JLL Research Report

Branch Banking 2020

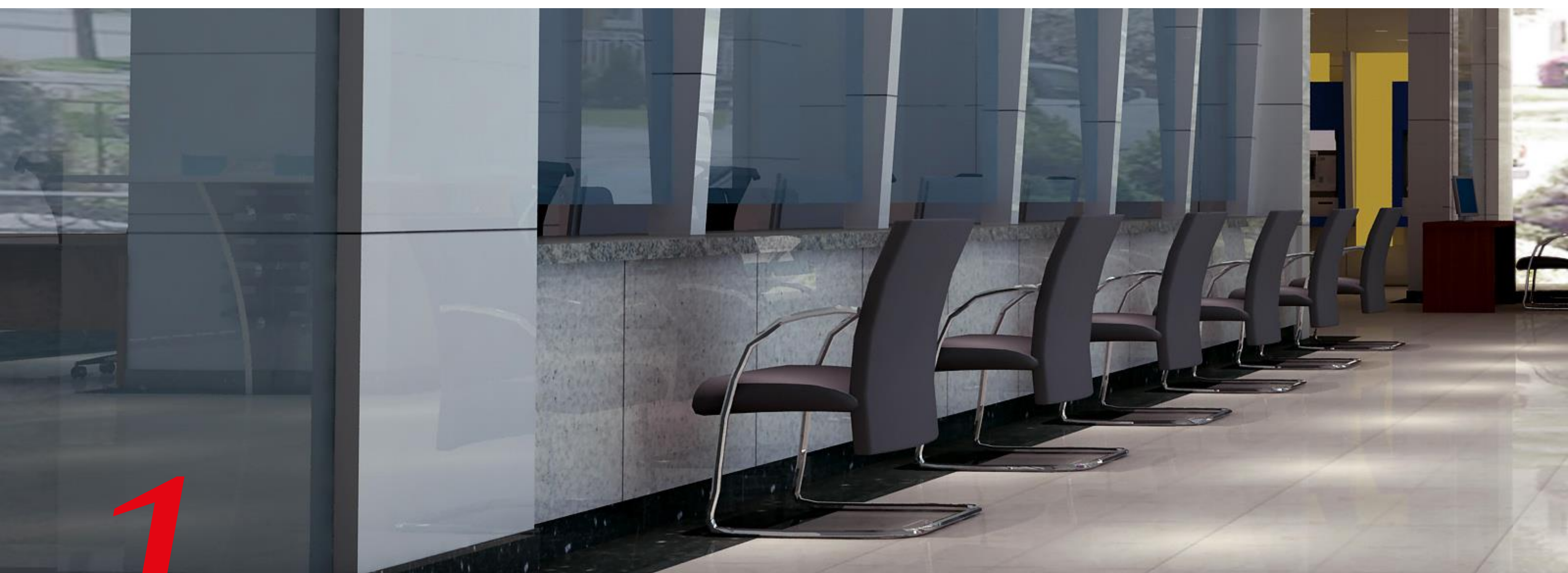
Staying relevant in a digital world

Last year we identified a revolution taking place in branch banking…

A year later, institutions are still decommissioning branches at a record pace, as well as opening new ones to better serve their customers. While the ideal branch is now smaller and more digitally focused, this industry shift is taking place incrementally due to the large number of existing branches across all markets.

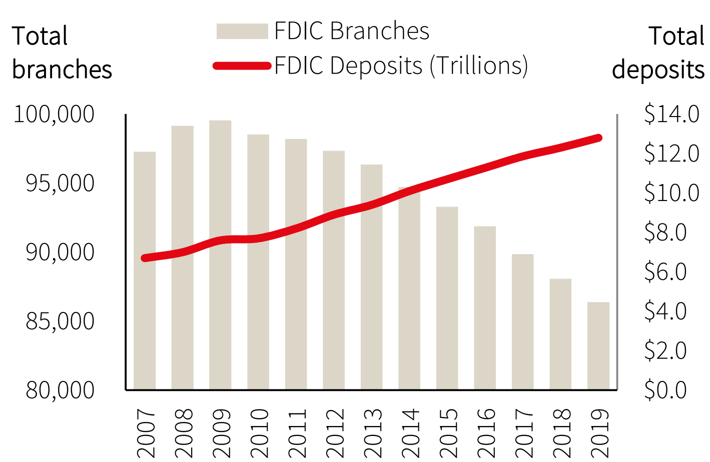
Additionally, the shift toward a digital-only customer experience is gaining steam, but it is not complete—at least not yet. For example, the Financial Brand recently reported that 90 percent of consumers are comfortable with fintech options for real-time payments and a variety of mobile wallets. On the other hand, they also reported that 93 percent of consumers only “trust” big banks, community banks and credit unions with their financial data. As such, it is not clear who will be the winners in this competition for the consumer.

