

Empty Bank Branches Add To Supply In Retail Real Estate

By A.D. Pruitt

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NEW YORK (Dow Jones)--The ruins of Washington Mutual's aggressive and unorthodox growth strategy is no more apparent than in the Windy City, where roughly 75% of the bankrupt bank's branches have gone dark.

It's a stark harbinger of what looms ahead for recession-battered retail real estate. A growing number of vacant branches being dumped on the market due to mergers and Chapter 11 filings are poised to push vacancy rates higher and exacerbate weak property values.

During boom times, WaMu opened about 170 branches in the Chicago area. The growth spurt underscored the Seattle company's ambition to be the Wal-Mart of retail banking. WaMu attempted to build a presence in "Chicagoland" from the ground up by opening brand new branches to attract customers. It was a nontraditional strategy given that banks usually purchase an existing bank or branch network to expand into new regions.

As WaMu struggled, it shuttered about 60 branches in Chicagoland before it went bankrupt and was acquired by JPMorgan Chase & Co. (JPM) earlier this year. Subsequently, JPMorgan Chase closed about 70 more branches in the area, leaving only 40 of the original WaMu branches open, a company spokesman confirmed. Nationwide, Chase has closed nearly 400 one-time WaMu branches.

Similar scenarios are seen across the country as troubled commercial real estate loans, a brutal recession, a housing downturn and online banking are forcing many national and regional banks to merge, scale back or go out of business. Bank of America Corp. (BAC) reportedly hinted in July that it could close 10% of its roughly 6,000 branch network, though the Charlotte bank has since distanced itself from those reports.

Recent mergers including PNC Financial Services Group Inc.'s (PNC) purchase of National City Corp. and Wells Fargo & Co.'s (WFC) purchase of Wachovia Corp. are likely to result in some branch closures to due to overlap.

"It's definitely going to have a softening impact in terms of values," said Patrick Duffy, chairman of Colliers International's retail services group. He said there is a lot more supply of freestanding bank branch properties coming on line than there is demand.

"There's not a lot people starting up banks, expanding or starting credit unions," noting conversions of bank branches can be difficult, he said. "If you want to go to an office use it devalues the property significantly and banks have a somewhat unique footprint that doesn't work for many retailers."

Retail-sales declines, fueled by steep drops in discretionary spending, have supported higher vacancy rates and increased difficulties for landlords.

For banking retail, most vulnerable are branches that were located in suburban areas and in housing bubble states like in California and Florida. "Many of the banks were looking at the projected housing starts and population growth statistics and were making decisions based on those (factors) and growth markets," said Scott Burns, a broker with Wilson Commercial Real Estate, which represents grocery-anchored shopping centers in southern California.

"The banking industry was one of the first groups that we saw pullback in late 2007," when the recession took root, he said.

Burns said there are two vacant Citibank and one empty Wachovia branch in his portfolio. The branches are dark, but the banks are still paying the rent until the leases expire in about five years.

"Unless the bank finds a subtenant or unless there's the higher-paying tenant out there that really wants the space," the leases remain intact, Burns said. "In this market right now, we're not seeing the demand. We're not seeing the rent at the same level it was."

While the number of dark bank branches is growing, the amount is a relatively small fraction of the nearly 100,000 domestic branches operating nationwide, as of the end of 2008, according to the American Bankers Association, citing Federal Deposit Insurance Corporation data.

Most leases for these property types are signed for 15 to 20 years. Freestanding banks located in dense urban areas, on street corners and main intersections are considered prime real estate and usually see high demand. Those in suburban markets and tertiary markets won't fare as well.

Burns said the biggest challenge is that bank branches are 4,500 to 5,500 square feet and built for single-purpose uses. "They're not necessarily transferable to other retailers. A lot are square and box shaped rather than rectangular, which would lend itself to splitting up for multiple tenants," he said.

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