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A Chat With Hugh McMahon of Tejon Ranch

By Bob Howard



McMahon

LEBEC, CA-One of the largest developments under way anywhere in California is the Tejon Ranch Commerce Center, a 1,450-acre project of the publicly held Tejon Ranch Co., a development and agribusiness company that owns 270,000 acres approximately 60 miles north of Los Angeles. The executive overseeing the development of the Commerce Center is Hugh McMahon, vice president of commercial and industrial real estate, who is also responsible for future commercial development at the company's planned 23,000-home Centennial project as well as Tejon's oil, gas and mineral properties, and all easements on the ranch. McMahon recently spoke with GlobeSt.com about the present and future plans for the Commerce Center, which already includes a 1.7-million-square-foot IKEA Western North American Distribution Center and a 350,000-square-foot Famous Footwear West Coast Distribution Center as part of three million square feet of warehouse facilities. The project also includes a surprising number of retail and commercial uses, among them two travel centers serving truckers and the general public, a Best Western Hotel, a McDonald's and a dozen other eateries that include a sit-down restaurant at one of the travel centers, plus a Starbucks that ranks among the coffee shop chain's 10 busiest locations in the country. Someday, it may also be home to an outlet mall.

Howard: *Until recently, the Tejon Ranch Commerce Center was known as the Tejon Industrial Complex. Can you explain the re-branding?*

McMahon: The thought in changing the name was two-fold. For the general public, the word industrial brings to mind manufacturing-related uses, heavy machinery and smokestacks, but what we're really all about is goods movement: distribution centers. Also, we have a significant retail component, which doesn't fit the industrial complex moniker. The name Tejon Ranch Commerce Center speaks to the dual uses we have here with the retail opportunities as well as

the goods movement.

Howard: *Does the name change also reflect a greater emphasis on retail than your original plans?*

McMahon: Originally, the vision did not include so much retail, but our history shows that this location had been a way station for a century or more for travelers between Northern and Southern California. We're in partnership with TA Petro on two large travel centers here that serve up to 1,100 truckers at any given time, with services on both the east and west sides of the freeway. We have expanded the scope of the travel centers beyond what you would see at a traditional truck stop to include a lot of amenities that cater to the general traveling public, and the response has been tremendous. That's one reason for our new branding.

Howard: *How much retail have you developed versus how much you plan to develop?*



IKEA Distribution Center

McMahon: We have developed about 115 acres, including the two travel centers, and our plan calls for 200 acres of retail eventually.

Howard: *What is some of the new retail that is in the works?*

McMahon: We have a new Chipotle restaurant that will be opening in the first week of December in a 4,500-square-foot multi-tenant building on the west side of the freeway. We have also entered an agreement to sell some land to a hotelier that already operates two other hotels on Tejon property, one of them at the Commerce Center. They expect to build a 63-room hotel there next year. The ranch is also finalizing plans for a 2,700-square-foot Del Taco and a 4,500-square-foot Denny's. We expect to start construction on both of those in the first quarter of 2011.

Howard: *How about more long-term plans?*

McMahon: With our location 30 minutes south of Bakersfield and about 30 to 40 minutes north of Valencia, we are considering some sort of destination retail on a fairly large scale, so it would be something along the lines of an outlet center. We're working on feasibility and marketing analyses right now, but we have nothing to announce yet.

Howard: *When the economy slows the pace of development, developers often spend their time working on entitlements to prepare for the eventual upturn. Are you doing that?*

McMahon: The Tejon Ranch Commerce Center is fully entitled. We have two large, very public entitlement efforts going on for our residential projects, Tejon Mountain Village and Centennial, so your comment about moving forward for entitlements during slow times does apply to those projects.



Famous Footwear Facility

Howard: *What are you doing to attract more users of distribution space?*

McMahon: We've been pounding the pavement, making the case that Tejon offers a holistic solution. We have an abundant labor force of about 50,000 who work in the agriculture industry in Kern County, most of them near Bakersfield. These are people who are highly trained to operate sophisticated equipment because a lot of the larger agricultural organizations have their own distribution centers, so we have a highly skilled work force that on average is 45 cents to a dollar less expensive per person than what you would see in Southern California. Also, we're located in Kern County, which is renowned for being business friendly.

Howard: *What has been the response to your effort to attract more distribution projects?*

McMahon: In the past two and a half months, we've had a flurry of activity from big-box users who are looking for space. We have put out 12 proposals on space in excess of 250,000 square feet or more, and half of those were for one million square feet or more. I have not seen this level of activity in the nine years that I've been with the company. What's exciting for us is that so many of them are coming to look at us. We don't know yet if this is a temporary window of opportunity or if it has long-term implications, but it is certainly reason for optimism.

Howard: *What is your pitch to prospective users in terms of location?*

McMahon: From a logistics perspective, we are dead center in the middle of California. You can reach 97% of the customers in California in a single-day truck turn from this location. So if you are trying to cover Northern and Southern California and any of the 11 western states, you're not going to find a more effective solution. Our location also allows dual-port access, which is an important consideration when you realize that, a few years ago, the ports of Los Angeles and Long Beach had a strike around Christmas. IKEA is bringing in a percentage of its cargo from the port of Oakland, which is four hours away on I-5, versus two hours from the ports of L.A. and Long Beach.

Howard: *You have a foreign trade zone at the Commerce Center that is the largest activated FTZ in the state. How significant a factor is that for existing and prospective tenants?*

McMahon: Three or four years ago, I don't think foreign trade zone resonated as it does today. Given the tight economy, everyone is looking for an advantage, and the FTZ allows folks to defer, reduce and eliminate duty payments, and also to get their product out of the port immediately and into their distribution center, so they don't have to wait in the queue to get their goods out of there. Luckily, we're partnered with the Rockefeller Group Development Corp., which has a premier FTZ group that we make available here. Right now, we are in the process of activating a third-party-logistics user for 165,000 square feet in the foreign trade zone in a 606,000-square-foot building that we own with Rockefeller, and they plan to expand once their status is approved.

Howard: *Other than what we've talked about, what new development is on the horizon at the ranch that would catch the eye of GlobeSt.com readers?*

McMahon: We have several large-scale initiatives under way, so it's hard to pick one out, but we are looking at engaging with two multinational solar developers to do two large utility-scale power plants on the property. We can't

talk about specifics, but these would be two of the largest such facilities in the country. In addition, IKEA is planning a rooftop solar installation that will be the second-largest in the country and will be starting development on it next year. Overall, in terms of what we've seen coming across the desk, there has been an increased interest in facilities of one-million-square-foot-plus as companies look for economies of scale.



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