At this juncture, traditional banks are being challenged on several fronts to maintain their customer base. They must optimize branch availability to meet the physical need for convenience. They need digital solutions for banking anywhere and anytime, and they need user-friendly apps to make on-the-go transactions easy and seamless. They must also maintain a level of personal engagement to answer any financial questions clients may have. It is not easy to excel at every stage of this customer journey, but traditional banks are still at the forefront and working to address these challenges.



1 *Branch banking consolidation continues, with no slowdown in sight.*

Last year, banks continued to pare their networks at a predictable pace. During FY 2019, another 1,700 branches closed. This 1.9 percent decline is consistent with our forecast of 2.0 percent annual net closures. After peaking in 2009 at close to 100,000 branches, the total number has declined by more than 13,200 branches over a decade. We do not expect this pace to change materially over the next two years as the industry works to integrate physical branches with digital platforms and define how to best serve rapidly shifting customer expectations.



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The largest institutions are closing branches even faster.

In our report last year, we noted that the largest institutions had doubled their pace of closings, from 632 in 2016 to almost 1,250 in 2018. In 2019, the top 25 banks closed even more, with 1,450 branches shuttered, reflecting a 3.7 percent net decline in branches. This faster pace was also mirrored for the top 10 institutions.

					2016–2017		2017–2018		2018–2019	
Branches	2016	2017	2018	2019	Net change	Percent	Net change	Percent	Net change	Percent
Top 10 banking institutions	30,068	29,163	28,228	27,187	(905)	(3.0%)	(935)	(3.2%)	(1,041)	(3.7%)
Top 25 banking institutions	40,749	40,117	38,870	37,420	(632)	(1.6%)	(1,247)	(3.1%)	(1,450)	(3.7%)
Total U.S.—remaining bank holding companies	50,696	49,347	48,822	48,589	(1,349)	(2.7%)	(525)	(1.1%)	(233)	(0.5%)
Grand total U.S.	**91,445**	**89,464**	**87,692**	**86,009**	**(1,981)**	**(2.2%)**	**(1,772)**	**(2.0%)**	**(1,683)**	**(1.9%)**

3

Fewer branches, but more deposits.

In 2019, branch deposits continued their upward trend, growing 4.1 percent—to $12.8 trillion. As in past years, banks have been driving higher deposits into fewer branches. During this economic cycle, the FDIC reported that deposits have grown $5.2 trillion, an increase of 68 percent since 2009. After accounting for the more than 13,000 branches shuttered since 2009, the average branch in the U.S. has seen its deposits almost double, to $148 million. The implication for banks as we move through the late stages of this economic expansion is that the competition to maintain or increase deposits and market share will become keener. This will necessitate that banks, more than ever, proactively manage their networks and focus on location optimization.

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New branches are still opening. Old branches are aging.

