BANKING EVOLUTION

Banking and groceries remain a winning combination at this Kroger store in Greenfield.

Real Estate Needs No Longer the Same

By Rebecca Patrick

And then there were two. That's how many bankmarts Fifth Third Bank has left inside a Hoosier retailer. Other financial institutions have seen similar declines or are down to none at all.

Waves of consolidations and embracing of online transactions are major factors why banks in general are downsizing the number of branches and reassessing their real estate needs.

Adapting to what the customer wants

Whether it's a bankmart or a traditional structure, convenient service offerings continue to be the main draw, says Tim Tierney, group retail manager for Fifth Third Bank, Greater Indiana Region.

"Probably the number one convenience service is mobile banking. Within (our region), the mobile banking usage for all of our customers is up 10% year over year. That continues to grow, and I think that 10% will be even higher when we take a look back for 2016.

"I think what's important here – and I can't speak for our competitors but it's probably pretty similar – is that our customers today want everything," he continues.

" 'I want to be able to do it online at home. I want to be able to have access on my phone. And I want that brick and mortar as well.' And we still have people calling (the call center) every day too."

This attitude is shared across the customer spectrum.

"Whether it's a Baby Boomer, a Gen X or a millennial, they want every channel available. And one of those channels happens to be bankmarts for us. If we were to close a bankmart, I think we would probably hear the same things as if we were to close a traditional bank," Tierney offers.

"The thing that's going to be important for us (and all banking institutions) is to be nimble, to be agile – because the customers' needs and wants continue to change. We are going to go where they want us to go."

2 for 1: banking and groceries

For the last half decade, Fifth Third has maintained full-service bankmarts inside Kroger stores in Brownsburg and Greenfield. It once had eight to 10 such locations.

Tierney reports "no plans to do anything" with the two local bankmarts and that their transaction volume is "in line with what we see with our traditional financial centers."

The challenge for bankmarts, he stresses, is making themselves stand out and be visible in the retail store.

"It's very important that they be staffed with very outgoing people. We have to bring the customers in. You have to be someone who is very comfortable reaching out to our customers and reaching out to those who happen to be shopping."

Tierney also recognizes the fine line: "We don't want to interfere with someone who is simply coming to get some milk."

Kroger has welcomed banks to its locations because it's another customer convenience under its roof, according to John Elliott, manager of public affairs and media spokesman for Kroger Co. Central Division.

Up to this point, Kroger has not taken any active steps to move financial tenants out of its stores; it simply occurred as a course of bank industry trends, Elliott reports.

"When that happens, Kroger's real estate departments in each operating region are the ones to market a space when it vacates, or they would ask our operations and merchandising leadership if they would prefer not to release the space and reclaim it for Kroger merchandising purchases."

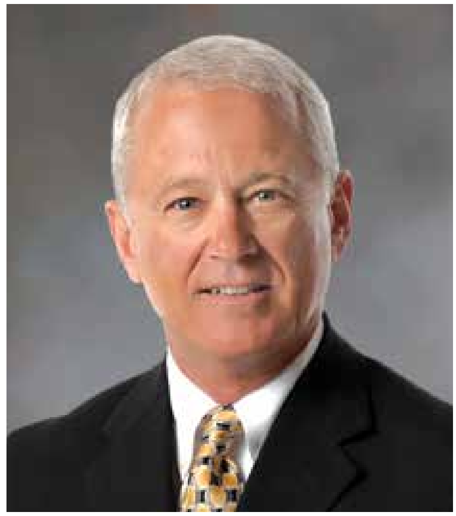
In the past, this has been done primarily on a store-by-store basis, but Elliot admits that is changing.

"There are stores where banks are in prime space in terms of customer convenience to do ClickList (Kroger's new online ordering service with curbside pickup). It won't be in every store, but it will be in those stores we can physically fit it in and the customer shopping patterns support it. So when a bank does vacate, we are now looking at that space as a potential for ClickList."

In other words, Kroger likely will be phasing out the leases of most remaining banks in their stores.

"Between direct support of Kroger customers and products versus a tenant relationship, we would prioritize the Kroger service over the bank tenant," Elliott explains.

"So as long as Fifth Third (or another bank or credit union) is happy, we aren't displacing them. But we are taking advantage



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Ken Newcomb, Jr., president F.C. Tucker Commercial

of lease expirations, as they happen, to re-evaluate."

'Hot corners' and more

Ken Newcomb, Jr., president of F.C. Tucker Commercial in Evansville, has been in the real estate business for 43 years. He says, "There was always competition on the hot corners between banks and the people who could afford them, like McDonald's and those types. They traditionally picked the best location, paid the highest prices and built the nicest building on them.

"We just sold a corner branch location here in Evansville that was at a pretty high price; it was a trophy location and warranted that price. Another bank bought it," he relays.

"Usually the banks spend more than what a normal office building would and have a nicer facility; the structural integrity is a lot better.

"I've never seen, for lack of better words, a crappy bank building. They have to be secure."

Brad Toothaker, president and CEO for the Bradley Company, agrees and reiterates that bank branches are a good canvas for potential buyers. (The Bradley Company has six offices throughout Indiana.)

"It's a structure that you can adapt the inside and rebrand the outside on. … It's pretty advantageous to many types of users. A lot of office users are moving to a more retail format.

"We are seeing it in medical, insurance – a lot coming into a more drive-by retail presence – and other service type businesses as well. Could be accounting firms and there are some law firms that like that type of presence," Toothaker describes.

"It's service businesses that have been in traditional office space and are looking for more visibility for access and advertising."

And those property suitors can be a bit surprising.

Newcomb has seen bank branches, outside of his Evansville area, which have been converted to restaurants and even nightclubs.

While a good branch location typically is off the market within 90 days, in Newcomb's experience, the hard sell is a big bank headquarters or larger branch; those can languish for years.

"We have a former Old National Bank in Evansville that has space – where their bank processing was – that has sat vacant for 10 years," he shares.

And the problem goes beyond being too large.

"Traditional office space, bank office space is not what the office market demands these days. It's a more open, more modern kind of layout," Toothaker states.

"So (with these big buildings) there is often a lot of demolition and investment in space to adapt the space that is left behind. And it's usually larger chunks which would have a (significant) cost to demise and separate it into multiple tenants."

Newcomb sums up the dilemma. "There are some banks that are growing but not like they were in the 1980s and services are going online. So they don't need 8,000-square-foot headquarters or the larger facilities anymore.

"There are just a lot more buyers and a lot more users for the smaller branch locations than for the larger ones."

RESOURCES: John Elliott, Kroger Co., at www.thekrogerco.com | Ken Newcomb, Jr., F. C. Tucker Commercial, at www.fctuckercommercial.com | Tim Tierney, Fifth Third Bank, at www.53.com | Brad Toothaker, Bradley Company, at www.bradleyco.com