Saturday, June 04, 2016 1:50 AM PKT **Exclusive**

EPR Properties CEO talks risks, opportunities in 'experience' real estate

By Tom Yeatts

In retail circles the buzzword of the day is "experience." Consumers want more of it, and landlords will try almost anything to attract and maintain foot traffic at their properties.

At RECon 2016 in Las Vegas at the end of May, S&P Global Market Intelligence sat down with Greg Silvers, president and CEO of EPR Properties, a REIT with footing in retail but a focus on entertainment and recreation-oriented properties like movie theaters and waterparks, to get his read on the scene.

What follows is an edited transcript of that conversation.

EPR Properties President and CEO Greg Silvers
Source: EPR Properties

S&P Global Market Intelligence: You have a retail component to your portfolio, but I imagine a good deal of your business at this conference has to do with the entertainment side of it.

Greg Silvers: We do a lot of movie theater deals with the mall companies. Many of our meetings here are with them and other developers.

Do you have the sense that your theater-oriented business will pick up, with all this clamoring for experience?

I think it will. The push by millennials for more experience has been very positive for our business. People used to hammer us about the theater business going away, but that issue has been put to rest.

In Las Vegas, Topgolf is huge. Developers want to generate that kind of traffic.

Are you looking at branching out into other, newer entertainment concepts, to meet this broader demand for experience?

We like Topgolf and Punch Bowl Social and Pinstripes. All of those food and beverage businesses that involve social interaction around an activity, be it golf or bowling, we're looking to get involved with.

On your first-quarter earnings call you talked about acquisition opportunities in theaters, and the redevelopment opportunities there, making them upscale, with food and beverage components. Is that a big growth area for the company at this point?

Yes, it's giving value back to the consumer. For years the experience was always the same. Now you have luxury seating, expanded food and beverage, including alcohol. And when you don't raise the ticket price, all of sudden people feel like they're getting something more out of it.

And there are similarly styled options across the pricing spectrum. There are theaters that offer beer and there are ones that offer expensive cocktails.

How do you expect the prospective AMC-Carmike merger to impact your business?

I think it could create some opportunity in view of the fact that AMC has been at the forefront of bringing these kinds of amenities to theaters. If they consider doing more of those, there's an opportunity for us to participate.

But they'll have to work through their differences. Carmike historically has been a smaller market operator, and AMC has been a big-city operator.

I wanted to ask about the ski component of your business. Last winter was not very cold in places. How do you mitigate those risks?

The good thing about the ski enterprise is, you have that climate history to serve as a reference. We underwrite it on five-year averages, and that seems to work perfectly.

For us right now the real growth area is our education segment, what we're doing with charter schools. Some of our triple-net competitors in fact are moving into education as retail has come under pressure. There is true growth in education, which is different than other spaces. It's taken us years to develop expertise, but I think more and more are going to come into the space.

Is the education component a hard sell with investors?

It has been, but it's getting easier. We've had two investor days focused on education to bring people around and help them understand, and I think we've made significant progress. And as more and more people move into the business, we'll get a better valuation.

I have to ask your thoughts on the state of retail. Are you surprised by the recent and ongoing store closures and bankruptcies?

Others would probably be more qualified to comment than I, but I haven't been surprised in this sense. There's a lot of retail space out there.

Also, I'll offer an anecdote. I have a daughter at the University of Texas. She would never buy dresses online, but now she does, because when she orders one they send her three sizes: the size she requested, the size above, and the size below. She keeps the one that fits and sends the other two back. Some of these online retailers are making it so easy.

Additionally I'll just say, I watch my daughters and their friends, and the young people that work for us, and they don't seem as interested in accumulating things — unlike my generation.

That's an interesting observation.

I'll share one more. About every two years, a demographic team at MIT presents to us on big trends and where things are going. As it happens, about 86% of all purchase decisions are made by the female in your life. So we tell all our developers that the female bathrooms have to be really, really nice and clean. Guys will go anywhere, but it will make or break the woman's experience.