Welcome to the REAL World

REAL Strategy: How to Determine the Appropriate Branch or Retail Network Real Estate Investment Strategy
Meet Our Speaker

Barry Lynch,
CFM, SFP, RA, MBA, IFMA FELLOW

Strategic Facility Planner

LABARRE ASSOCIATES
“One Source, One Solution”
Added Bonus – from Barry Lynch

“Real Estate Location Analysis” template

“How to Develop a Branch Location Strategy White Paper”
TRADITIONAL BRANCH

TELLER

PRINTED MARKETING MATERIAL

CHECK WRITING STAND

ENTER

TELLER QUEUE

GATEKEEPER

ADDITIONAL SERVICES

AMBIANCE: RESERVED, FORMAL, ALOOF, TRADITIONAL

STAFF: *ONE PERSON ONE JOB*
BRANCH OF THE FUTURE

DIGITAL CROSS-SELL PLATFORM

RESEARCH

SELF-SERVICE ATM

CONSULTATION

STAFF: CROSS-TRAINED

ENTER

TELLER ISLAND WITH CASH RECYCLER

AMBIANCE: FRIENDLY, COLLABORATIVE, INFORMAL & TRENDY

DIGITAL CROSS-SELL PLATFORM

GREETER
REAL ESTATE MARKETS ARE CONSTANTLY CHANGING

We don’t notice the change day-to-day or year-to-year.

Change creates:
- Challenges
- Opportunities
Crossroads Mall, Boulder, Colorado

1951

2002

[Image of Crossroads Mall, Boulder, Colorado]
A Location Must Address:

• Convenience
A Location Must Address:

- Convenience
- Customer Experience
You’ve got to start with the Customer Experience and work back toward the technology, not the other way around.

*Steve Jobs*
The Customer Experience Touches Almost Every Area of Operations

- Technology
- Media
- Security
- Transaction Platform
- Facilities
- Brand Support
- Staff (Cost)
- Staff (Process)
- Real Estate

CUSTOMER EXPERIENCE
A Location Must Address:

- Convenience
- Customer Experience
- Brand Reinforcement. A Brand must Deliver a Consistent Customer Experience Through:
  - Website
  - Apps
  - Retail Location or Branch
A Brand:

• Resides in the Hearts and Minds of Customers and Prospects
• Is the sum of Customer Experiences with the enterprise.
A Location Must Address:

- Convenience
- Customer Experience
- Brand Reinforcement. A Brand must Deliver a Consistent Customer Experience with:
  - Website
  - Apps
  - Retail Location or Branch
- Design (Commodity, Firmness & Delight)
Science of the Built Environment:

*Welcome to Your World: How the Built Environment Shapes Our Lives*

*Sarah Williams Goldhagan*

- Our perception of Space in Non-Conscious
- We think and Act Differently depending Upon the Room we Are in
- Design IS important
- Oftentimes, the Features that create a positive Experience are Value-Engineered out of a project
FEEL the door handle
New McDonald’s
REAL Strategy: How to Develop the Appropriate Branch or Retail Network Strategy
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REAL Strategy: How to Develop the Appropriate Branch or Retail Network

The Bar Sitting is the new Smoking. So People semi-sit.
A Location Must Address:

- Convenience – Today’s Focus
- Customer Experience
- Brand Reinforcement. A Brand must Deliver a Consistent Customer Experience with:
  - Website
  - Apps
  - Retail Location or Branch
- Design (Commodity, Firmness & Delight)
REAL Questions:

How well does our Network provide Coverage?
How do we Know we Have Good Locations?
Is there a “Best Practice” for Investment?
How Do our Locations Reinforce our Brand?
Is there a formula for Determining Investment Limits?

