United States | Q1 2018

JLL Research Report

Branch Banking 2018

Sailing ahead amid the crosswinds of industry evolution

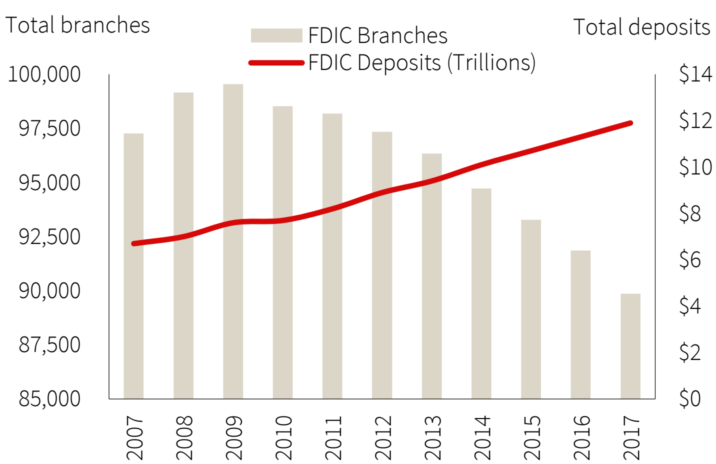
While the winds of industry change are not completely predictable, two key themes continue to dominate banking's real estate landscape in 2018: **mobility and optimization.** Branch banking continues to evolve, driven by customer demand for convenience and the ability to do business anytime and anywhere. Banking institutions are accommodating this evolution. One feature we highlighted last year that is still shaping the industry is continued branch optimization by both large and small banking institutions.

Five takeaways shaping the industry in 2018:

Bank branches continue to consolidate.
The net number of branches in the U.S. declined from 91,900 in 2016 to 89,900 last year. This 2.2 percent decline represents a moderate acceleration over the last few years and reflects the industry's ongoing evolution to serve customers more effectively while reducing operating costs.

Banks continue to drive more business into fewer branches.
During 2017, total branch deposits increased to $11.9 trillion. This reflects an increase of 5.3 percent, which is on par with the level of annual deposit growth we've seen since 2015. This also underscores that while the industry's evolution may lead to branch closures, those that remain are in a stronger position.

The largest banks are all shedding branches as they review their service lines and seek to optimize their footprints.
Only two of the top 25 bank holding companies saw a notable 2017 increase in the number of branches—however, these increases were due to prior corporate acquisitions and the final inclusion into their portfolios.



Top 25 Banking institutions' number of branches:

2016: 40,762 branches

minus

2017: 40,134 branches

equals

Reduction of: 1.5%

Branch optimization should not be viewed as a broad industry pullback. New branches are still being opened, but these are much more selective and strategic than in previous recovery periods. Both large and small institutions are continuing to open branches in growing metros, as well as in burgeoning pockets within established areas, Chase, for example, has recently announced that they plan to open 400 new branches over the next five years as they continue to position their brand to serve their customers needs. During 2017, roughly 125 new branches opened in the U.S. While their average size was 5,100 square feet, most were under 4,000 square feet, reflecting the broader trend toward space optimization. In the first quarter of 2018, branch construction seems to be taking a pause, with only 40 under development in the U.S.

Branch reuse and redevelopment continues to challenge the industry. As we noted last year, an enormous cost savings opportunity exists as banks optimize their footprints and reduce the space in individual branches. However, while branch closures may be easy to analyze, it is more difficult to right-size individual existing branch operations across large and diverse portfolios. This is leaving many branches with excess or underutilized space. Smaller institutions often can adapt faster to these shifts and new branches can sometimes build in co-tenancy strategies to create a more inviting multi-use branch. Several new branch concepts are now being sized to include cafes, and some institutions are taking advantage of the trend toward including coworking space as a way to build their local business connections.

> *Looking forward in 2018, we see new branch development slowing and expect a net number of approximately 1,700 branches (approximately 2 percent of total inventory) to close across the U.S. We also anticipate a continued emphasis on mobility and technology as replacements for tasks that traditionally took place in branches. As mentioned earlier, banking is not disappearing, but it's certainly transforming.*

Branch Banking by the numbers

Total branches:

2016 **91,900**

2017 **89,900**

Change in number of branches:

▼2.2%

Vacant branches

As banks optimize their branch footprints, some branches have been abandoned on the sidelines. These vacant branches exist in most U.S. markets. Although many are still in good locations, a branch bank may no longer be the optimum use. Patience and creative strategies are often necessary to reuse and redevelop these assets.

≈850 — Total vacant branches

3,960 — Avg. branch size s.f.

3.4 million — Total vacant space s.f.

11.4 months — Avg. time to re-lease

28% — % of branches on the market over 30 months

Some successful strategies to redeploy these branches across the US have included credit unions, mobile phone stores such as Verizon and T-Mobile, fitness centers, educational services, local-serving office space, personal services, restaurants and fast-food, as well as complete redevelopment into other uses like senior housing.

For more information, please contact: Walter Bialas | Walter.Bialas@am.jll.com
Christian Beaudoin | Christian.Beaudoin@am.jll.com