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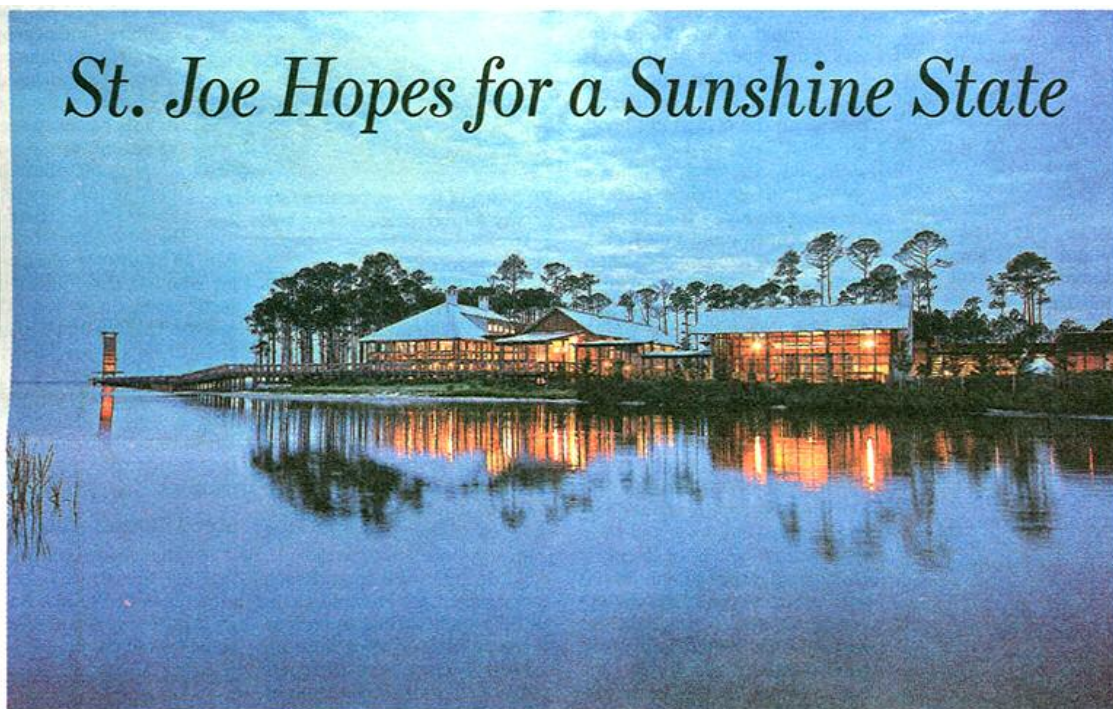
## MONEY & INVESTING

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### St. Joe Hopes for a Sunshine State



#### Florida Land Company Shuns Debt in Effort To Survive Downturn

BY MICHAEL CORKERY

FOR a decade, St. Joe Co. touted its grand plan to transform stretches of sugary white sand and pine-tree-shaded marshland in the Florida Panhandle into a baby boomer paradise of residential real-estate developments with names like WaterColor and RiverCamps.

The glossy brochures and glitzy magazine ads were no match for the housing crunch. The Jacksonville, Fla., company has shut down its home-building operations, slashed its work force to 200 from 1,500 and outsourced management of its hotels, golf courses and marinas.

In recent months, St. Joe has been shopping vast tracts of land to timber companies and acreage to wealthy, or



"high net worth," individuals, like an Atlanta investor who is interested in 3,500 acres for a quail-hunting plantation.

Despite its struggles—St. Joe's shares have tumbled 56% from their peak—St. Joe may well be the envy of the battered U.S. real-estate industry right now. The reason: Because of its unusual history, St. Joe owns about 700,000 acres that are debt-free. As a result, the company has been able to avoid the fire sales spreading through prized land parcels of desperate home

St. Joe's Florida second-home development (above), and the company's timberland.

builders and developers throughout the country.

Last month, St. Joe sold about \$600 million in new shares to eliminate its debt load, helping the company hold on to lots, worth as much as \$1 million an acre, that it expects to sell once the housing market rebounds. "It puts time back on their side," said Richard Clattenburg, an analyst at T. Rowe Price Group Inc., which owned about 15% of St. Joe's shares at year end.