Where do we start???
Is there a Process???
Problem-Solving Process: Strategic Facility Planning

WHERE YOU’VE BEEN
WHERE YOU’RE HEADED
HOW TO GET THERE
DECISION-MAKING/CONSENSUS BUILDING

Strategic Facilities Planning is a systematic and continuous process where past performance and a range of organizational futures are studied, then fact-based decisions about capital expenditures to support organizational needs, functional obsolescence, future infrastructure needs, and facility renewal are determined.
Problem-Solving Process: Strategic Facility Planning

WHERE YOU’VE BEEN
WHERE YOU’RE HEADED
HOW TO GET THERE
DEcision-Making/Consensus Building

The Final Product is a Long-Term Capital Plan that has been thoroughly studied and which supports the Enterprise’s Strategic Business Plan.
Problem-Solving Process: Strategic Facility Planning

WHERE YOU’VE BEEN
WHERE YOU’RE HEADED
HOW TO GET THERE
DECISION-MAKING/CONSENSUS BUILDING

We will use the 4-Step Strategic Facility Planning Process as a guide in evaluating our current Network and helping us chart a new course.
Do it yourself
A. WHERE WE’VE BEEN
Where We’ve Been/Where We’re At

- What are our Occupancy Costs?
  - Trends?
  - Benchmarks?
- What is our Facility Renewal Liability?
- Market Values vs. Book Values?
- Do Current Locations Work?
- Operational Issues?

Retail Network Analysis
Where to Start?

1. What is has been our Network Strategy in the Past? Does anyone know?

2. Existing Branches - 1-2-3 Real Estate Evaluation
CURRENT LOCATION ASSESSMENT

The purpose of this report is to provide feedback about how well current Branch locations meet traditional real estate criteria for a good "Retail Branch location."

The criteria used for this report consist of the following:

- Ease of access to the area
- Good access to the site
- Good egress from the site
- On a commuter route
- In a retail area
- On the going’ home side
- High traffic counts
- Intangibles

The eight criteria received a score of 1, 2 or 3 according to the following:

1 = Inadequate
2 = Acceptable
3 = Good
# CURRENT LOCATION ASSESSMENT

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ease of Access to the Area</td>
<td>2</td>
</tr>
<tr>
<td>2. Good Access to the Site</td>
<td>3</td>
</tr>
<tr>
<td>3. Good Egress from the site</td>
<td>3</td>
</tr>
<tr>
<td>4. On a commuter route</td>
<td>1</td>
</tr>
<tr>
<td>5. In a retail area</td>
<td>1</td>
</tr>
<tr>
<td>6. On the Goin' Home Side</td>
<td>1</td>
</tr>
<tr>
<td>7. High Traffic Counts</td>
<td>1</td>
</tr>
<tr>
<td>8. Intangibles</td>
<td>1</td>
</tr>
<tr>
<td>9. Average</td>
<td>1.63</td>
</tr>
</tbody>
</table>

**Scoring Key**
- 3 = Good
- 2 = Acceptable
- 1 = Inadequate

**Notes:**
CURRENT LOCATION ASSESSMENT

ASSESSED SCORE FOR CURRENT LOCATIONS

<table>
<thead>
<tr>
<th>Branch</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch 1</td>
<td>1.63</td>
</tr>
<tr>
<td>Branch 2</td>
<td>2.13</td>
</tr>
<tr>
<td>Branch 3</td>
<td>1.75</td>
</tr>
<tr>
<td>Branch 4</td>
<td>2.00</td>
</tr>
<tr>
<td>Branch 5</td>
<td>2.00</td>
</tr>
<tr>
<td>Branch 6</td>
<td>3.00</td>
</tr>
<tr>
<td>Branch 7</td>
<td>2.50</td>
</tr>
<tr>
<td>Branch 8</td>
<td>2.50</td>
</tr>
</tbody>
</table>

**CRITERIA**
1. Ease of Access to the Area
2. Good Access to the Site
3. Good Egress from the site
4. On a commuter route
5. In a retail area
6. On the Goin' Home Side
7. High Traffic Counts
8. Intangibles

**Scoring Key**
- 3 = Good
- 2 = Acceptable
- 1 = Inadequate
3. Are you upside down on any Branches?

Branch/ Retail Real Estate Economics

- Replacement Value
- Market Value
- Book Value
- Required Facility Renewal Expenditures
Are you upside down on any Branches?