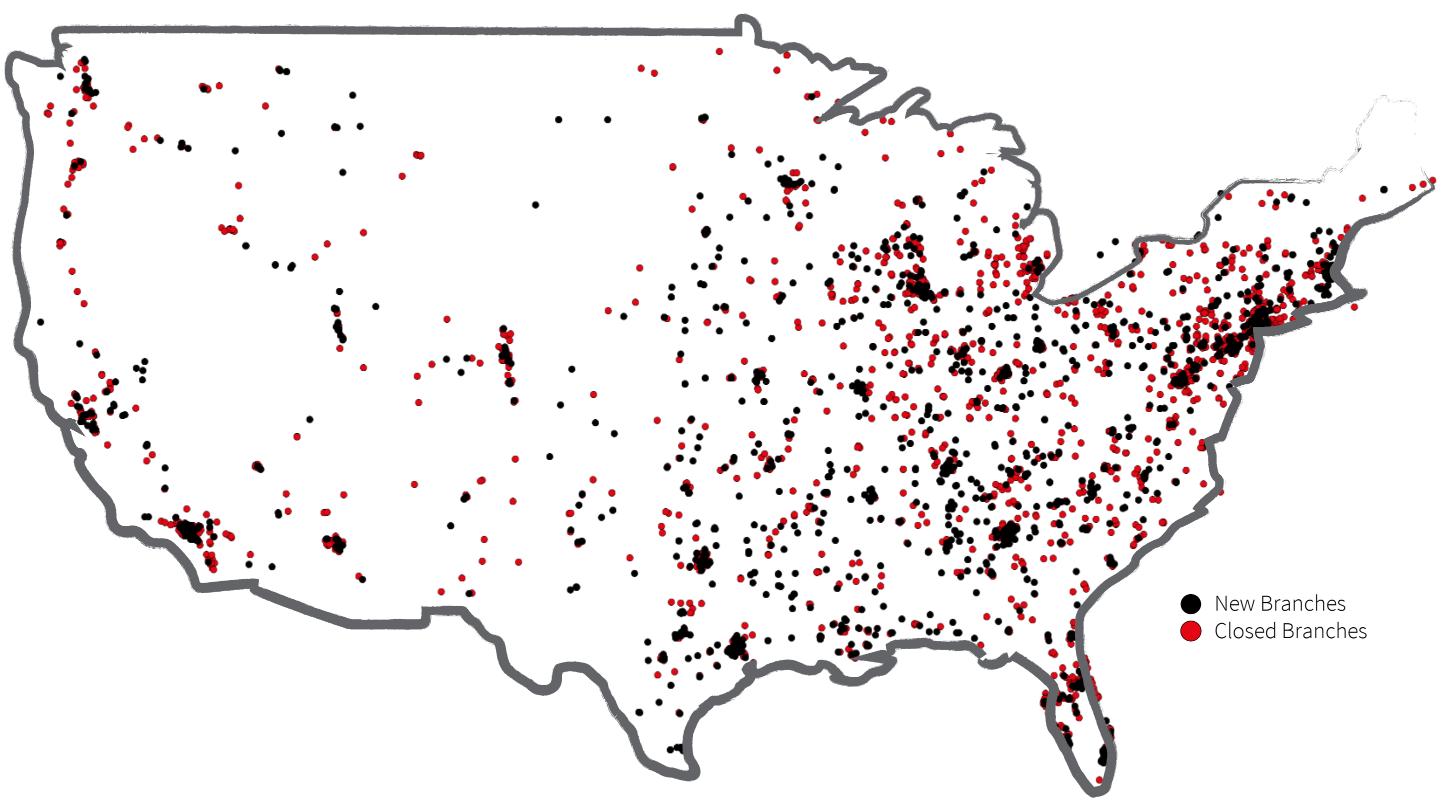
While the industry tends to focus on "net closures," this metric can be misleading. Banks are not retrenching. Rather, because of the sheer scale of their networks across the U.S., combined with past M&A activity, banks are still in the early to mid-stage of optimizing their platforms to reflect customer demands and the digital transformation under way. Underscoring this challenge, FDIC information shows that 76 percent of all branches in operation are more than 15 years old. Although many of these 66,000 banks are in excellent locations, many of them are outdated in terms of their size, technology and facility efficiency.

To modernize their networks, banks opened almost 1,500 branches in the U.S. in the last year. Similar to our prior findings, the top 25 institutions added a fifth of the new (de novo) branches. That means that much of the new development is taking place in regional and community institutions, whose smaller networks allow them to be more nimble, as they expand selectively to address customer needs and work to maintain or enhance market share.