It was a fortuitous fix for the largest private-land owner in one of the worst housing markets in the U.S. But Houdini-like maneuvers have characterized St. Joe since its inception in the 1920s. Company founder Alfred duPont, an heir of the DuPont chemical fortune, moved to Florida from Delaware with

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SPRING O'BRIEN

# Will St. Joe's Debt Move Lend an Edge?

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\$25 million and bought up swaths of land, mostly during the Great Depression.

For most of its life, St. Joe was a hodgepodge of railroads, timber and sugar and paper mills. Its land was, and still is, recorded on the company's books for about \$200 an acre.

In 1997, the company began spinning off its industrial businesses, convinced that its land holdings were a gold mine for residential and commercial development. Peter Rummell, a former real-estate chief at Walt Disney Co. who developed the widely known town of Celebration, was hired as chief executive to deliver his magic.

As the housing market surged, St. Joe's strategy seemed brilliant. Northwestern Florida, including Panama City and the state capital of Tallahassee, is more laid-back and rural than the crowded beaches and clogged highways near Miami and Fort Lauderdale. The chic vacation homes, waterfront resorts and meticulously planned communities built by St. Joe look nothing like the basic cottages and even trailers along the Gulf of Mexico that gave the area its "Redneck Riviera" nickname.

## Creating 'Places'

"Others build developments—JOE creates places," St. Joe boasts in its 2004 annual report.

But St. Joe had mixed luck selling homes. Prices of its homes, including modest \$300,000 houses and \$1.5 million homes near beaches and on rivers, have fallen 20% to 25% from their peak and the company has been stuck with unsold inventory as the housing crisis slammed Florida.

One problem is that many of St. Joe's buyers were investors speculating on baby boomers, rather than actual baby boomers who intended to live in the houses, some local real-estate



St. Joe Co.  
Rendering of the new Panama City-Bay County Airport, which is being built.

agents say.

"They were big players in hyping the market," says Billy Joe Smiley, a real-estate broker at Port Realty in Port St. Joe, Fla., a small town, where St. Joe's former paper mill used to operate. "I give them credit for storytelling and picture-painting and attracting investors. But I've seen them fail to follow through on what it takes to really grow the area. Show me an area that grows without job growth."

At St. Joe's WindmarkBeach development, for example, there are only about 20 houses built or in the process of being built on 110 lots, according to the company. Mr. Smiley, who bought one lot for \$150,000 in 2002 and sold it the next year for \$495,000, said 80% of his own sales during the boom were to speculators.

"Yes, some of our buyers ended up being investors," said a St. Joe spokesman Jerry Ray. "But there are a lot of people holding onto lots and waiting to build until they retire."

The region also is a long drive from most major cities, and the Tallahassee and current Panama City airports have few direct flights to the Northeast or West Coast. The Panhandle region can sometimes be chilly during winter months and can be infested by mosquitoes.

St. Joe has donated 4,000 acres for the new Panama City-Bay County International Airport, now under construction.

The company expects the airport to create thousands of jobs and increase the value of St. Joe's remaining land nearby after the airport opens in 2010. The new airport is also expected to make the Panhandle easier to reach for vacationers.

"I don't think the airport is the panacea that some people think it will be," counters David Cohen, an analyst at Morgan Stanley who has the equivalent of a "sell" rating on St. Joe. "The big question is how much migration goes to northwest Florida and how long it takes."

Part of St. Joe's strategy is to wait for the Florida housing market to improve before it sells its best residential and commercial parcels.

## Stock Bargain-Hunters

All that cheap land is drawing "value" investors to take another look at St. Joe. Such bargain-hunters accumulated big stakes when the housing market

was surging, and then the company attracted many investors who bet that its shares would tumble. St. Joe fell \$1.23, or 3.2%, to \$37.22 as of 4 p.m. Friday in New York Stock Exchange composite trading.

Many of St. Joe's largest shareholders snapped up more shares in last month's offering, "which was a big vote of confidence in the underlying value of the company," said Sheila McGrath, an analyst at Keefe, Bruyette & Woods, who has the equivalent of a "buy" rating on the company.

Mr. Rummell, who is stepping down as CEO in May but will remain chairman, says huge tracts of land are likely to attract Middle Eastern and other foreign investors who already have big stakes in commercial real estate. The weak dollar may also entice foreign investors to U.S. real estate.

"It's not just guys with oil money who have figured out that American real estate is on sale," Mr. Rummell said.