BOOK VALUE AFTER CHANGES & RENEWAL: $1.3 MM
POTENTIAL LOSS ON SALE: $1.0 MM
FUNCTIONAL MARKET VALUE
CHANGES $1.0 MM
FACILITY RENEWAL
BOOK VALUE
4. What Kind of Locations

<table>
<thead>
<tr>
<th>BRANCHES</th>
<th>RETAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Branch?</td>
<td>Within your Company Size?</td>
</tr>
<tr>
<td>Loan Branch?</td>
<td>Target Demographics?</td>
</tr>
<tr>
<td></td>
<td>Store Age?</td>
</tr>
</tbody>
</table>
5. Demographics - Commuting

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

Lafayette Parish

New Iberia
5. Demographics – Jobs: Heat Index

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

Lafayette Parish

New Iberia
6. Demographics – FDIC DATA

Green circles identify Branches with growing deposits over a 5-year period (ref. FDIC Summary of Deposits Statistics).

Yellow circles identify Branches with flat deposits +/- 2% over 5 years (ref. FDIC Summary of Deposits Statistics).

Red circles identify Branches with decreasing deposits over a 5-year period (ref. FDIC Summary of Deposits Statistics).

REGIONS CLOSED IN 2016
LAFAYETTE SCHOOLS FCU
COMMUNITY FIRST BANK
MID SOUTH BANK

OPENED IN 2017
IBERIA PARISH FCU
MID SOUTH BANK
7. Facility Renewal

Property Condition Assessment

Observation and Budget

Mathematical Model
8. Income / Expense Operating Data

<table>
<thead>
<tr>
<th>Cost</th>
<th>Sq. Ft</th>
<th>Cost/ Sq. Ft</th>
<th>Benchmark Cost/ Sq. Ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cleaning</td>
<td>$4,776</td>
<td>$1.11</td>
<td>$1.75 Ref. Labarre Louisiana Branch Study (112 Branches)</td>
</tr>
<tr>
<td>Maintenance &amp; Repair</td>
<td>$3,276</td>
<td>$0.76</td>
<td>$2.18 Ref. FMLINK.com - national average for all office buildings</td>
</tr>
<tr>
<td>Utilities</td>
<td>$10,559</td>
<td>$2.46</td>
<td>$3.01 Ref. IFMA Rank Branches - Gulf Coast</td>
</tr>
<tr>
<td>Grounds</td>
<td>$9,452</td>
<td>$2.20</td>
<td>$1.05 Ref. Labarre Louisiana Branch Study (112 Branches) - 2013</td>
</tr>
<tr>
<td>Security</td>
<td>$240</td>
<td>$0.06</td>
<td>$0.06 Ref. BOMA Baton Rouge 2014</td>
</tr>
<tr>
<td>Administrative</td>
<td>$0</td>
<td>$0.00</td>
<td>$1.59 Ref. BOMA National Average 2013</td>
</tr>
<tr>
<td></td>
<td>$28,303</td>
<td>$6.59</td>
<td>$7.67</td>
</tr>
</tbody>
</table>

- Maintenance Cost too low – Issues to Address
- Ground Costs High – due to Large Site
Data Required for Analysis:

- Previous Strategy/Planning Documents
- Location Assessment (Handout)
- Market Insights
- Research into Road Construction
- Interviews with Managers & Staff
- Read the Master Plan for each locality

- Demographic Research (Trends) for Market & Each Location
- Replacement Value (Insurance)
- Book Value
- Market Value (Appraisal or Broker Price Opinion)
- Facility Renewal Liability
- Budgets for Renovation
B. Where We’re Headed
Where We’re Headed

• What do you want to accomplish with the Analysis?
• How will Success be evaluated?
• What is the Right Path for Growth?

Retail Network Analysis
Strategy?

Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win.

Sun Tzu, *The Art of War*

*But Sometimes with Real Estate Network Planning, You Have to Go Through the Entire Process Before Your Strategy Emerges.*
If you Start with a Feasibility Study:

You have already reached a decision. The Study is validation of the concept.

With a Strategic Facility Planning Approach, You Re-Examine Your Network, Your Cost Structure, What You Would like to do and What you Can Afford
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? Market Share? Profits?

