Interview

Profits in Profit-Center Real Estate

Christopher H. Volk

An Interview with Christopher H. Volk, President and Chief Executive Officer, STORE Capital

EDITORS' NOTE *Chris Volk co-founded STORE Capital in May 2011. In August 2003, he co-founded Spirit Finance Corporation, a real estate investment trust he took public on the New York Stock Exchange in 2004. He led the company as its Chief Executive Officer, President, and board member until February 2010. Prior to that, he served more than 16 years in numerous capacities with Franchise Finance Corporation of America (FFCA) and its successor, GE Franchise Finance, including as President and Chief Operating Officer and a member of FFCA's Board of Directors.*

COMPANY BRIEF *STORE Capital Corporation (storecapital.com) is an internally managed net-lease REIT that is the leader in the acquisition, investment, and management of Single Tenant Operational Real Estate, which is its target market and the inspiration for its name. The company is one of the largest and fastest growing net-lease REITs and owns a well-diversified portfolio that consists of investments in more than 1,750 property locations in 48 states. Substantially all of STORE's investments are in profit-center real estate as defined by property that STORE's tenants need to conduct their businesses.*

How did your past experiences lead to STORE Capital?

STORE was a progression of other companies we had run before, so we had always been in the same business. That said, we have evolved our business model to create the best platform we have ever managed.

The reason we own our tenants' real estate is to provide them with long-term real estate financing solutions. Our clients are operators of restaurants, fitness clubs, early childhood education centers, or movie theatres that have a choice to own or rent their real estate.

Owning real estate ties up capital, so renting real estate in the market we're in today tends to be a better business decision that creates value by lowering our tenants' cost of capital. At the same time, by selling their real estate to STORE and leasing it back from us, our tenants gain more financial flexibility to run their businesses, which also translates into huge value for them.

We have been in the net-lease financing sector for a long time and sold our first company to GE in 2001. It was a public company from 1994 to 2001 and it was private before then. After we sold to GE, they bought a number of other market participants, creating a very significant franchise.

Ironically, today, our offices are literally in the building that GE Franchise Finance used to occupy. When GE curtailed their capital activities, all of that capital that used to be in the marketplace ceased to exist. This opened the door to opportunity for us. We knew this marketplace very well and felt the world needed what we had.

We focus on middle market and larger companies. These are what I call bank-dependent companies, and they number in the many thousands. They have choices about where they obtain capital, but their choices are more limited than the largest organizations.

Our clients are the source of jobs and growth in this country. It's an incredibly vibrant market. When I come to New York City to talk to people about what we do, there are many brand name assets we own that are unfamiliar names because they are based elsewhere. However, there are many vibrant chains out there in fields like health clubs, early childhood education, restaurants, and so much more.

We decided to focus on profit-center real estate, which is integral to the sales and profitability of our tenants. STORE was our way of denoting this – it stands for Single Tenant Operational Real Estate. The market for STORE properties is enormous at about $2.6 trillion.

Today, we have more than 1,750 properties in 48 states, and we have an intimate relationship with our tenants. We get financial reporting from them, but we also get property-level financial reporting so we know how every property in our portfolio is doing.

We started STORE privately with institutional capital, but soon it was clear to us that we were addressing a huge unmet need in the market. In 2014, we took the company public to expand our ability to address this large, untapped market. Since then, our total return to shareholders has been something north of 50 percent. The broader real estate investment trust benchmark is less than half of that.

We have sold almost $3.8 billion worth of stock in that time, half of which came from the founding shareholders. We've also grown the company to more than $4 billion in equity valuation, making it the largest company by equity value that I have taken public. It's the best platform we have created.

Although you have scale from a brand point of view with 1,750 properties, STORE itself is less well known. Does brand matter?

Building a strong brand identity over time matters. Having been in the business for a long time, we had some relationships that were helpful as we started this company. Since then, we have built brand awareness through a lot of social media and e-mail outreach, as well as through referrals. We have seven direct calling officers that harness our database of 10,000 companies. There are 200,000 companies in this country that are between $10 and $1 billion in revenue. Of those 10,000 companies in our database today, 350 are our customers so we have a lot of room to grow. Our name is gaining recognition – we have been adding almost 20 new customers every quarter and about one-third of our business comes from existing customers.

Last year, we invested $1.2 billion in $9 million increments on average. This means we are doing 40 transactions every quarter as we add new customers. Today, we have more customers than most companies in our space, together with a portfolio that is insanely granular. We get 80 percent of our revenue from clients that account for less than 1 percent of our revenue. We have many nice middle-market and larger businesses that are growing and using STORE to help manage that growth.

How competitive is this space and how do you differentiate?

We tried to focus upfront on a B2B approach where we're calling on companies directly.

As such, we're not just trying to take market share in the business. Our view is this is a growth business, and we can create demand – we don't have to steal market share. Of course, there are others operating in our space, but very few are institutional players.

From an analyst point of view, does Wall Street fully understand your business?

Wall Street doesn't fully understand the business. All of our businesses to date have outperformed the broader performance benchmarks while having less share price volatility and less risk. This business simply works, is resilient, and is among the best real estate and financially oriented businesses I know. ●

