

RETAIL BANKING DURING COVID-19

MARCH 2021



CHANGING INDUSTRY

Even before COVID-19 disrupted the global economy, retail banking had been going through substantial changes brought on by the changing nature of the relationship between financial services firms and customers. The rise of online banking, followed by mobile banking options, have altered the real estate requirements for retail bank locations.

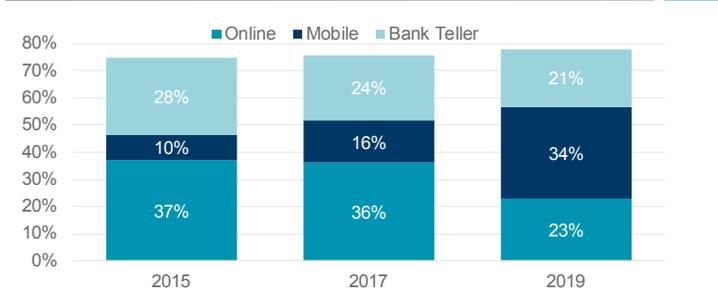
Digital Disruption:

The global fintech industry has grown significantly, with estimates suggesting that more than \$70 billion in venture capital has been raised to support the industry in the past two years alone.¹ Between 2015 and 2019, mobile banking tripled as the primary method of customers accessing their bank account, from 10% to 34%. Over the same time period, the proportion of banking households visiting a bank branch 10 or more times in a year dropped by 700 bps.²

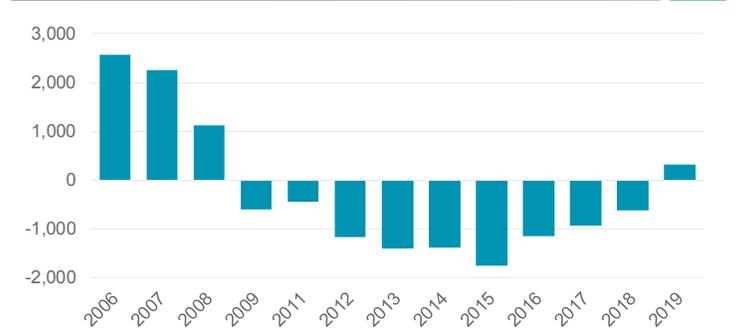
Evolving Retail Portfolios:

As with much of retail, there is a drive—pre-COVID-19—for physical bank branches to move from the transactional to the experiential. This focus on relationship building requires rethinking space and design. The right-sizing of bank locations, across all user types, will accelerate. At year end, 2021, the number of bank branches is expected to hit well below pre-COVID-19 numbers. Many banks will move to hub and spoke models that include fewer overall branches, fewer larger format, “full service” flagships and an increase of limited service locations (typically requiring half or less of the square footage of a full service branch).

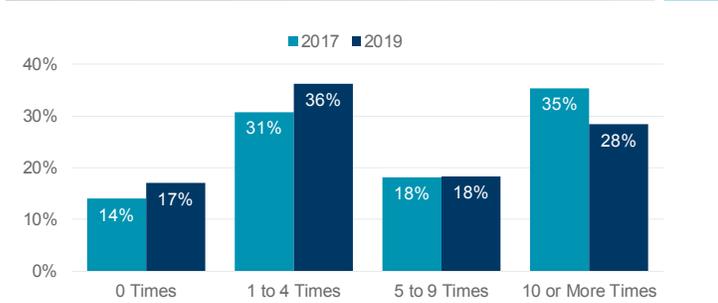
PRIMARY METHOD TO ACCESS BANK ACCOUNT²



NET BRANCH CLOSURES & OPENINGS³



BANK BRANCH VISITS, AMONG BANKED HOUSEHOLDS²



For more thoughts on FinTech’s impact on global commercial real estate, [read The Edge online magazine.](#)

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COVID-19'S IMMEDIATE IMPACT

The current health pandemic and related economic recession is affecting all commercial property types, but likely none more than hospitality and retail. Immediate changes in retail bank branch activity is evident across the largest financial services institutions.

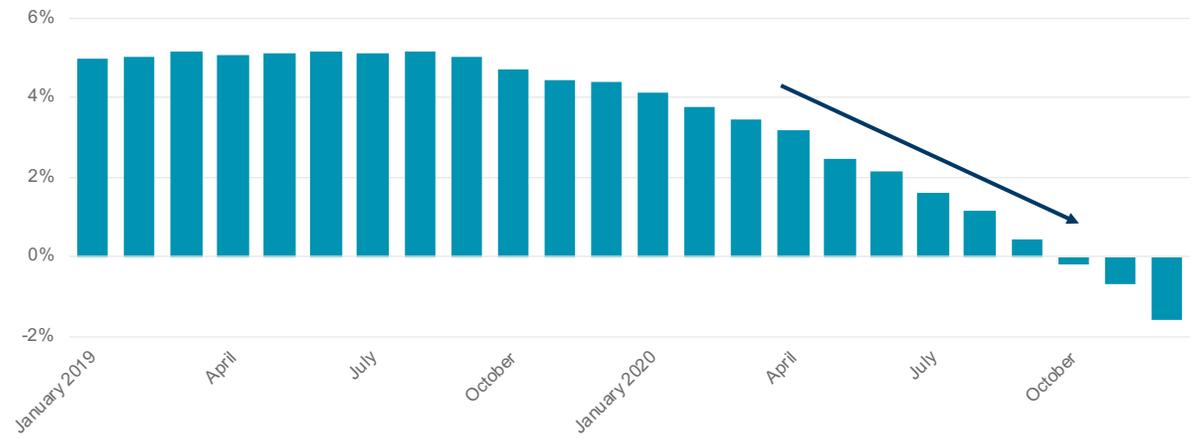
Reduction of Volume:

Leasing activity dropped precipitously across the United States in the wake of COVID-19 landing in North America in late March 2020. This is true for office product where leasing activity for Q2 through Q4 is less than half of the same three quarters in 2019. Similarly, shopping center product has experienced negative net absorption of 26.0 msf in 2020, more than half of which occurred in Q3. Similarly, the number of new bank branch leases executed in 2020 is half the volume completed in 2019.⁴

Occupier Opportunities:

The bright side for financial services firms is that there may be cost saving opportunities in certain markets. For example, the proportion of renewals where the first year of the renewal is at a lower rental rate than the last year of the previous lease almost doubled from 2019 to 2020. Additionally, the 12-month trailing average rental rate increase for bank branch renewals has been decelerating since late 2019, and renewal rates in Q4 2020 were on average lower than the final year of the previous lease.⁴

RENEWALS: 12-MONTH TRAILING AVERAGE INCREASE IN RENTAL RATE⁴



Two-thirds of retail bank renewals in Q4 2020 had lower year 1 rates than the final year of the previous lease.

Data Sources

- 1 CB Insights 2019 "State of Fintech: Investment & Sector Trends to Watch"
- 2 FDIC
- 3 Credit Suisse; The Financial Brand
- 4 Cushman & Wakefield Research

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