



The new ground war

Company changing course from cattle to big-time home building

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Sheepdog herding competition on Tejon Ranch property at Sweet Iron Quarter Horses. Tejon Ranch has partnered with the Trust for Public Land for a proposed preserve encompassing 100,000 acres. Tejon Ranch Co.'s newly revealed plans for a 156-square-mile nature preserve within its boundaries are big. But they're dwarfed by one word: Centennial.

The Centennial project calls for a 23,000-home development where some 70,000 people could be living just south of Kern County 30 years from now.

Some view the ranch's nature preserve deal with the Trust for Public Land -- which will buy up to 100,000 of Tejon's 270,000 acres for the preserve -- as a way to appease environmentalists opposed to Tejon's development projects.

But the immediate response from many environmental groups was critical, not pacified. They see sprawl, traffic jams, water issues, pollution and other human fallout destroying Tejon's pristine lands and bleeding into Kern County.

Because the preserve will likely pass from the trust to a state agency, they also see questionable use of taxpayers' money.

"There are a lot of questions that need to be answered before state bond money should be given to Tejon Ranch or the Trust for Public Land," said Bill Corcoran, regional representative of the Sierra Club. "A portion of the ranch is undevelopable because of its topography. It would not be a wise expenditure of scarce bond funds if we're merely setting aside what cannot be developed anyway."

Corcoran also believes that because any cash Tejon Ranch gets from the preservation deal will be used to fund its business plan -- in other words, to pay for real estate development and farming operations -- public money is essentially being used to pay for projects that will mostly profit the ranch's shareholders.

Ready to rumble

Chances are, Tejon Ranch managers knew that even a 100,000-acre preserve wouldn't magically ward off the anti-growth crowd.

After all, they'd been preparing for just such a tug-of-war with preservationists for more than seven years.

That's when the company hired Bob Stine as its new president and chief executive officer.

Stine, 56, was headhunted for the Tejon position from a San Diego real estate development firm. He started at the ranch on May 1, 1996.

One of the things that made Stine the right man for the job, say members of Tejon's board of directors, was his 17 years' experience developing real estate in the highly political Southern California market.

"Bob Stine came in with a good track record," said Michael Winer, a Tejon director and portfolio manager at Third Avenue Management, a New York City investment firm that is the ranch's largest shareholder. "We felt he was the right guy to essentially change the focus of the company."

Changing Tejon's focus comes down to one main thing: making money, for a change.

The ranch, most of which lies in Kern County, has aptly been called land-rich and cash-poor.

While Tejon's 422 square miles contain a wealth of California history and make up a piece of property like no other -- the ranch, formed from Mexican land grants, is the largest single patch of privately owned acreage in the state -- but it has never been very profitable.

Until Stine came along, Tejon Ranch had mostly run cattle and farming operations.

But a number of changes inside and outside the company in the 1990s prompted Tejon's management to look with fresh eyes at the ranch's biggest asset: its land.

One obstacle has been the cash that real estate development requires.

Long before buildings go up or appear even as detailed plans on paper, there's expensive work to do.

For example, there are reams of studies that Stine likes to call the "-ologies": biology, geology, archeology, hydrology and others. There are also extensive engineering, land-planning and other preparatory costs to make sure a project is both environmentally and economically sound.

"You do all that up front before you ever put the first shovel in the ground to build anything," Stine said. "Those things take time and a lot of capital."

Besides the Centennial project, for which initial paperwork was filed last August in Los Angeles County, Tejon Ranch has other development plans in the works.

A 15-million-square-foot expansion of warehouse space at the base of the Grapevine on Interstate 5 was approved earlier this year by the Kern County Board of Supervisors.

That project, which will spread the Tejon Industrial Complex to the eastern side of I-5, has attracted lawsuits from a coalition of environmental groups including the Sierra Club and the Center for Biological Diversity. The case is scheduled to go to court in early August.

A third development project called Tejon Mountain Village would sprinkle high-end homes in the hills around Tejon Lake, also called Castac Lake. The mountain village has yet to become official with Kern County planners. But it has been in Tejon Ranch's annual reports for several years. In them, it is described as a resort and retirement community that could include a golf course, hotel and lake recreation.

Just how much cash Tejon needs for the projects isn't clear. Nor is it known how much it expects to get from the proposed land sale to the trust. Neither organization has given even a ballpark figure for the land's potential value.

Historically, Tejon has often funded its expensive projects through partnerships with other companies. In the case of the Centennial project, the ranch is partnered with three Southern California building and real estate firms. Tejon's main contribution is its land.

Other large land deals have generated big dollars and headlines of late.

In February, the state agreed to pay \$100 million for 16,500 acres of salt ponds in the Bay area.

A deal is currently being negotiated between Hearst Corp. and the American Land Conservancy for 82,000 acres on the coast near Hearst Castle. Media reports have pegged the current price tag at \$100 million.

Strategic splash

The preserve deal's recent announcement was designed to be a big news item.

Specifically, it was designed to be big news in the Los Angeles area.

The ranch and the trust, using an outside public relations firm, staged an all-out media blitz for television, newspaper and radio reporters on May 29 to announce the partnership. The event included helicopter rides over Tejon's gorgeously wooded, normally inaccessible acreage.

