



Tejon Ranch, the largest working ranch in California, is larger than the city of Los Angeles.
Bob Stine (right) is taking the ranch into a new generation.



PRESERVING CALIFORNIA'S LEGACY; PROVIDING FOR CALIFORNIA'S FUTURE

Tejon Industrial Complex Offers First Taste of Development Success

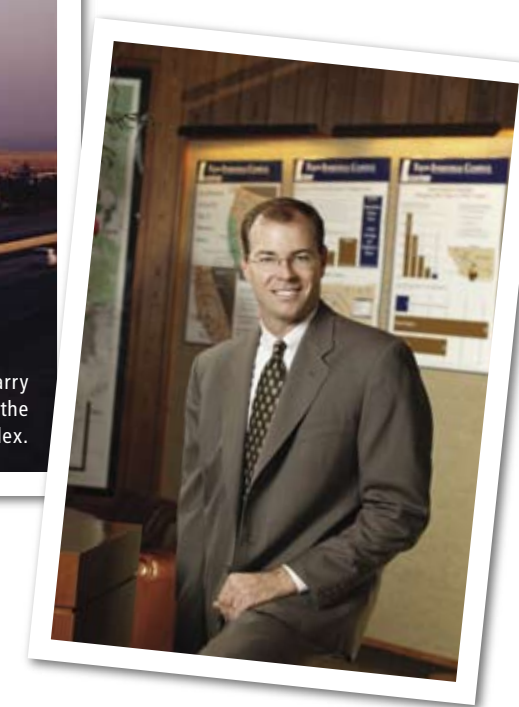


BY TERESA KENNEY

With 270,000 acres, **TEJON RANCH** is larger than the city of Los Angeles and 40 percent the size of Rhode Island. Assembled from four Mexican land grants, the ranch traces its history back to 1843, before California was even a state. Today, the ranch is a publicly held entity traded on the New York Stock Exchange.



IKEA was on the top of Barry Hibbard's (right) list for the Tejon Industrial Complex.



“We had this **PERFECT PIECE** of land, right at the junction of I-5 and Highway 99 and we had a vision of a **WORLD-CLASS** industrial complex complete with landscaping and a nice **CORPORATE PRESENCE**”

Farming and ranching have been the primary activities at the ranch over the years and you'll still find cowboys tending their herds as well as 7,000 acres of vineyards, orchards and crops. In 1996, the hiring of Bob Stine as CEO changed the landscape of Tejon Ranch dramatically. As a developer in San Diego for 17 years, Stine had the credentials the board was looking for to take Tejon Ranch into its next generation.

Recalls Stine, “Over the past several decades, the ranch had gone through a number of land planning exercises, but no comprehensive or detailed plan had been devised on what might be appropriate for the land. The previous CEO had a background in agriculture so when he left they felt the time was right to seek a candidate with real estate experience.”

Stine says his first few years as CEO were spent “developing an overall game plan to look at what would make sense ranch-wise. An industrial complex was the first obvious step that came out of the planning because, not only did we have the perfect location, the market for that type of development was strong.”

They had the land. They had the vision. Now they needed the tenants.

FROM PLANNING TO EXECUTION

When Barry Hibbard first joined Tejon Ranch in 1998 as vice president of commercial and industrial marketing, he sat down with Stine. “We had this perfect piece of land, right at the junction of I-5 and Highway 99, and we had a vision of a world-class industrial complex, complete with landscaping and a nice corporate presence,” notes Hibbard. “Bob tells us that the next order of business is to figure out our buildings and our customers. Bob’s a very compelling guy, so when he says to start looking, you start looking.”

Having been given his “marching orders,” Hibbard took to the task of finding the right marriage of location and client. One of the businesses that made the most sense for the location was a travel plaza, but they

didn’t want to build just any truck stop. “We looked at different travel plazas across the country and felt that Petro ran the highest quality centers. They are really designed to serve both the professional driver and the touring motorist,” notes Hibbard. Breaking ground in 1999, the 52-acre Petro Travel Center opened later that same year.

The team also looked at what businesses would best be served in the Tejon Industrial Complex (TIC).

“I’d watch the traffic out of my window and I’d see truck after truck driving by on the interstate,” recalls Hibbard. “So you begin to ask yourself, where do these drivers pick up their loads and where are they headed to drop them off?”

He noticed that many of the trucks making the run outside his window were from Wal-Mart. “What some people don’t understand is that companies like Wal-Mart, Costco and Target are really supply-chain companies disguised as retailers. They are low-cost leaders because they are so efficient at supply.”

Noting their strategic location between Southern and Northern California, Hibbard and his team decided to capitalize on those businesses looking to serve customers regionally. “We hired a logistics consultant with a lot of initials after his name and came up with some key companies to approach. On the top of the list was IKEA,” says Hibbard.

For the first face-to-face meeting with IKEA representatives, Stine had Hibbard purchase a room of IKEA furniture. “My wife and I walked into one of their stores and chose one of the complete rooms on display. We just told the sales person we wanted everything right down to the art hanging on the wall. We then moved it back up to the ranch in a U-Haul.”

They replaced their own conference room furniture with the IKEA furnishings. “When one of the senior vice presidents from IKEA walked in, he made a beeline for a certain chair. I knew that one must have been the most comfortable and the one I wanted in my own home,” jokes Hibbard. The strategic decorating paid off. “The way we conducted the meeting convinced them that we were serious about giving them a strong offer, and it has proved to be a great relationship.”

