

How to Re-evaluate your Branch Real Estate Portfolio and
Find the Right Location for your New or Relocated Branch
...and maybe even figure out the Branch of the Future



Louisiana Bankers Association

Retail Conference

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White Paper to Supplement a Presentation at the

2016 LBA Retail Conference

Baton Rouge, La

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I. Introduction

This White Paper is a supplement to the presentation “How to Re-evaluate your Branch Real Estate Portfolio and Find the Right Location for your New or Relocated Branch ...and maybe even figure out the Branch of the Future,” presented at the Louisiana Bankers Association’s 2016 Retail Conference. While this is not an exhaustive “how to” guide, we present a process and food for thought with the hope that our advice can guide you through the process towards positive results.

In order to begin planning for the future, a useful starting point is looking at the past. Not because what you have done in the past is a predictor of what you will do in the future, but because it is critically important to understand what you have, in terms of real estate locations and facilities in order to avoid “*Regretted Investment*.” “*Regretted Investment*” is a term used in the refinery business for capital expenditures that fail. Not only does the refinery have to dismantle and remove the pipes, pumps and infrastructure for the improvement, but the refinery must be shut down during start-up and decommissioning, which is a double impact on Operating Revenue.

An example of “*Regretted Investment*” is the client who approached Labarre Associates a number of years ago with a problem; they had opened a new Branch in a good neighborhood in New Orleans and it performed well for about three years. Business dropped off sharply after a certain date and they couldn’t figure out why. No competitors had entered the market, they had the same personnel staffing the Branch and there were no road construction projects diverting traffic. The client was stumped. Labarre Associates visited the Branch and talked to staff and looked at performance metrics and other Branch

data. There were no clues other than a sharp drop in transactions after a certain date. Finally, Labarre checked out the “spot crimes” website that indicated a mugging in the surrounding shopping center’s parking lot, several armed robberies and a string of “events” that occurred in the immediate vicinity of the Branch around the time period when transactions started dropping off. Neighborhood residents realized the area was becoming unsafe and took their business elsewhere, while the Branch employees, who lived elsewhere, didn’t. The client asked for advice in relocating the Branch, and Labarre Associates advised them to develop a location study and plan for their next four branches in New Orleans. The reason was that incremental decisions (just considering one branch) always seem to be the right choice at the time, but when viewed through the lens of time over a ten-year period, they may end up being, let’s say - “regretted.” Labarre Associates worked with the client in studying exhibits that are similar to those presented in this paper and the client took away several key learnings. One learning was to look at Walmart for a guide of “how to blanket the city with locations that are no more than a 15-minute drive apart. The other was that two locations on Veterans Boulevard would be needed; one in Metairie and one in Kenner as they are different markets with the same high volume transit corridor. The story of the stumped client has a happy ending, as do all Labarre Associates stories. With Labarre’s assistance, the client looked for just the right property for more than a year in their target area. Nothing turned up until Labarre approached a business owner, who was nearing retirement with a proposition they could not refuse. The free-standing restaurant was purchased and torn down. A new Branch is now under construction in an area that has the highest traffic counts in the market.

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II. A Comprehensive Process for Branch Planning

Most Bankers are familiar with Branch location feasibility studies, which are a great tool for getting started in planning new facilities. Labarre Associates, however uses a process called “Strategic Facility Planning” which goes beyond the typical scope of a feasibility study to include several additional steps that provide critical information about potential Branch locations and costs for different options.

1. Strategic Facility Planning Process



FEASIBILITY STUDY	STRATEGIC FACILITY PLANNING
<ul style="list-style-type: none">• Demographic Trends• Traffic Counts• Consumer Spending• Income demographics• Competitor locations, deposits and market share	<p>WHERE YOU'VE BEEN –</p> <ul style="list-style-type: none">• Current facility costs• Current Branch space usage and floorplans• Benchmarking current Branch operating cost and space use allows you to learn how efficiently your current facilities are performing and what “lessons learned” can be applied in the planning of new facilities as most financial institutions are looking to downsize their Branch sizes.• Current Branch Real Estate Analysis• Demographic trends• Traffic counts• Consumer spending• Income demographics• Competitor analysis• Facility Renewal Assessment of current facilities. Facility Renewal is the amount of capital you will have to spend or should have spent on replacing the roof, HVAC units and other building components with limited lifespans. When combined with an analysis of the book value and market value for each existing Branch, the analysis can identify Branches that might not be keepers.

