

## Restoring Ranch Land for a Profit, and a 'Trout Dividend'



Matt Eastman, a consultant for Freestone River Ranch, a private fishing retreat being developed near Park City, Utah, does some fly fishing.

By SARAH MAX

From the road skirting its property line, Freestone River Ranch looks like a flat, cattle-trodden pasture flanked by rolling hills. But Jay Ellis, founder of the private equity firm Sporting Ranch Capital Management, sees something sparkling in the distance. He slams on the brakes and jumps out of his rented sport utility vehicle to get a closer look at one of the dozens of natural springs spilling out from small aqueducts. "You could fill up your water bottle and drink it," he says excitedly. "It's that pure."

Mr. Ellis isn't particularly interested in drinking this water. The real value he saw when he bought this 204-acre ranch a year ago was as a premier private fishing retreat 20 minutes from Park City.

"Lots of people own expensive houses in Park City, but I guarantee you nobody owns a ranch like this one," Mr. Ellis said. Before he bought the property, he called local real estate agents to find out what it would cost to buy a couple of hundred acres near town with a few miles of riverfront. "They told me it doesn't exist," he said.

This logic — that sporting ranches near desirable destinations are a rare commodity — is the basis of an investment fund that Mr. Ellis started in 2012. The idea is novel, but it has also attracted attention for its association with T. Boone Pickens, the billionaire oilman.

When Mr. Ellis, a fellow Oklahoman who ran Morgan Stanley's institutional sales office in Dallas, pitched the idea, "it was a natural fit," said Mr. Pickens, who is a prolific landowner himself. His 68,000-acre Texas Panhandle ranch sits atop one of largest aquifers in the country.

"Over the years, I've bought and sold ranches and improved them every time," said Mr. Pickens, who favors quail hunting to fishing. Preservation is "a much better use of the land," he said. And the timing for such a fund was right, Mr. Pickens added, thanks to a recovering economy and a natural

gas boom that is bankrolling new buyers.

Mr. Pickens agreed to invest in the fund, sit on the board and make some introductions, with the stipulation that Mr. Ellis quit his job to work on the fund full time. "I gave my notice that day," said Mr. Ellis, who now wears Carhartt pants and work boots in his new role.

While roughly half of the fund's investors own their own ranch property and are investing because they understand the space, Mr. Ellis said, many are motivated by what he calls a "trout dividend," the opportunity to fish and hunt on these private parcels before they are sold. The fund is "conservatively targeting returns in the high teens," he said.

The first fund raised \$30 million among a dozen limited partners and is now fully invested with five properties in Colorado, Idaho, New Mexico and Utah. Over the last year, the fund has also restored nearly three miles of river on a 760-acre parcel outside Pagosa Springs, Colo.; enhanced roughly two miles of river, added four lakes and skeet shooting on 518 acres in New Mexico; and started work on a private Yellowstone cutthroat trout fishery near Driggs, Idaho. Mr. Ellis is planning to put all five ranches on the market in 2014 and is confident that these "pristine trophy properties" will sell quickly. Mr. Ellis is now raising a second fund, for \$50 million. Sporting Ranch Capital is not the first private equity fund to pursue this model. Beartooth Capital closed the first of its two funds in 2006 and has roughly \$70 million under management. The fund, which is based in Bozeman, Mont., also places great emphasis on river restoration — it has restored 37 miles of river and creek — but its business plan does not hinge exclusively on selling trophy ranches to private buyers. Of the roughly 25,000 acres Beartooth has acquired, 53 percent is either under conservation easement or has been

sold to conservation buyers.

"This is an asset everyone wants, but either the price is ridiculous or the property needs too much work," Mr. Ellis said, adding that his focus is on improving the fishing habitat to lure private buyers willing to pay a premium. "Buyers typically don't have the

textbook example of how Mr. Ellis sees his strategy playing out. When he received a call about the ranch late last year, he was intrigued by the property's 8,400 feet of Upper Provo River frontage. On closer inspection, though, he realized that the biggest return would come from restoring the nearly 12,000 feet of spring



Jay Ellis, right, with Shannon Skelton, at a Utah ranch.

time or patience to do the work themselves."

Those landowners who do try to improve the fishing on their creeks and rivers often do so in a way that's "unnatural and contrived," said Shannon Skelton, a former fly-fishing guide and aquatic biologist who runs CFI Global Fisheries Management in Fort Collins, Colo., which has managed the restoration of the ranches in Colorado and Utah. "If a section of river is functioning hydraulically and biologically, we find out why and try to duplicate that," he said. "We're not trying to play God, just trying to help things out."

Water rights are a critical component, and each property comes with its own caveats, Mr. Ellis said. Different states have rules about stocking fish. It's an option in some, but in others, like Utah, owners need to wait for nature to take its course.

Every property has its nuances, but Freestone River Ranch in Utah is a

creek that ran parallel to the river and intersected it at the bottom of the property. It is fed by dozens of cold springs that keep the water at a near-constant 58 degrees year round.

Mr. Ellis bought the property from the Mormon Church last December for an undisclosed amount. "They saw it as a denigrated cattle ranch that couldn't be developed," he said. "I saw unlimited water resources."

A year ago, the creek had no fish. It had been sliced, diced and diverted for irrigation and reduced to a two-foot ditch void of any vegetation. "Livestock were left to graze all along that corridor," Mr. Skelton said. There was "tremendous bank degradation, erosion and the water quality was suffering."

"I started poking around on that spring creek and found aquatic insects that are indicators of super productive environments," Mr. Skelton said.

“The fact they were present in that system that had been utilized as agricultural property was very encouraging.”



“We’re not trying to play God, just trying to help things out,” said Mr. Skelton.

Working with a small crew wielding heavy equipment, Mr. Skelton spent the summer making small changes along the river — adding riffles and fishing holes — and reshaping the spring creek by closing the irrigation channels, building log drops, adding woody debris and replanting vegetation —

all vital to the insects that fish feed on. The crew added eight oxbows — off-channel ponds that are ideal habitat for

young fish and casting. Finally, they widened the channel connecting the creek and the river and added terraced pools. “Before, it was basically a fish barrier,” Mr. Skelton said. Brown trout were already finding their way up into the creek in November, when Mr. Skelton and his crew were wrapping

up work for the season. “I can’t tell you the amount of times I’ve built something and, as I’m sitting there watching the water clear, I’ll see fish flop right into what I just built,” Mr. Skelton said. “For that moment, the world is perfect.”

All told, Mr. Ellis invested about \$1 million in the property, with most of it going to improving the spring creek and making small improvements on the river. Other than replacing the barbed-wire fence with buck and rail, he’ll do little else to the property. Future buyers, he said, will want to make their own decisions about the size and style of home they want to build. While the goal is to develop the property in as natural a way as possible, the strategy isn’t without risks or complications. It requires extensive permitting — a task that Mr. Ellis assigns to a local in each region.

Water flows are also a critical component because they can fluctuate greatly from season to season. Mr. Skelton, for his part, spends time tracking down and studying historic patterns. “One thing we can’t change is water temperatures and historic flow regimes,” he said.

There’s always the risk of local opposition, though environmental groups are generally supportive of such restoration projects. Mr. Ellis said he frequently receives leads on properties from land trusts and conservation alliances. He doesn’t put conservation easements on the property — doing so, he said, can cut its value by 40 percent — but “we will strongly encourage our buyers to be land stewards,” he said. “Once you buy one of these beautiful places, it would be silly to start cutting it up.”