That first meeting took place in October 1999. Nearly one year later, IKEA closed on the land for its new Western North American Distribution Center. Construction began in January 2001, and the company was fully operational the spring of the following year. Starting out in an 850,000-square-foot building, they’ve since expanded it to 1.7 million square feet and are currently leasing an additional 410,000 square feet in another building.

Today, distributors and businesses that have joined IKEA and the Petro Travel Plaza as tenants of TIC include Oneida Ltd., Best Western Hotel, McDonald’s, In-N-Out Burger, Wendy’s, Panda Express, Starbucks, Subway, Iron Skillet Restaurant, and TCBY. Joseph Drew, senior vice president of real estate for Tejon Ranch, joined the company in 2001. He explains that eventually the complex will grow to nearly 1,500 acres.

“The complex has been tremendously successful. We’ve already created 1,300 new jobs. Half of the employees come from Bakersfield and half come from small communities in the vicinity,” says Drew. “When it’s completely built out in the next 10 years, it will have approximately 20 million square feet of industrial space and freeway retail, generate 6,000 new jobs and result in an estimated \$5 million plus in local tax revenue for Kern County.”

The reasons for the project’s success come down to the three new “Ls” of industrial and commercial real estate: location, labor and logistics.

LOCATION. LABOR. LOGISTICS.

TIC faced competition from nearby Bakersfield, which was offering companies free land and incentives. What Tejon Ranch had to offer was a reduction in drayage costs. Drayage is the term used for the movement of supply from the ports to the warehouse. The difference in costs between the two communities was significant, translating to \$8 million dollars in real savings for locating at TIC.

Hibbard notes that while drayage costs were important, outbound shipping proved even more so. Recent changes in federal trucking laws, he points out, limit drivers to 11 hours on the road per day. A rig that starts out from TIC in the morning can complete a round-trip run to the Bay Area within that time frame.

“A driver can cover all of Southern California and the Bay Area in one day and be home with his family that evening. This is really important to distribution companies. There simply aren’t enough drivers coming into the workforce. Getting drivers home with their families each day reduces employee turnover.”

In addition, the area boasts an abundant labor force: Kern County grew 40 percent from 1990 to 2000. In a farm economy where unemployment can spike to 18 percent, people want to work. According to Hibbard, every job opening at IKEA had 13 applicants.

Thomas Taylor, senior vice president with Colliers International in Diamond Bow, says land prices are also a key success driver for TIC. “Tejon Industrial Complex is a formidable competitor for the Inland Empire, east of Los Angeles. Land prices there have gone up, and traffic problems are beginning to develop. The San Fernando market has less than 3 percent vacancy and virtually no land. And Valencia is also clear of land. Our value is in our land.”

Add to the mix favorable housing prices for a growing work force and you have the recipe for continued success.

TODAY AND INTO TOMORROW

Taylor and John DeGrinis, also a senior vice president with Colliers in Encino, are the brokers representing TIC.

“We’re excited about the project. Basically we are pursuing two product types: smaller buildings less than 120,000 square feet and big box product,” explains DeGrinis.

DeGrinis notes that there will also be a foreign trade zone overlay for the project, which allows for greater efficiency for companies doing business overseas.

The Foreign Trade Zone (FTZ) is a joint venture between TIC and



Senior VP of Real Estate for Tejon Ranch, Joseph Drew (left), says the industrial complex will grow to 1,500 acres.



Rockefeller Group Development Corporation. It calls for the designation of 500 acres at TIC as a FTZ with the development of the property within that zone for warehouse and distribution uses.

There are three main benefits for companies locating at a FTZ. It allows manufacturers or distributors to pay no duty on imported items or raw materials until such goods enter the commerce of the U.S. FTZ users may also receive permission from customs to move imported items directly from the ports to the FTZ, thereby avoiding delays at congested ports. In addition, the Trade and Development Act of 2000 allows FTZ users to submit weekly reports and pay one broker and processing fee per week rather than submitting a report and paying a fee for each shipment. This can result in significant cost savings.

Additional development plans for Tejon Ranch call for Centennial, a master-planned, self-sustaining new town, and Tejon Mountain Village, a world-class mountain residential and resort community designed with a light touch on the land. Notes Drew, “The California population is growing by nearly one million people per year and they need a place to live and work as well as commodities for a good lifestyle.”

Tejon Ranch is going to great lengths to ensure all three land uses “live” well together. “We think industrial and residential uses are incompatible. Therefore we are strategically locating the more residential developments away from the industrial complex,” explains Drew.

This is a huge selling point for homeowners who want to avoid the traffic and noise of an industrial park as well as industrial tenants who want to avoid complaints from neighbors. “Making the industrial complex independent from the others will prevent clashes and allow businesses to adopt

an around-the-clock working environment,” says Thomas.

In addition to the developments, Tejon Ranch will also include a 100,000-acre, science-based preserve. “After we got the industrial park up and operating, we began looking at other areas for development and sought the advice of a number of different environmental organizations,” says Stine. “As good stewards, we knew we should be thinking not just about real estate but also about preserving our best natural resources. In 2003, we formed a partnership with The Trust for Public Land. From a natural resource standpoint, they advised us on which locations within the ranch—essentially the best of the best—should be preserved.”

This partnership is all part of Tejon Ranch’s mission, which is “Preserving California’s Legacy, Providing for California’s Future.”

It’s a mission that hits home particularly for Stine, who just recently welcomed a new granddaughter into his family. When asked when development was projected to be complete on the ranch, he says it could be another 75 to 100 years—and all for future Stines to enjoy. [KL](#)