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FEASIBILITY STUDY	STRATEGIC FACILITY PLANNING
<ul style="list-style-type: none"> Branch Cost – specified by client. Clients provide a space program and square footage requirements for a Branch. 	<p>WHERE YOU'RE HEADED</p> <ul style="list-style-type: none"> Most Bankers don't know where to start in terms of planning the Branch of the Future. The strategic Facilities Planning process assists clients in developing a verbal description of how they want the Branch of the Future to work then convert this "How-It-Works" vision into an architectural program, square footage requirements and costs for a variety of Branch sizes. A visioning session is supplemented with interviews with transaction platform vendors (cash recyclers, smart ATM's and so on).to develop a clear vision for the details of Branch operation. With Strategic facility planning, a number of scenarios are created along with costs and budget implementations for each scenario are developed. An analysis of key success indicators for Branches is developed and the team works to develop a Branch location strategy for each Market. A Vision, Mission and Guiding Principles ensure consistency in decision-making over time.
<ul style="list-style-type: none"> Hire as Real Estate Broker and Architect to identify and evaluate sites. Contractors provide cost estimates. 	<p>HOW TO GET THERE - The Strategic Facility Planning process allows you the maximum learning and testing potential. In each phase, a number of white papers explain the background and "ins-and-outs" of planning subjects. Some have commented that going through the Strategic Facilities Planning Process is like taking a graduate level classes in Facility Planning, Real Estate Location Analysis and Financial Forecasting.</p> <ul style="list-style-type: none"> Financial Forecasting for each Branch as well as for the entire institution Site Test Fit Plans

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FEASIBILITY STUDY	STRATEGIC FACILITY PLANNING
<ul style="list-style-type: none">• Work with Architect, Real Estate Broker and Contractor to select a site and develop a plan.	<p>DECISION SUPPORT - OUR APPROACH - Strategic Facility Planning is unique in that it requires the disciplines of Architecture, Construction, Real Estate and Business Planning to work together in an interactive feedback loop environment. After your team has digested your numbers and the supporting background information, scenarios and other information, the best solution usually emerges. As this solution emerges, additional supporting information can be developed.</p>

The purpose of the Branch Strategic Facility Plan is to create a foundation of facts, analysis and insights that will guide management in making sound, fact-based facility decisions. Strategic Facility Planning is a process and the plan should be updated, at least annually. In the absence of a Strategic Facilities Plan, a Feasibility Study should be supplemented with planning contributions by a Real Estate Broker, Architect and Contractor.

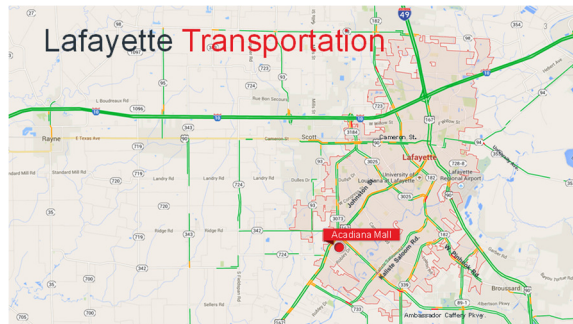
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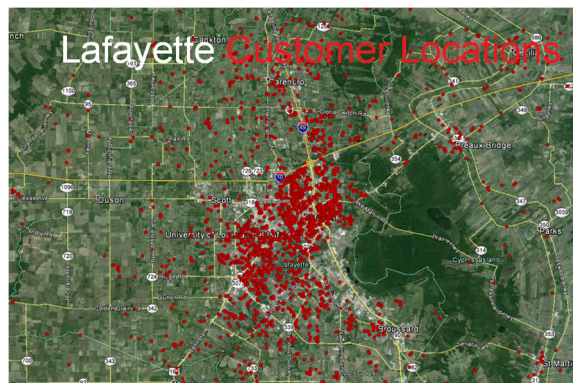
2. Where You've Been

The following illustrate typical tools used in Feasibility Studies and Strategic Facility Planning.

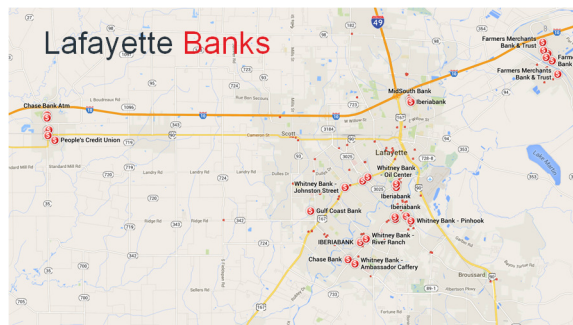
For an institution located in another city, it is important to understand the main circulation routes.



If customers are located everywhere, the first Branch location should be evaluated with respect to future locations.



