



Dude Private Equity

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A home on the range is where the deer and the antelope play—along with, it turns out, private equity investors.

Blazing a trail from Wall Street to the Rocky Mountains, Sporting Ranch Capital (SRC) L.P., is a Dallas-based real estate, private equity fund that was launched in 2012 to acquire recreational ranch properties in Mountain States such as Montana, Wyoming and Idaho. The firm buys neglected, overlooked properties at distressed prices, renovates them into trophy ranches with world-class fishing and hunting amenities, sells them at a premium, and distributes the profits to investors.

SRC's first \$30 million fund attracted 14 investors, each of whom anted up a minimum of \$1 million. The fund closed in November after buying its fifth property, the Fall River Ranch, a 603-acre acre spread in Ashton, Idaho. The other properties in the portfolio are Woods Creek, a 160-acre ranch in the Teton Valley near Driggs, Idaho; Chama Ranch, which covers 518 acres in northern New Mexico's Chama Valley; the Upper Provo River Ranch, a 204-acre property in Summit and Wasatch Counties, Utah; and Hidden Lake Ranch, 760 acres in Pagosa Springs, Colo.

SRC opened a second fund in November that plans to raise \$50 million and buy 10 properties in the same region, according to founder and general partner Jay Ellis.

"Our investors are mega-high-net-worth investors, many of whom own multiple ranches of their own and have an affinity for the outdoors," says Ellis, who spent 25 years with Wall Street firms including Credit Suisse First Boston and Morgan Stanley. SRC works with family offices and advisors to the ultra-wealthy, but "we don't really target a specific group of investors. They target us," says Ellis.

SRC counts legendary Texas energy entrepreneur T. Boone Pickens among its investors. Pickens is listed on SRC's Web site as a "partner" and serves as an advisor to Ellis and the fund. The two became friends while Ellis worked at Morgan Stanley's Dallas office, where he followed Pickens' energy funds.

"I know Jay from years back," Pickens says. "I was in touch with him and he started telling me about what he was doing. I had done something similar, where I bought ranches and converted them to recreation ranches—hunting primarily and some fishing—and sold them and did very well on them." Unlike SRC, Pickens' ranch investments were solo ventures and he did not have any partners.

“I’ve certainly got money in the deal and I told Jay that I’d be more than happy to meet some of his prospects, which I have done, and I have given him some prospects also,” says Pickens. “Am I working at it? Not every day, but I help him when I can.”

Ellis said Pickens fills an important advisory role for SRC.

“I have 100% sole discretion on the [property] acquisitions,” says Ellis. “I visit with Mr. Pickens and Ron Basset [a strategic advisor to SRC and Pickens associate since 1969], probably bimonthly, and discuss what we’re doing, what our targets are and how we’re doing it, so Mr. Pickens has taken a pretty active role.”

Acquisition Criteria

SRC seeks properties that have been neglected, underdeveloped and underutilized and are available at distressed prices. It works with land reliances, land trusts and community banks that notify it about prospective off-market acquisition opportunities. The properties all must meet a wide range of criteria, including close proximity to airfields, hunting and fishing locations, medical facilities, restaurants and other entertainment venues. Beyond stunning natural beauty, the most important feature a property must possess is a body of water—rivers, lakes, streams—and the more of it, the better, because SRC believes water equals value.

After acquiring a property, SRC looks to enhance its value by renovating and beautifying it. That means knocking down buildings, removing abandoned equipment, resolving access issues, adding roads and installing high-quality fencing, among other repairs. However, the key task in creating a trophy sporting ranch that a buyer will be willing to pay top dollar for is restoring and creating fisheries and wildlife habitats.

“Once we acquire an asset, we don’t cut it up into 35-acre parcels or create a shared-amenity ranch. We keep the ranch in its entirety, enhance the habitats, and beautify the ranch. You make your money on your purchase, you create your margins on the stream enhancements, adding lakes and all the other things we do,” he says.

Ellis declined to disclose his target profit margin on the sale of properties, but notes, “All of the prices we’re going to ask for these ranches are well over our targeted returns.”

SRC is targeting a “high teens” return on investors’ capital, according to Ellis, and proportional distributions will be made when SRC begins selling properties. The first ranch is likely to be put on the market in April. All SRC properties will be sold free of environmental conservation easements that may reduce value by binding prospective new owners forever to commitments regarding land use, maintenance of wildlife habitats and migration corridors, and preservation of scenic vistas for the public.