The only catch: unbeknownst to those invited, the firm, the ranch and the trust had already given the story exclusively to the Los Angeles Times.

The PR firm had sent other media outlets cryptic invitations just one day before the event was scheduled. The release contained no details, and officials from Tejon and the trust were shielded from other media.

The strategy paid off well. The morning of the news conference, the Tejon story ran on the top of the Times' front page with an appealing aerial photograph of the ranch.

Because the fate of Tejon's Centennial development will be decided by Los Angeles County officials, the Times exclusive proved a clever maneuver. The play earned Tejon and the trust well-placed, relatively positive coverage in the region that, technically, will be Centennial's home.

Supervisors in Los Angeles recently approved the 21,000-home Newhall Ranch project on I-5 near Santa Clarita. So far, it is the largest subdivision in the county's history.

The idea that Tejon Ranch's residential development is more aimed at Los Angeles than Kern County is no secret. Nor is it necessarily a shortcoming.

A 1999 Bloomberg News story about Stine and Tejon played up the appeal of its planned housing developments to Los Angeles-area residents.

"The bottom line is, we have 22 million people living within a two-hour drive to us," Stine told the publication.

Road to somewhere

Some say that despite the number of developments springing up around the state, the state is facing a housing crisis.

California's population is expected to grow by some 12.5 million by 2020.

The state building association says at current construction levels, California is falling behind future demand by 100,000 units, counting both new homes and apartments, each year.

One thing is certain: More people will be California residents. And they'll need to live somewhere.

"All in all, it will benefit the southern valley," said Ron Sprague of Tejon's development projects.

Sprague, a member of the Kern County Planning Commission who is also in the real estate industry, said if the projects are well-planned they'll be environmentally sensitive and bring new jobs to the region.

"The people who are against it are mostly environmentalists who want to see that area stay pristine," Sprague said.

Green hills of home

While Tejon Ranch has an unimpressive history of earning money, executives at Third Avenue Management in New York saw long-term potential in the company when about a third of its shares became available in 1997.

"The land at Tejon Ranch is for the the most part underutilized," said Third Avenue's Winer. Despite being Tejon's largest shareholder, Winer is the investment firm's only representative on Tejon's board of directors, which has about 10 members.

Because there are tremendous resources in Tejon's land and almost no company debt, Winer said, his firm considers it "an extremely well-financed company."

Frank Colatruglio, vice president and private client manager at Wells Fargo Investments in Bakersfield, agreed that Tejon shares are attractive for their real estate potential and that the company has very low debt.

Developing Tejon's holdings along the 16-mile stretch of I-5 that cuts through the ranch will "multiply almost geometrically the value" of that land, said Colatruglio, who does not hold any shares of Tejon Ranch.

Tejon Ranch is one of two companies headquartered in Kern County that trades on the New York Stock Exchange. Tejon trades under the symbol TRC. The other company is Berry Petroleum.

As Tejon Ranch goes forward with a transformation that will ultimately make its profits important to shareholders, it has left behind its familiar role as Kern's secretive kingdom in the hills.

The changes have already started. Tejon's planned projects have launched predictably feisty exchanges between developers and preservationists.

Soon after plans for the Centennial development were filed, for example, a group of Antelope Valley residents launched an anti-Centennial Web site named "Stop Tejon Ranch."

The Center for Biological Diversity, one of the groups in the industrial complex suit, is preparing an opening brief that will include information about Tejon's "shocking lack of disclosure of air quality impacts," according to one of the group's members.

Feels like a long time

Technically, Tejon has been publicly traded since the mid-1930s. Trying to make money from the ranch, however, is a recent phenomenon.

In brief, Tejon's history goes something like this: the ranch was formed during the mid-1800s from a consolidation of Mexican land grants.

The name "El Tejon," which means "the badger" in Spanish, stuck after a Spanish explorer spotted one of the critters in the area.

In 1912, a trio of prominent Los Angeles-area businessman bought the ranch. The three were Los Angeles Times publisher Harry Chandler; Moses Sherman, namesake of Sherman Oaks; and Arnold Haskell, a real estate developer.

For years it remained mostly a cattle ranch and weekend playground. Some farming began as early as the 1940s and was aided in the 1970s when completion of the California aqueduct made irrigation possible.

Otis Booth, the cousin of Otis Chandler, the former Times publisher who was the son of Harry -- came to the ranch regularly while growing up.

Booth, who earlier this year retired from Tejon's board of directors after serving 33 years, said it's an "exaggeration" that the ranch was just a retreat for the wealthy Southern California families who owned it.

"It was a working cattle ranch," said Booth, who played there as a child and later hunted on the grounds with his newspaper-scion cousin. "The cattle business, per se, doesn't make very much money anywhere, by anybody."

By the mid-1990s Tejon's management was ready to head in a different direction. That's when Stine was brought in to focus on developing ranch property.

Now, the wild ridges and canyons where trappers like Kit Carson and Jedediah Smith once traipsed are symbolically traded on a stock exchange.

Like much of the rest of California, when historic change eventually came to Tejon Ranch, it came hard and fast.