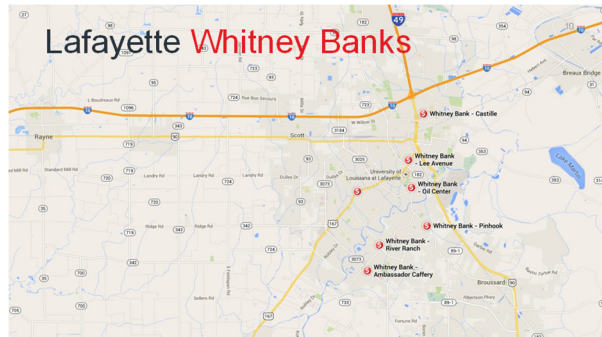
Lafayette Banks are located along the Main thoroughfares. There is no "Bankers Row" as in most cities.



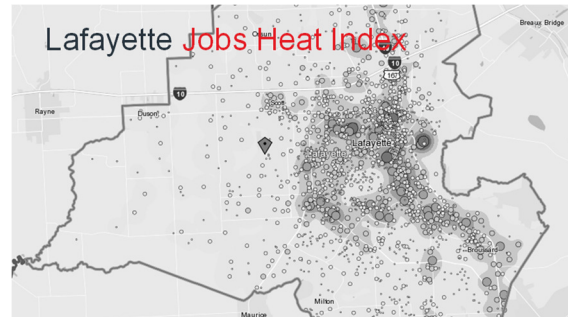
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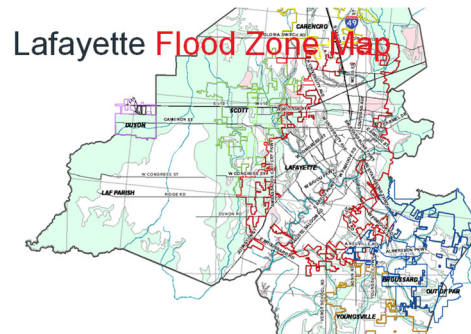
Whitney Banks are legacy locations from a local community Bank. They provide a useful roadmap to “Blanketing the area.”



The Heat Index shows where people work. <http://onthemap.ces.census.gov/>

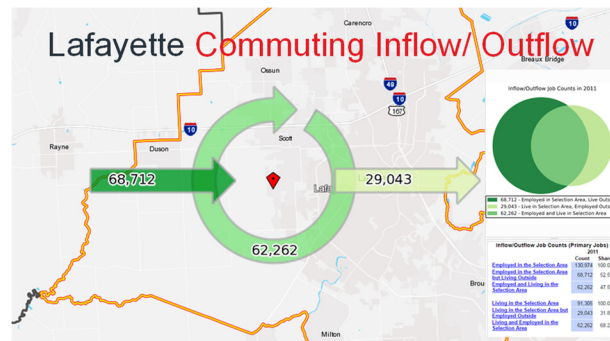


Flood Zone maps are available from the LSU Ag Center. Research into the Lafayette Master plan revealed that future road construction would be focused on improving existing roads.



An analysis of commuting patterns is important in understanding traffic patterns and good Branch Locations.

<http://onthemap.ces.census.gov/>



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Crime statistics for potential sites should be investigated.

Lafayette, LA crime information

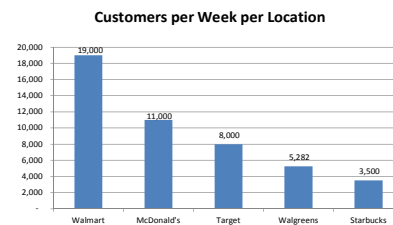
<http://www.lafayettela.gov/policedepartment/pages/default.aspx>

http://www.trulia.com/real_estate/Lafayette-Louisiana/crime/

3. Where You're Headed

Because Brand loyalty is weak for Financial Institutions, Bank Branches can benefit greatly from a good location.

Branch Location Strategy: Where do people Drive? To Work? Shopping? Look to Driving Patterns.



Reference: How to Develop a Branch Location Strategy White Paper

Wal Mart & Others Provide a Roadmap to Covering an Area



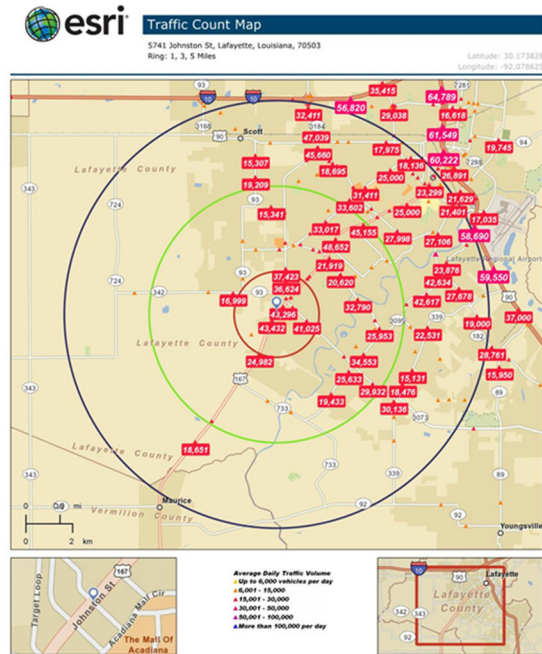
Reference: How to Develop a Branch Location Strategy White Paper

Walmart has effectively "Blanketed" the City.