Branch openings & closings 2018–2019	New branches	Closed branches	Net change
Top 10 banking institutions	243	(1,284)	(1,041)
Top 25 banking institutions	327	(1,777)	(1,450)
Total U.S.—remaining bank holding companies	1,154	(1,387)	(233)
Grand total U.S.	**1,481**	**(3,164)**	**(1,683)**

Note: Closed branches reflect the net change for the top 25 institutions including acquisitions during that period.

FDIC branches opened & closed 2018–2019



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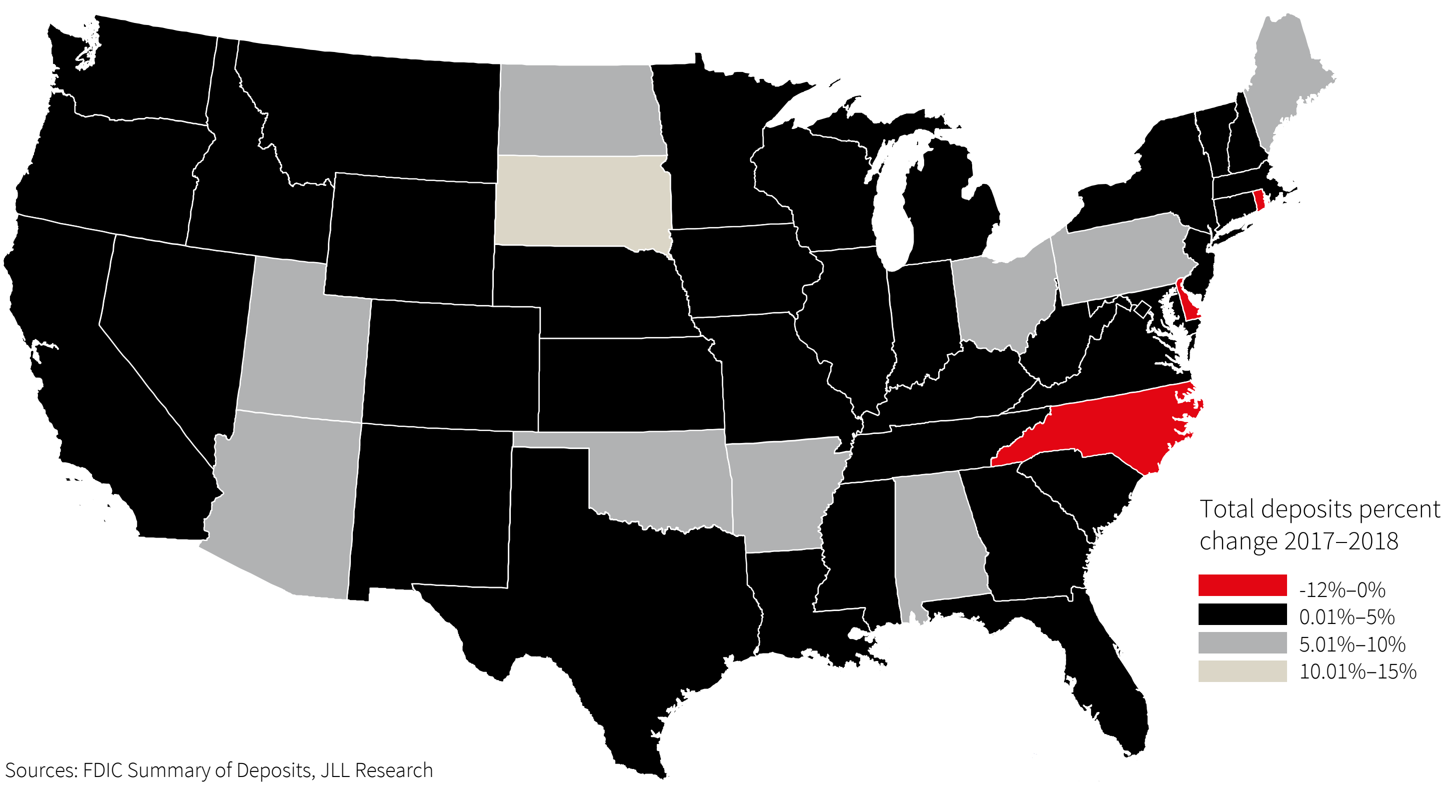
Not every bank is adapting at the same pace.

