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Findings from Branch Survey

Conducted October 2022

Sixty institutions participated, representing all regions of the country and spanning all asset tiers except the largest national banks

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New Branch Survey Findings: Size, Cost and Configuration

In 2003, Bancography conducted its initial survey of branch construction plans at U.S. banks and credit unions. We have reprised that study every three years since, pausing only during the lull in branch building that followed the financial crisis of 2008 - 2009. Each iteration of the survey inquired into four aspects of branch deployment: the number of new branches planned; size and format; cost; staff and equipment configuration.

Having most recently conducted the survey in 2019, 2022 brought us to our latest iteration. This year's survey panel included about 60 institutions, near evenly divided between banks and credit unions. Similar to prior surveys, respondents represented all regions of the nation, and all asset tiers except the largest national banks. The survey panel included institutions with fewer than five branches and several regional banks with more than 500 branches, providing a diverse audience against which to gauge industry trends.

Before presenting the results, a word of thanks to all our colleagues who committed the time required to complete the survey. Primary findings follow.

How many branches will your institution add next year?

Excepting the handful of respondents who indicated their institutions would not be adding branches in the year ahead, about half the panel cited incremental expansion efforts of one or two branches. However, some of the respondents from larger institutions remain more active, with about 15% indicating plans to add five or more branches in the next year.

These planned branch additions equate to an average increase of 4% versus current branch counts and a median increase of 8%. Note though, this does not address net branch counts, which may be declining as a bank or credit union closes more branches than it opens. Still, it reveals an objective of rebalancing networks – adding branches in high-opportunity markets even if also paring branches in overserved or lower-potential markets.

Seventy-nine percent of respondents plan to build traditional freestanding branches, 44% plan to build inline (i.e., within a strip shopping center) or other storefront branch models, and 8% plan to build in-store branches. Those proportions sum to more than 100% because many respondents intend to build branches in multiple service models, both freestanding and other types. In the 2019 survey, 72% cited plans to build freestanding branches and 36% inline, and the increase in both types suggests a greater use of mixed-model portfolios – versus sole reliance on freestanding or inline only. Overall, nontraditional branches (inline, in-store, or other specialty formats) represent 27% of all planned new branch deployments.

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The increase in land cost may reflect some level of 'flight to quality': in an environment with fewer branches overall and broader spacing between branches, banks and credit unions are bypassing second-tier submarkets and focusing only on the absolute top-tier locations

What is the average square footage of the planned new branches? For freestanding models, the average size was 3,100 square feet, with a median of 3,000 square feet. Responses formed a classic bell curve, with two credit unions planning branches in the 5,000 square feet range, two banks planning freestanding branches at only 1,000 square feet, and a broad group in the 2,800 - 3,500 square feet range. Notably, there were no outliers in the 6,000+ square feet range, the first time that has occurred across the multiple iterations of the survey.

The 2003 study found an average size of 3,900 square feet, which decreased to 3,600 square feet in the 2006 survey and to 3,000 square feet in the 2013 survey. But the 2016 and 2019 surveys found medians and averages in the 2,800 to 3,000 square foot range, similar to this most recent iteration. This suggests the industry may have found a practical minimum for operational functionality, to effectively justify the land purchase and site preparation costs required for freestanding branches. Still, five institutions reported plans for new freestanding branches of 2,000 square feet or smaller, so there are those experimenting with more compact models.

The planned inline branches will feature an average size of 2,100 square feet and a median of 2,000. Both statistics remain within 200 square feet of the findings from the 2016 and 2019 surveys, again suggesting the industry has found a comfort zone with current models. Three-quarters of all responses to this question fell between 1,500 and 2,500 square feet, though two respondents cited models as small as 1,000 square feet.

What is the average land cost of the planned freestanding branches? Because of the disparities in land values nationwide, this question usually shows broad variance in its responses, and that held true in 2022. Projected land costs varied from $250,000 to $3 million, but only two responses were less than $800,000 and only four exceeded $1.5 million; so, $800,000 to $1.5 million forms a reasonable, albeit broad range. The average cost was $1.2 million, the median $1.0 million. This represented the first increase in average land costs since the 2006 survey's $1.1 million average at the height of the branching boom. That statistic declined to $930,000 in 2016 and $750,000 in 2019.

The increase may reflect a general surge in prices across an array of asset classes since 2019. Or it may reflect some level of 'flight to quality,' to borrow a term from a different banking phenomenon: that in an environment with fewer branches overall and broader spacing between branches, banks and credit unions are bypassing second-tier submarkets and focusing only on the absolute top-tier locations. This reflects a model Bancography terms as "hub-and-hub," where institutions reserve physical deployments for a subset of top-tier, broader-spaced hubs, while relying on electronic channels to fulfill service needs in the in-between submarkets previously served by a second-tier 'infill' branch.

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Average branch staff expectations declined for both freestanding and inline branches, suggesting greater efficiencies in branch operations, or at least attempts thereon

What is the average cost of the planned branches (including building, furniture, and equipment, i.e., everything but land)?

Outside of a few outliers, responses for total costs of freestanding branches ranged from a low of $550,000 for one of the smaller-format models to a high of $2.9 million. (There were two high-side outliers at more than $4 million, and a few low-side outliers of less than $500,000.) The average and median costs for planned freestanding branches reached $1.9 million, up a shade from $1.8 million in the 2019 survey, with most responses clustered between $1.6M and $2.5M. Average costs per square foot also inched upward, from $580/square foot in 2019 to $600 in 2022, with a median at $560/square foot. Eleven institutions projected costs of more than $800/square foot, including four at more than $1,000/square foot.