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Traffic Count Data is important, but high traffic count locations are necessarily the best locations.



4. How to Get There

Before launching into any detail site search for a new Branch, it's advisable to develop a branch location strategy for each market area. Some of the questions that should be answered are:

- What are we trying to accomplish:
 - Improve existing customer service with a better location in an existing market?
 - Develop a market presence in a new area?
 - Grow Assets, income, customers or other?
 - How will success be evaluated?
- What is the break-even point for a potential market for a specific branch type (retail In-Line, purchased, new construction)? How

long do we think it will take to reach that point? What is our exit strategy if things don't work out?

- What is the final number of Branches for each market (long term plan)? What will drive the timing of new Branch construction?
- What is our exit strategy for each branch?

Some Branch location strategies used by many Banks include:

1. At the 4 points of the compass around the city (medium size cities only)
2. Where customers live
3. Where customers work

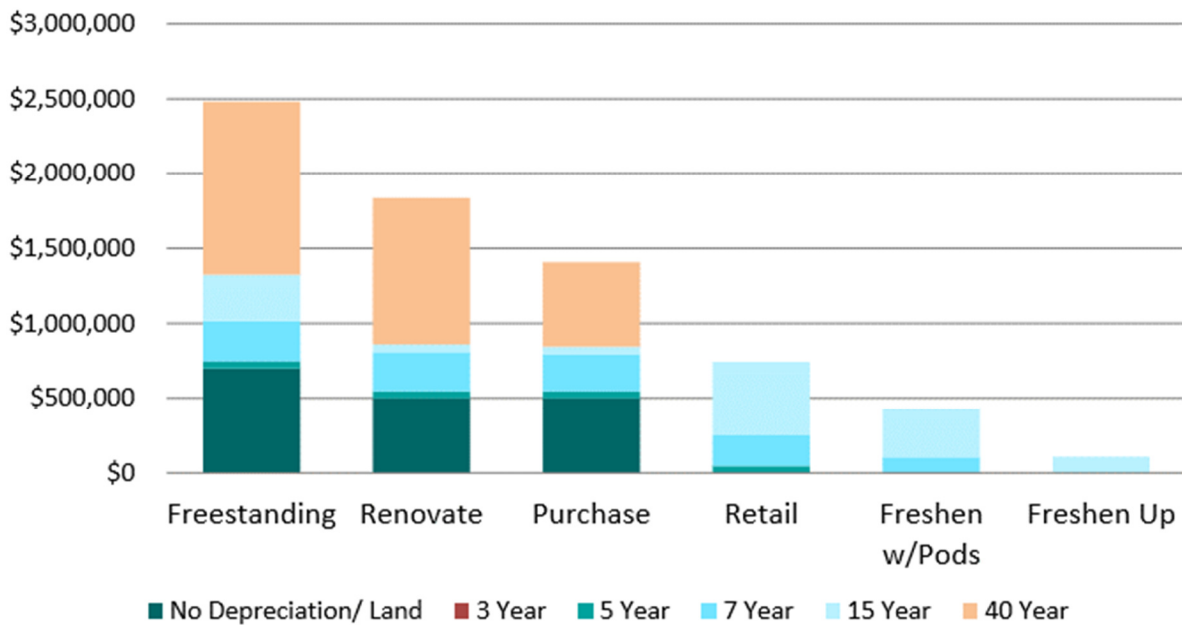
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4. Along Bankers Row
5. Near the Mall
6. Near a specific retail establishment (i.e. Walmart shadow center or near a McDonalds)
7. On the "Goin' Home Side of the Road"
8. On a heavily traveled road current customers use
9. Vacant land (purchased years ahead of time) at the "next undeveloped interchange as you are heading out of town"

Strategic Facility Planning is a fluid process. Often times, Clients enter the process with one approach in mind for a Branch and end up implementing a different approach. Having the costs for a number of approaches, or scenarios is helpful, especially for Banks with larger networks.

BRANCH COST



Above - range of costs for a variety of 3,000 sq. ft. Branch scenarios

a. The Branch of the Future

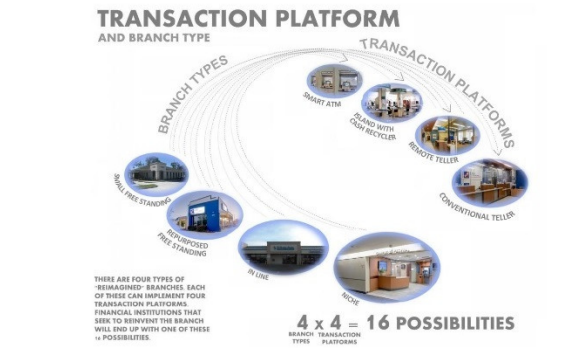
There are only 16 possibilities for the Branch of the future. During the "How to Get There" part of the process, you will review the possibilities and study examples of various Branch types and Transaction platforms. The purpose of this step in the process is

to provide background information so that you can make solid, fact-based decisions based upon the knowledge gained by others who have been through the process.