As JLL reviewed the most recent new branch openings, we found a variety of development prototypes. Some institutions are still working under the traditional hub-and-spoke system of past years. In this development model, smaller branches are positioned around a larger, full-service hub. In some cases, banks are adding more smaller spoke branches or moving to very limited-service or even virtual offices in these spokes. In contrast, full-service hubs are becoming more elaborate.

This, however, all depends on the scale of the local market, the institution's competitive presence, a suburban or urban format, and area density, as well as the particular institution's growth strategy. This means that branches can take on many "shapes." The newest branches can range from under 1,000 square feet to 10,000 square feet or more. In addition, if it is a de novo branch taking over a former outparcel or endcap branch, the physical space is already defined. Overall, we have seen the best modern branches designed to a size of 2,000 to 3,500 square feet to accommodate a full-service operation but within an efficient overall footprint. This is in contrast to the 5,000- to 7,000-square-foot branches of the past.

The important point is that this new development is still evolving. Banks are working to deploy digital and this is impacting their space requirements. Because technology is still advancing, there is not a single ideal space solution for all new branches. As we pointed out in our "Retail Branch Fit Out Guide" last year, the discussion should not be focused on the exact size of a bank branch. Instead, the priority should be the future-proofing of branch facilities, by incorporating flexibility into their design. The ultimate goal of improving the customer experience while maximizing profitability will require flexibility in branch layouts. As customer needs and technology solutions continue to evolve, the most successful banks will have branch networks that can adapt and accommodate continual change.

Branch bank deposits percent change



Sources: FDIC Summary of Deposits, JLL Research

Branch Banking by the *numbers*

Total FDIC branches

2016 91,900

2017 89,900

2018 88,100

2019 86,400

Change in number of branches (2018 to 2019): ▼1.9%

Top 25 banking institutions (number of branches)

2016 40,800

2017 40,100

2018 38,900

2019 37,400

Change in number of branches (2018 to 2019): ▼3.7%

U.S. branches (2018 to 2019)

1,481 New branches opened in the U.S.

327 New branches opened by top 25 banking institutions

22% Share of new U.S. branches by top 25 banking institutions

3,164 Branches closed in the U.S.

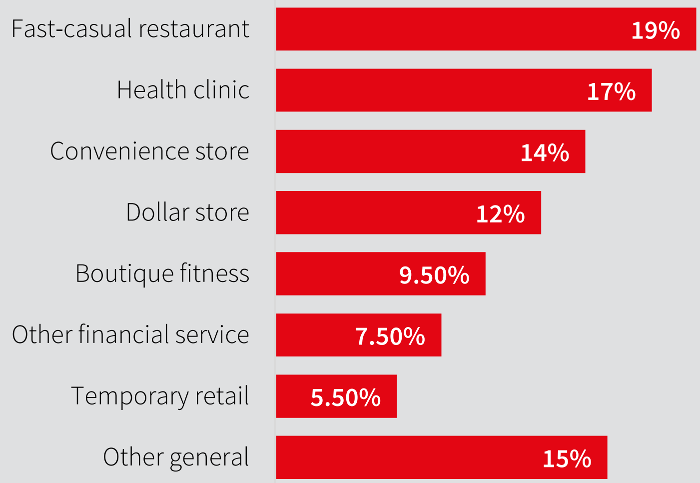
1,777 Branches closed by top 25 banking institutions

56% Share closed by top 25 banking institutions

So what's happening to the closed branches?

As part of our review we looked at how recently closed or "decommissioned" branches had been repositioned in the Chicago market. While a few larger institutions articulate reuse plans in advance of closing, some institutions hold assets on their books as vacant until a sale can be made or a lease expires. Well-located suburban facilities, with stable to growing demographics, often can be repurposed by another bank or financial institution because they have similar office-oriented space requirements. Outparcels and endcaps that have good visibility and signage are often in high demand. In-line spaces, in contrast, can be more difficult to fill and are more commonly repurposed to other uses, such as restaurants, convenience stores, clinics and the like. The average time to sell a vacated branch is 9.5 months and the average time to sublease is slightly over a year.