For the inline branches, costs increased more acutely, from an average of $675,000 in 2019 to $790,000 in 2022; and from a median cost of $540,000 in 2019 to $700,000 in 2022. These yielded average costs of $390/square foot (median $340), versus $350 (median $320) in 2019. There was broad variance in per-square-foot costs for inline branches, with three respondents citing costs exceeding $800/square foot but four reporting costs less than $200/square foot.

What are the planned initial staff levels for new branches?

Average branch staff expectations declined for both freestanding and inline branches, suggesting greater efficiencies in branch operations, or at least attempts thereon. For freestanding branches, respondents reported an average starting staff of 5.4 full-time-equivalent employees (FTEs), with 70% of responses falling in the 4 - 6 FTE range; the 2019 survey showed an average of 5.9 FTEs. For inline branches, respondents reported an average starting staff of 4.0 FTEs, versus 4.9 in the 2019 survey.

In addition to the declining staff counts in both models, the 2022 study revealed greater divergence in freestanding versus inline models. This suggests an increased emphasis on technology and reduced-cost operations at the inline branches, and perhaps a more defined demarcation between complex sales at freestanding branches versus simple service interactions at inline branches, matching the typical facility assignments in a hub-and-spoke branching model.

The survey also addressed various equipment and configuration elements:

- For the first time, we omitted any question about ***image-enabled ATMs***, as (per prior research) these are now ubiquitous in the industry.
- ***Teller cash recyclers (TCRs)*** are becoming standard, too; 80% of respondents plan to deploy TCRs at all new branches, and 85% in at least some new branches.
- Nearly half of all respondents (46%) plan to include ***safe deposit boxes*** in at least some of their institution's new branches, though only four respondents plan to include safe boxes in all new

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The traditional teller line still retains a role in the industry's branch-design portfolio.

branches. Still, the 46% statistic represents an increase over the 35% levels found in 2016 and 2019; perhaps normal statistical variance, but possibly confirming the aforementioned hub-and-hub approach reflected in the increased land costs – i.e., some subset of branches employing a 'superstore' or 'flagship' model addressing all possible service needs.

- The COVID crisis created an immediate demand for remote-banking services, and this may have jumpstarted adaptation of ***interactive teller machines (ITMs)*** at the institutions offering such capabilities in 2020. However, the survey reveals only incremental increases in plans for ITMs. The 2019 survey indicated 26% of respondents planning to use ITMs at all new branches and 45% planning such in at least some new branches. In 2022, those figures edged upward, but only modestly, with 33% of respondents planning ITMs at all new branches and 50% planning such in at least some new branches.

- Of those respondents intending to deploy ITMs, 48% will utilize the ITMs in both ***lobby and drive-in spaces***; 40% in drive-ins only; and 12% in lobbies but not drive-ins (and it is possible these branches cannot support drive-ins). In a point of greater consensus, 79% of respondents will operate their ITMs from a centralized call center, versus only 21% using in-branch staff to support the ITM interactions.

- Although service models with integrated teller/platform areas serviced by universal agents (often referred to as the dialog banking, or 'pod' approach) continue to take hold, the ***traditional teller line*** still retains a role in the industry's branch-design portfolio. Fifty-nine percent of respondents plan to eschew the traditional teller counter at all new branches, but 21% plan to include that feature at all new branches. The remaining 20% present a mixture of service models, where some but not all branches maintain the traditional teller-line element. For those aiming to use a model with integrated teller/CSR workstations, 85% also intend to cross-train all employees at those functions as universal bankers.

- In addition, although Bancography hears frequent conversations about the possibility of ***cashless micro branches***, the reality of widespread use of such models appears further removed, as only six respondents cited initiatives to deploy cashless branch models in the next year. More prevalent is the branch as advisory center model, as 60% of respondents intend to include space for non-retail lines of business – such as wealth management, commercial banking or mortgage banking – at most or all branches; with the remainder reserving that capacity for only some of their new branches.

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The survey reveals a need for bankers to consider a portfolio of service models, versus a single, homogenous approach at all branches

- Thirty-eight percent of respondents expect to outsource at least some proportion of ***branch construction projects*** to design/build firms – turnkey providers that manage all aspects of the construction process. Twenty percent will utilize design/build firms for all branch projects, 62% will hire and manage their architects and general contractors internally, and 18% will use a mix of construction management methods. These proportions remain similar to those found in the 2019 survey. A few respondents also cited a hybrid model, where a design-build firm developed an overarching concept for branch design that the institution then implemented via local architects for each specific branch.

In sum, while the overall count of branches nationwide continues to decline, many banks and credit unions still include new branches in their growth plans, even as costs for those branches edged upward. Of particular interest, land costs for new freestanding branches increased sharply from the previous iteration of the study, perhaps reflecting an intent to reserve freestanding branch investments for the absolute highest-tier submarkets only, while employing lower-cost service models in other submarkets. The industry also appears to have reached a practical minimum branch size level for the functionalities consumers and businesses demand, with most respondents affirming the importance of non-retail business lines, and only a few experimenting with micro-format, cashless service models.

Finally, the survey reveals a need for bankers to consider a portfolio of service models, versus a single, homogenous approach at all branches. For example, many respondents plan a mixture of freestanding and inline branches, and a still significant 41% minority of respondents still plan a traditional teller line in at least some of their new branches. The continued relevance of teller counters, even if deployed more judiciously than in prior years, may reflect the importance of higher-volume business clients at some institutions. But in aggregate, the findings reflect an imperative of aligning the service model to the demands of a specific environment, versus deploying identical branch models in all markets.

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