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Right – there are four different Branch types and 4 types of transaction platforms that typically are used in the “Branch of the Future.”

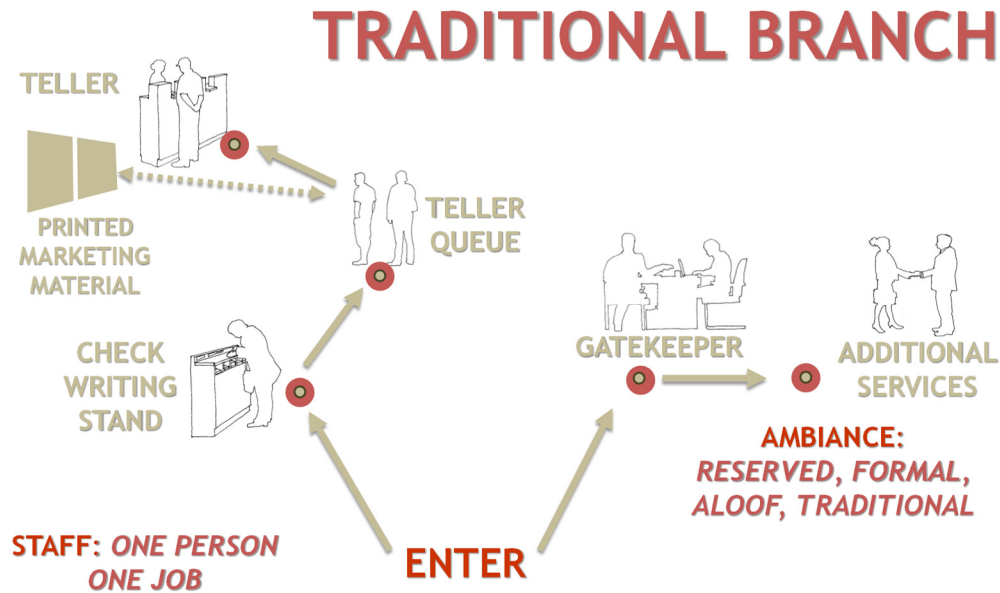


There are only 16 Possibilities

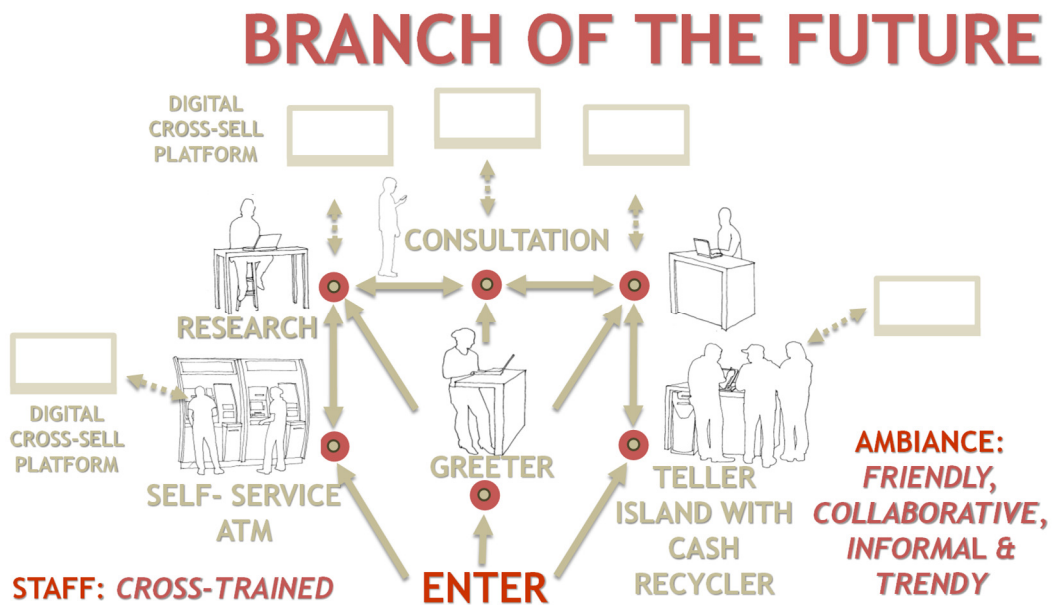
		Transaction Platform			
		Conventional Teller Line	Smart ATM	Remote Teller	Island with Cash Recycler
Branch Type	Small Freestanding Branch	1	2	3	4
	Repurposed Freestanding	5	6	7	8
	In Line (Retail)	9	10	11	12
	Niche	13	14	15	16

Above – 16 types of Branches of the future. Number one, for example is a small free-standing Branch with a conventional teller line. Number 8 is a Repurposed, Free-Standing Branch with a transaction platform consisting of Cash Recyclers located in free-standing, teller islands.

