from Value Home Loan. Younan had sold the building to Value Home Loan, a residential mortgage broker, in 2005.

As an owner-user, the mortgage company once occupied a majority of the building but has scaled back its occupancy. The building now is 93 percent occupied, Younan said.

"There are plenty of assets for sale that I see trading at a 9 or 10 [percent] cap rate," Younan said. "I feel the pricing has dropped significantly. In the last 18 months, the average cap rate has changed by 300 basis points. If you don't call this a significant price correction then I do not know what you would call it."

Younan declined to disclose how much his company paid for the assets. According to Younan, the 15 million-square-foot office portfolio the company holds in other states is worth $2 billion. He plans to invest $100 million in Southern California over the next six months.

Younan's purchases so far have fit the profile of what other investors have been doing during the past year: mainly deals under $20 million.

"These were small office buildings," said David Doupé, an international director with Jones Lang LaSalle.
What Younan is doing is only buying properties that have assumable debt at a capitalization rate of 9 percent or above, said Lynwood Fields, a senior executive director with Madison Partners.

"I know of other groups that are trying to buy at a cap rate of 9 or above," Fields said. "I just sold a deal in Beverly Hills that had a 9 percent cap rate. Deals will happen when you get realistic buyers and sellers together."

**Patient Money**

But Fields still isn't seeing a lot of activity because most buyers are very patient, he said.

"This is my third economic cycle," Fields said. "The way this works is that no one does anything, then all the sudden there is a rush to the door."

Fields said he has seen a pick-up in activity with major properties hitting the market, but few are closing.

While interest from value investors who quit acquiring when prices got too high, has resumed, Doupé does not expect to see enough activity to cause the transactional volume to rise until next summer. But high-net-worth investors who like to buy low and hold long-term are scouting for properties now.

"We are getting numerous calls from institutions that are entrepreneurial that have not been investing in Southern California because cap rates got so low," Doupé said. "A prime example is Highridge Partners, John Long's company."

Long, considered by many to be one of the great value investors in Southern California, is buying a 250,000-square-foot office building in the airport district of Orange County for $125 per square foot, Doupé said.

"It is a terrible market. It has challenges," Doupé said. "But if you have staying power and the basis is low enough, you can find some great deals. That is a classic example."

The challenge for many investors who see themselves as value players but do not have the deep pockets of high-net-worth investors is that they may have too many "legacy" problems to capitalize on the current economic environment, Doupé said.

"The challenge many would have is, are they too distracted by legacy problems to go forward?" Doupé said.

Doupé pointed to Broadway Partners as an example.

Led by Chief Executive Officer Scott Lawlor, Broadway pursued a strategy of purchasing office properties on highly leveraged loans in the hope that rents would rise enough in a two-year period for the company to sell at a profit. The company, founded in 2001, bought 28 office properties around the country from 2006 to 2007.

Broadway recently restructured a loan agreement with Lehman Brothers Holdings Inc. on a portfolio that involved it giving three properties back to Lehman, including 120 Howard St. in San Francisco, according to a report from CoStar Group Inc. Under the debt restructuring, Broadway will contribute capital and retain an ownership interest in a majority of the portfolio, including One Sansome St. and 50 Beale Street in San Francisco and 1000 Wilshire in Los Angeles, according to CoStar.

Over the past several years, Long has established partnerships such as Golden Boy Partners, where he formed a joint venture in 2005 with Oscar De La Hoya to purchase retail properties in inner-city neighborhoods. He also is a partner in Manarino Realty, which also was charged with scouting for retail properties.
The formation of the joint ventures received a lot of media attention, but little transactional activity has been reported about either of those ventures. Golden Boy contemplated purchasing the Sears property in Boyle Heights from Mark Weinstein of MJW Investments, but pulled out of the deal before it closed escrow.

Neither Jack Mahoney, chief executive officer of El Segundo-based Summit Commercial, a subsidiary of Highridge Partners Co., or Long could be reached for comment.

But, according to Doupé, now is an ideal time for value players to return to the market.

"Recoveries in the investment business are always led first by high-net-worth individuals and investment funds," Doupé said. "They are always the first to return because they are not encumbered by legacy issues. And they don't have investment committees they have to get everything approved through."