BY DAVID STEIN

Lease – Don't Own

An Arizona firm specializes in sale-leaseback options as the nation's economy continues its steady but slow and tepid recovery from the Great Recession of 2008 and 2009, and many business and franchise owners are in the delicate position of wanting to expand operations – which generally implies the acquisition of real estate. Such owners are still extremely cognizant that cash flows move far too quickly from black to red when major outlays like real estate occur. The commitment to property purchases can liken itself to a stifled cash flow as monetary assets become locked down in brick and mortar.

It's a catch-22 that in many cases is resolved through the use of a sale-leaseback transaction, explains Christopher H. Volk, president and CEO of STORE Capital, based in Scottsdale, Arizona.

"The companies we serve are all real estate intensive," Volk said. "They have to have a business location where their clients come to access their services. Yet, to increase their profitability and maintain cash flow, they often times are better off not owning their locations."

This is where Volk's firm enters the picture.

STORE is an acronym for "Single Tenant Operational Real Estate." The firm's purpose is to become the landlord of choice for a wide variety of real estate intensive business entities such as specialty medical operations, fitness centers, theatres, restaurants and for-profit education centers, which Volk indicated these service industries represent approximately 70 percent of the firm's clientele. Retail clientele like "furniture and sporting goods stores make up 20 percent of STORE's portfolio," he detailed, "with the remaining ten percent being industrial facilities dedicated to either manufacturing or distribution." STORE specializes in purchasing real estate assets and then leasing those back – in most cases to the former owner who wishes to continue conducting business at that site.

"We lower their cost of capital and this makes them – their cash flow, their profitability, their ability to expand operations – better without the real estate overhead," Volk explains.

While his firm is essentially a glorified version of a landlord, he does not view his work as such. Volk sees and seeks a partnership with the firm's clients, from whom real estate has been purchased and leased back. Their success is his success. He said that his goal is to meet the physical facility needs of STORE's clients so effectively, that these business owners come back to his firm with repeat business when new facilities are called for in their business plans.

"We want to serve them over and over again," Volk said, recognizing that his approach most likely varies from other executives in the sale-leaseback field. "Historically, most players in this industry think of themselves solely as sources of real estate capital because they tend to focus a lot of their effort on the individual real estate locations. But we at STORE are not looking just to buy an asset from a client. We want to provide a solution to them, adding a lot of value and helping them create wealth instead of just doing a transaction."

"It's almost as if the real estate itself is incidental to the business," he mused. Certainly it is an important component, but the basis of Volk's day-to-day interaction with clients is aimed at building relationships that leave business owners with an understanding of how his firm's work can cut their operating costs and provide attractive financing options when traditional banks often cannot.

Such is the case in today's post-Great Recession era of increasingly regulated lending. "The perhaps unintended effect of the federal Dodd Frank Act, aimed at curbing abuses within the nation's lending system, has been an impairment of the traditional banking system that in years past provided the operating capital needed by business owners," Volk noted.

He recognizes that some sort of corrective action was necessary. He also quickly points out that between Dodd Frank – a regulation enforced by the Consumer Financial Protection Bureau – and the Basel III Accords, which are global, voluntary standards the U.S. government has pledged adherence to, banks are simply hog-tied when it comes to advancing capital on real estate.

Volk believes that the nation's economy is more fragile today than it was in 2007 when the housing bubble burst, setting up the 2008 stock market crash in which the average stock fell 36 percent.

"Frankly that is why we started the business in 2011," Volk explains. "We saw that the market was underserved. The fact that we have grown as rapidly as we have and addressed the market the way we have underscores how much need there is for the services we provide."

He isn't kidding or bragging. Instead, Volk is just stating simple facts documented by STORE's balance sheet.

In two and a half years of business, STORE now has over $2 billion in assets in its portfolio of real estate currently under sale leaseback agreements. In 2013, the firm did about $840 million in transactional business and closed nearly $600 million in investments through the first half of 2014. Volk thinks the firm – which employs 47 people in one office handling transactions stemming from 43 states – will hit one billion by the end of 2014.

Volk sees the marketplace from which STORE draws its clients as still being full of opportunity. He said the nation has over 81,000 companies, each doing more than $25 million in annual revenue that fit the profile of a STORE client. With 30-plus years of experience identifying and providing funding solutions for business owners via the various firms he's worked for and owned himself, Volk has a certainty that there are many more deals to ink.

Crediting a team of associates who have worked with him for many years at other firms he's owned, Volk said, "Our greatest success has really been our consistency. Being in this business for 30 years, I can say there are not that many management teams that can start up multiple New York Stock Exchange companies and have the credibility to raise money from investors over a period this long. We have done it because we have never lost money for any shareholder that we have raised any money from, have performed well for our customers and have made a lot of our customers very successful in terms of their profits."