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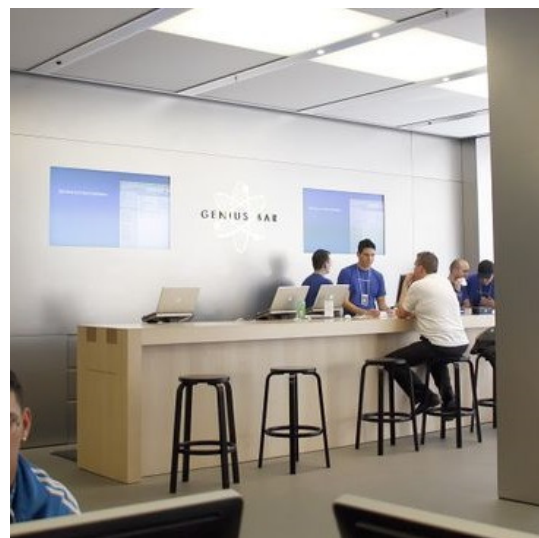
Above – typical customer experience for a traditional Branch.



Above - Proposed customer experience at a “Branch of the Future.”

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Above – For the Branch of the Future, most financial institutions desire a customer experience similar to that of customers at the Apple stores, where they have a “greeter” and specialized “service bars.”

b. How Big should a Branch or Site be?

Site Size

Through more than 30 years of experience, Labarre Associates has found that Branches with Drive Thru need to be located on lots that are 30,000 sq. ft. (3/4 acre) and up. When Branch sites are smaller, there are problems with access, parking and Drive-Thru queue (stacking) lines extending into parking areas as well as with potential liability problems of customers walking across the Drive Thru or major circulation paths.

Building Size

The right Branch size will vary from institution to institution and from location to location. Over the past 10 years, Labarre Associates has found a “sweet spot” for newer, smaller Branch types to be between

1,700 sq. ft. and 3,000 sq. ft. This range has worked well for clients. The lower limit for a Branch with a traditional Branch “feel” is around 1,100 sq. ft.

Drive Thru

Remember – Branches last a long time – 40 years or more if you believe depreciation reflects useful life. Consequently, while you may not think you need a lot of Drive Thru capability when the Branch opens, you will need it – eventually. Labarre Associates typically recommends a minimum of 3 Drive Thru lanes with an unobstructed bypass lane to allow traffic flow around the Drive Thru queue (stacking). Minimum queue space of 12 to 16 cars is absolutely necessary to having a functional, safe site circulation flow.

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c. Branch Types

Right – Branch Types:

- Freestanding
- Repurposed (Converted Starbucks)
- In-line (Retail)
- Niche



d. Transaction Platforms

Traditional Teller Line

Advantages

- Familiar to staff and customers

Disadvantages

- Space intensive as the traditional teller line was positioned at the end of a large lobby that was used to hold line of people waiting to cash their checks on pay day.



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Island with Cash Recycler

How it Works

1. Customers enter into an open retail environment.
2. Tellers assist customers at teller pods (which have replaced the traditional teller line).
3. Customers and tellers can carry on transactions in a friendlier, conversational manner.

A well-known analogy is the Apple store.



Advantages

- Progressive image
- Limits cash counting
- Limits “grab and rob” amount
- Less prone to robbery

Disadvantages

- Relatively new concept – there could be pitfalls, like security

Remote Teller

How it Works

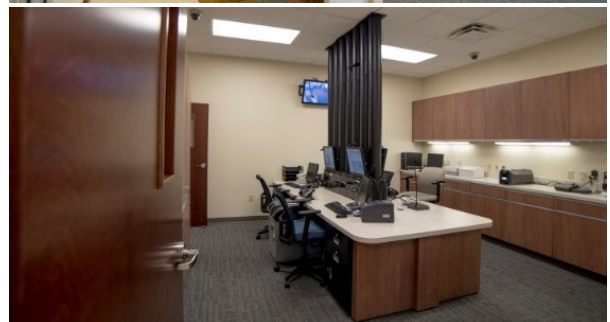
Customers are greeted by a concierge upon entering the branch and are directed to the proper activity (transaction, meeting with someone in an office, on-line inquiry etc.).

Advantages

- Tellers are secure
- Layout can be converted to “Smart ATM’s at a future date.