Leading uses of closed bank branch facilities, 2019

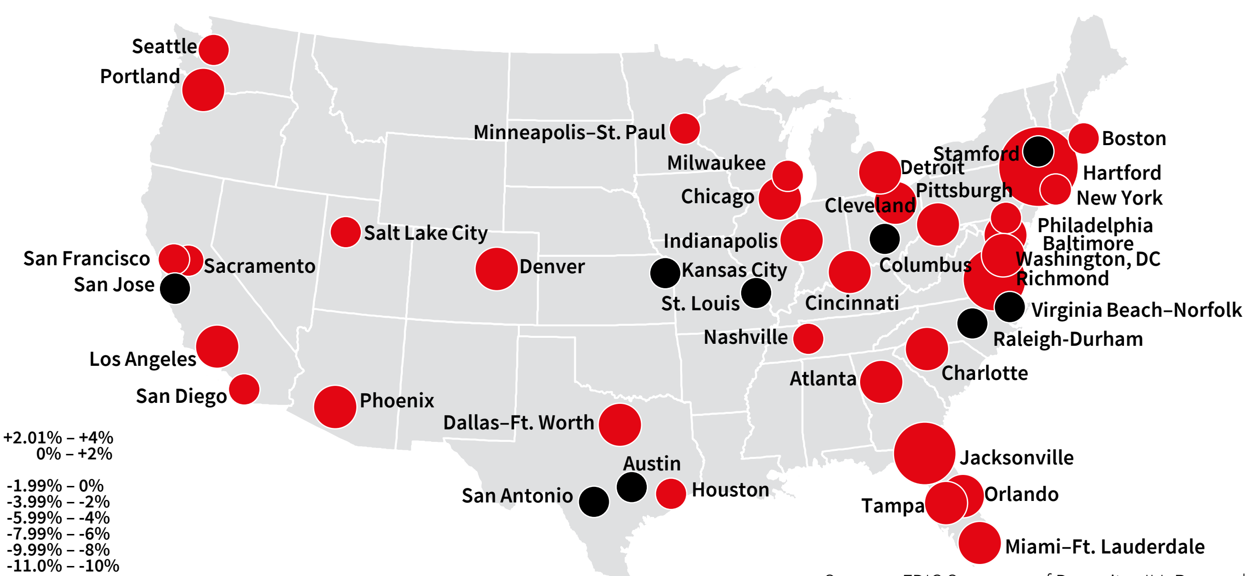


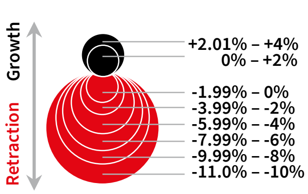
Branch bank counts for major U.S. markets