“Once you encumber a property, you take a significant amount of value out of that property, depending on how restrictive the easement is,” says Ellis. He adds that SRC will encourage buyers to seek conservation easements after the purchases to take advantage of potentially significant tax savings.

Back To Nature

SRC is working with Fort Collins, Colo.-based CFI-Global Fisheries Management to restore and develop the fishing and bird-hunting amenities on two of its properties. That process involves much more than simply stocking a pond with fish, according to Shannon Skelton, CFI’s president and senior fisheries and aquatic biologist.

“We do complete stream channel enhancement and restoration, bank revitalization and restoration and a lot of transplanting of native wood species,” says Skelton. “We also have to bring vegetation to a lot of areas to solidify the banks to make them healthy and stop the erosion. That creates vast arrays of quality insect and fish habitats. Trout are the end product of a very high-quality and productive habitat, so you have to make sure that you develop and restore all of the foundation factors so that trout will want to be there.”

Fisheries that do not have all the right components for a productive ecosystem are simply not sustainable, according to Skelton. “You could stock fish and they’ll stick around for a bit but then disappear. We come in and completely study and analyze the entire system so we can identify what’s missing, what the limiting factors are and, ultimately, what we need to do to make it a lights-out fishery.”

Equally important to SRC and CFI is ensuring that anglers have access to those fisheries. Part of what CFI does is create paths, trails and clearings that enable fishermen to reach the newly restored or created habitats.

“You could have spectacular productivity in a stream and the fish are loving it, but the angler can’t get to it because it’s too covered up with brush or it’s inaccessible,” says Skelton. “Essentially, what we want are areas that are very attractive for the bugs, the fish and the anglers, not so heavily wooded that you can’t access them, and yet not stark and bare, either. Just a nice, healthy glen. That’s ultimately what’s needed to be a sustainable, productive and accessible environment.”

CFI’s wildlife division focuses on creating optimum habitats for water fowl, migratory birds and upland birds on SRC properties. Many SRC locations already have wild populations, according to Skelton. His firm works to enhance those habitats. In locations where birds are scarce or non-existent, CFI will start habitats and introduce upland birds to establish populations.

“In the recreational ranch market, everybody wants all the aesthetics of beauty, their own private fly-fishing stream, the hunting and all of those sporting attributes,” says Ellis. “Our end product is the finest trophy sporting ranch that can be completed. Whether we need to add lakes, an upland bird component or big game component, our properties will have every single sporting attribute a

sporting ranch can have.”

“It’s not a façade, it’s not fake, it’s what the real potential of these properties is,” says Skelton. “Sporting Ranch Capital and our group really line up in the sense that Sporting Ranch Capital is willing to invest what it takes to achieve absolute excellence, not just for the next year or two, but for a sustainable world-class fishery.”

One of the unique aspects of investing in SRC is that its returns to investors do not come in dollars only. Fund investors are able to collect a “trout dividend” that enables them to use the properties of their choice for fishing and hunting trips. SRC investors simply log on to the fund’s Web site, access a calendar and reserve days for a trip to a particular ranch. An investor has exclusive use of the entire property for the whole time he or she has reserved.

“Once we acquire a ranch, it is for the exclusive use of our investors,” says Ellis. “We did that just to make it more of an exclusive club.”

Ranch Investing Basics

SRC touts the fact that its investments are an alternative to stocks and bonds. “It’s an investment in hard assets and you eliminate any 20% down quarters,” Ellis says.

Ellis also sees SRC as a hedge against the pent-up inflation that he believes will inevitably filter into the economy and help devalue more traditional investments. “Once the Federal Reserve stops pumping all this liquidity into the system and we do get significant inflation, our returns will dramatically increase. We are looking at this as a safe haven, hard-asset alternative to the financial markets. For the investors we are talking to, depending on what their net worth is, this is a 1% or 2% or 3% allocation into this asset class.”

Pickens agrees with that strategy.

“I like Jay’s approach to this,” says Pickens. “The size of these properties is going to fit a lot of people. They’re going to have water, they’re going to have fishing and hunting on them, and I think they’re going to be very attractive ranches. There’s a lot of money being made in West Texas and South Texas and in North Dakota in the oil business, and I think a lot of those people are prospective owners of what Jay has for sale,” both as property buyers and fund investors.

Ellis, meanwhile, sees few if any other investments that provide the fringe benefits of SRC ranch properties.

“We started with a concept and it’s gone from a concept to a full-fledged private equity fund that, not only can you make money, but you can sure as hell enjoy it while you’re making money,” says Ellis. “You know, you can’t play with a stock certificate.”□