Disadvantages

- Lack of “personal touch” during transaction



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Smart ATM

Each Teller machine must be supported by “touchdown space (flat surface for purses) and other amenities like a trash receptacle.

How it Works

1. Customers are “greeted” by a Concierge.
2. After discerning intent, Concierge escorts Customer to a “Smart ATM”
3. “Smart ATM” allows Customers to deposit or withdraw cash, transfer balances, or converse with a teller.
4. Teller support for the ATM can be at a work room in the branch or at a centralized location that serves many branches
5. There is no longer need for a drive thru window or “Deal Drawer.”
6. An analogy would be the self-serve check-out stations at the supermarket.

Advantages

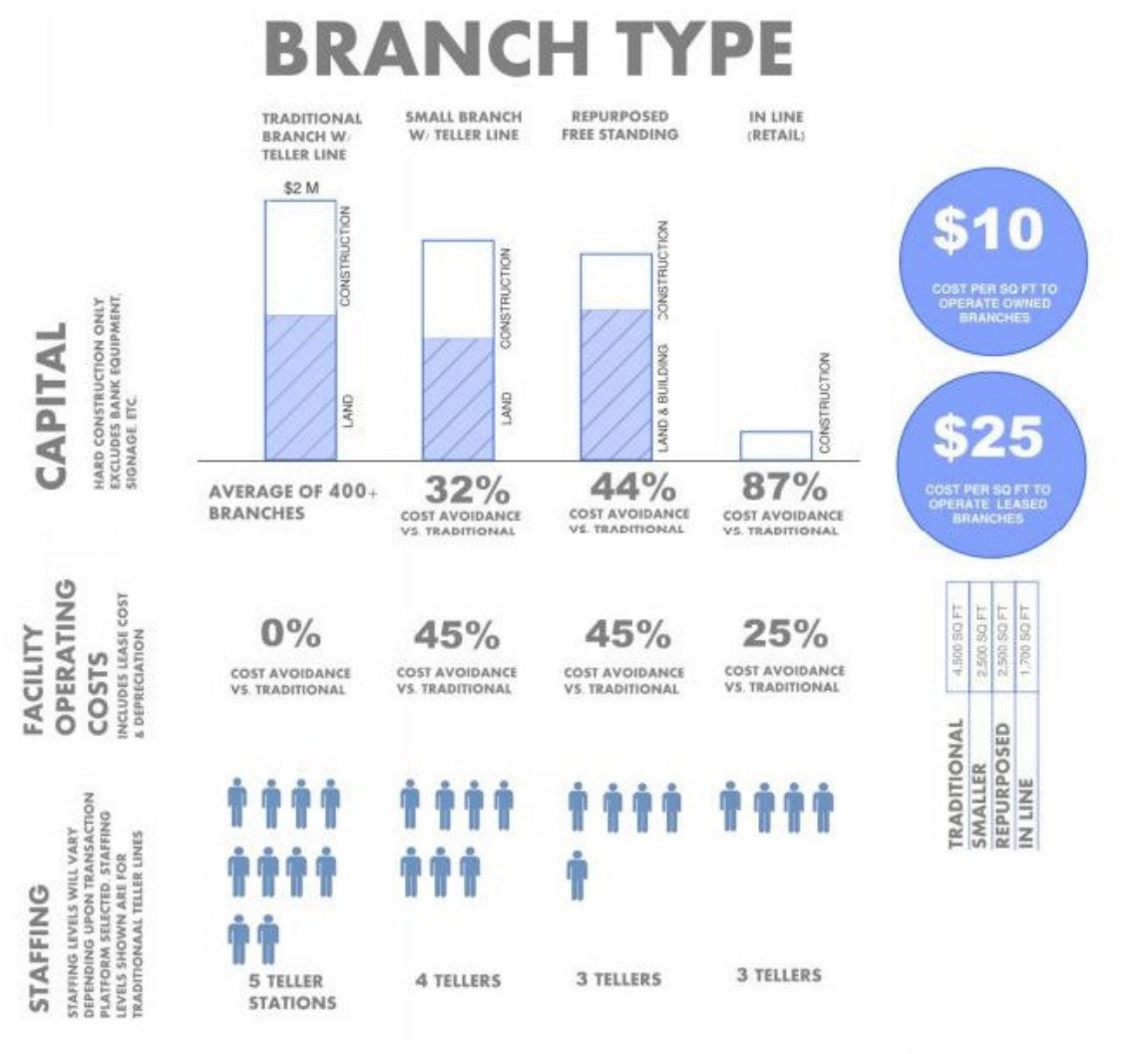
- Potential to decrease Branch staffing levels

Disadvantages

- Significant up-front capital investment in equipment



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As Branch size decreases, Capital, Facility Operating Cost and Staffing Levels also decrease

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5. Decision-Making/ Consensus Building

a. Question 1 Part A - Should you rework existing locations or build new Branches?

b. Question 1 Part B - Are current locations worth reworking?