Metro market	2010	2011	2012	2013	Branches 2014	2015	2016	2017	2018	2019	2018–2019 Number	2018–2019 Percent
Atlanta	1,399	1,383	1,361	1,337	1,313	1,294	1,284	1,225	1,203	1,173	(30)	(2.5%)
Austin	470	466	468	476	476	467	467	448	438	442	4	0.9%
Baltimore	833	822	813	802	770	747	728	711	682	667	(15)	(2.2%)
Boston	1,517	1,522	1,516	1,526	1,540	1,516	1,527	1,523	1,516	1,508	(8)	(0.5%)
Bridgeport, CT	416	411	409	399	388	382	368	360	353	354	1	0.3%
Charlotte	579	581	573	562	550	549	543	534	520	506	(14)	(2.7%)
Chicago	3,228	3,209	3,183	3,148	3,031	2,972	2,863	2,765	2,710	2,636	(74)	(2.7%)
Cincinnati	813	808	803	788	771	764	754	740	718	699	(19)	(2.6%)
Cleveland	702	722	731	720	707	691	679	642	638	621	(17)	(2.7%)
Columbus	585	596	587	585	565	567	564	546	538	538	0	0.0%
Dallas–Fort Worth	1,812	1,740	1,731	1,738	1,729	1,718	1,711	1,672	1,659	1,615	(44)	(2.7%)
Denver	733	719	715	694	684	670	657	650	647	634	(13)	(2.0%)
Detroit	1,157	1,146	1,133	1,117	1,083	1,043	1,049	999	974	945	(29)	(3.0%)
Hartford, CT	391	397	392	394	396	382	377	372	368	345	(23)	(6.3%)
Houston	1,558	1,534	1,530	1,526	1,514	1,493	1,482	1,450	1,420	1,417	(3)	(0.2%)
Indianapolis	639	640	636	610	585	575	553	546	534	522	(12)	(2.2%)
Jacksonville	325	320	311	310	318	320	317	312	291	277	(14)	(4.8%)
Kansas City	776	782	769	753	722	715	714	705	691	694	3	0.4%
Los Angeles	2,423	2,461	2,482	2,498	2,507	2,477	2,456	2,422	2,405	2,354	(51)	(2.1%)
Miami	1,626	1,619	1,655	1,665	1,651	1,646	1,619	1,582	1,549	1,502	(47)	(3.0%)
Milwaukee	604	585	577	578	554	550	552	511	490	484	(6)	(1.2%)
Minneapolis–St. Paul	872	861	855	843	827	821	815	790	785	770	(15)	(1.9%)
Nashville	590	589	593	598	602	595	598	591	578	573	(5)	(0.9%)
New York–Newark	6,043	6,057	6,001	5,971	5,905	5,855	5,735	5,634	5,509	5,135	(374)	(6.8%)
Orlando	618	611	612	601	584	580	570	546	535	522	(13)	(2.4%)
Philadelphia	1,924	1,917	1,889	1,833	1,783	1,765	1,732	1,702	1,659	1,629	(30)	(1.8%)
Phoenix	942	933	928	913	900	889	867	851	815	798	(17)	(2.1%)
Pittsburgh	878	876	873	871	853	838	825	818	802	786	(16)	(2.0%)
Portland, OR	572	580	590	583	563	557	546	536	521	509	(12)	(2.3%)
Raleigh-Durham	441	443	439	426	424	424	423	416	405	408	3	0.7%
Richmond	373	369	362	360	345	350	347	325	317	302	(15)	(4.7%)
Sacramento	424	425	427	427	423	412	405	392	384	381	(3)	(0.8%)
Salt Lake City	255	256	252	247	242	240	230	223	214	211	(3)	(1.4%)
San Antonio	476	465	453	452	447	443	437	415	406	409	3	0.7%
San Diego	615	634	637	633	622	608	599	590	590	583	(7)	(1.2%)
San Francisco	1,049	1,062	1,069	1,085	1,086	1,056	1,043	1,039	1,031	1,016	(15)	(1.5%)
San Jose	350	354	364	368	372	367	361	364	369	371	2	0.5%
Seattle	926	933	939	941	925	909	903	891	880	865	(15)	(1.7%)
St. Louis	940	947	943	922	921	916	917	896	893	895	2	0.2%
Tampa	790	788	786	785	767	751	739	722	696	670	(26)	(3.7%)
Virginia Beach–Norfolk	385	386	368	363	355	351	334	320	307	307	0	0.0%
Washington, DC	1,781	1,790	1,778	1,750	1,719	1,697	1,677	1,595	1,548	1,492	(56)	(3.6%)
Total—JLL Markets	**43,054**	**42,957**	**42,764**	**42,445**	**41,797**	**41,247**	**40,653**	**39,666**	**38,897**	**38,565**	**(1,023)**	**(2.6%)**

Sources: FDIC, JLL Research

Branch bank growth and retraction by metro area (2018–2019)





Sources: FDIC Summary of Deposits, JLL Research

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Want to learn more about Branch Banking?

Check out our Retail Bank Branch Fit Out Guide

This guide is a powerful tool intended to help you understand the real cost of building or renovating a retail bank branch. The guide covers three branch fit out types—de novo, major renovation and specialty—across dozens of major markets in the United States and Canada.

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