Before you answer these questions you have to answer some questions about your current Branches:

- Are all Branches performing up to expectations?
 - If not – have you identified a specific reason for each branch?
 - Is it the location?
- Which Branches have diminishing performance?
 - Could it be real estate related (i.e. a neighborhood crime increase, a new by-pass road, new competitors?)
- Do certain Branches have access problems?
- Have you considered closing some Branches, selling the real estate and re-investing in new locations?
- Do you have Branch “Refreshes” (new paint, carpet, update of brand items) scheduled for each Branch every 5-8 years?
- Do you have Branch “Updates” (light construction, rework spaces, new furniture or layouts, updated teller line etc.) scheduled every 10-15 years for each Branch?

If you have regularly scheduled “Refreshes” and “Updates,” any type of shift to a new transaction

platform might be best if worked into the schedule, even if it means accelerating the schedule.

Any funds invested in reworking existing locations will not necessarily drive new customers to your Branches. Investments should be thought of as the cost of doing business and retaining existing customers. Changes in transaction platforms (i.e. switching from a teller line to pods with cash recyclers should be evaluated in terms of both cost savings (fewer Branch employees) and facility updates (required).

New Branches

One of the purposes of a strategic facilities plan is to provide information that will assist in developing a plan for the right size branches, in the right places. The Branch has been declared dead by some in the financial press, but they are wrong. It is the experience of Labarre Associates, in years of helping clients select new locations, that the return from a new Branch location is proportional to the investment. That is, locations that cost more, drive more traffic to the Branch. Clients that shift to a philosophy of buying the best real estate in a target area are continually amazed at the performance of new Branches, when compared to their existing, low-cost locations (that they have had for years).

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a. The Cost of Doing Nothing

Financial Institution executives are hired to make good decisions and in today's uncertain times, managers may want to postpone a decision to build, but remember that "no decision" and "no action" are decisions. Labarre Associates has studied the 10-year financial performance, branch growth and staff growth of more than 50 southeast Financial Institutions. It was found that those that did not add

branches had very low rates of growth and sometimes negative growth. In other words, if you do nothing, you are just treading water – or maybe even losing ground. So if your staff want raises next year, how will you generate the extra funds to pay for the raises? You can decrease cost (i.e. lay off some staff) or increase revenue. Increasing revenue by growing your Branch network is hard, but Labarre Associates can help.

1. Smaller Branches Reduce Risk

After the Financial Melt-Down in 2008, several Labarre Associates' clients decided to continue with their branch roll-out plans. Rather than purchasing land and building a new, Freestanding Branch, the clients decided to lease space in retail centers and proceed with branches that were smaller than their prototype. The following reasons were cited as factors in the decision to go with smaller, retail Branches:

- **Greatly accelerated time to market** (faster time from the decision to build to operation).
- **Significantly less Capital Investment lowers risk.**
- **Lower Operating Cost** – Smaller branches require smaller staff and facility operating costs are less.

As you prepare to lead your organization through uncertain times, use this final portion of the Strategic Facilities Planning process to start building your foundation of information about facilities and real estate. Develop a list of questions. Talk to other executives in the industry. Read articles and blogs. Develop an action plan. Lead your organization through turbulent waters to the safe harbor of a more prosperous economic environment where a completely different set of problems will be waiting for you!

Think! Evolve! Innovate! Execute! Prosper!

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About the Firm

Founded in 1984 by Jay Labarre, Labarre Associates, Inc. is a diversified, full-service organization that provides its clients with a choice of quality and cost-effective services from concept through operations. With its headquarters in Denham Springs, LA, just outside of Baton Rouge, the company provides Architectural, Construction, Development, Facility Management, Real Estate and Consulting Services for financial institutions, educational/religious organizations, state & local government agencies, and retail & commercial clients in Texas, Louisiana, Mississippi, Alabama, and Florida

Our mission, "Through partnership and innovation, we help you reach your goals by providing comprehensive solutions for your built environment," begins with our commitment to our clients. "We make you look better" is not a slogan, but our goal in how we deliver services to each client. Each employee is dedicated to client satisfaction, attention to quality, turn-around time, and cost. This service promise is delivered to our clients seamlessly; whether it is delivered by one or any combination of our operating divisions. Every project is custom-tailored to meet specific client needs and expectations.

Labarre Associates' clients that have adopted the strategic facility planning process have realized a financial benefit of 13% or more (versus baseline or current practices), that results in more efficient capital allocation and lower operating cost. The underlying reason for the positive financial results is the holistic approach to decision-making that uses the systems thinking approach.