What is the break-even point for a potential market for a specific store or branch type? 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 Locations for each market (long term plan)? What will drive the timing of new Branch construction?
### Capital Investment Options:

<table>
<thead>
<tr>
<th>Option</th>
<th>Capital Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,800 SF Freestanding Branch</td>
<td>$2,342,417</td>
</tr>
<tr>
<td>Purchase Fast Food - Renovate</td>
<td>$1,535,593</td>
</tr>
<tr>
<td>Purchase Branch - Renovate</td>
<td>$1,396,489</td>
</tr>
<tr>
<td>1,200 SF Retail - Existing Space</td>
<td>$391,462</td>
</tr>
<tr>
<td>1,200 SF Retail - Build Out</td>
<td>$493,676</td>
</tr>
<tr>
<td>Purchase Branch - Freshen Up</td>
<td>$782,543</td>
</tr>
<tr>
<td>Purchase Branch - Freshen Up + PODS</td>
<td>$985,109</td>
</tr>
</tbody>
</table>
Data Required for Analysis:

• Architect - Site and Building Size. Cost for Renovations and New Construction

• Real Estate Broker – locations and cost?

• Financial – How will this location help us make money?

• Financial Analysis – what are the break even points?
New Buzzword: “Analytics”

It’s What you do with Data From “Where You’ve Been” & How you Use it to Create Value for the Enterprise
C. How to Get There
How to Get There

• Buy/ Hold/Hold & Improve/ Dispose?
• Overarching Strategy
QUESTION: Where should you be?
<table>
<thead>
<tr>
<th>Trending Today</th>
<th>Conventional Thinking</th>
</tr>
</thead>
<tbody>
<tr>
<td>At “Bottlenecks” or where people commute on the “Goin’ Home Side”</td>
<td>High Traffic Count Locations</td>
</tr>
<tr>
<td>By Wal Mart</td>
<td>By the Mall</td>
</tr>
<tr>
<td>By Starbucks, McDonald’s</td>
<td>Where people live</td>
</tr>
<tr>
<td>Use Walmart or McDonald’s for a “Blanket the City Plan”</td>
<td>Plan the next Location without consideration of the following 2</td>
</tr>
<tr>
<td></td>
<td>4 points of the Compass</td>
</tr>
<tr>
<td></td>
<td>Banker’s Row</td>
</tr>
</tbody>
</table>
Co Location Strategy

col·lo·ca·tion (noun)

Symbiotic Relationship
Lafayette Walmarts

Branches Last a Long Time (40 Years)

You Need a Strategic/Long Term Perspective
Lafayette Starbucks

15 Minute Drive

Starbucks (Iconic Seattle-based coffeehouse chain)
Co-Location Benchmark Retailers

CUSTOMERS PER WEEK

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Customers Per Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walmart</td>
<td>19,000</td>
</tr>
<tr>
<td>McDonald's</td>
<td>11,000</td>
</tr>
<tr>
<td>Target</td>
<td>8,000</td>
</tr>
<tr>
<td>Walgreens</td>
<td>5,282</td>
</tr>
<tr>
<td>Starbucks</td>
<td>3,500</td>
</tr>
<tr>
<td>Dollar General</td>
<td>2,700</td>
</tr>
</tbody>
</table>
Both the Biggest Advantage and Disadvantage in Real Estate Decisions is the Level of Emotional Engagement

Ref. Gensler Study
REAL Strategy: How to Develop the Appropriate Branch or Retail Network Strategy
If you are a “Linear Process” Person:
This process will drive you nuts, because you will have gathered all this data and you won’t have a clear answer yet.
D. Decision-Making/Consensus-Building
Decision Making/Consensus Building

• Solve short-term problems immediately.
• “Vision” and “Guiding Principles” ensure consistent decision-making in the future.
• Think Chess not Checkers.
Regretted Investment
re·gret·ted (noun)
New Location - Risk

1. Poor Planning
2. Negative Brand Impact
3. Wrong Location
4. Overspend
5. Construction Inflation
6. Too Late
7. Too Small
8. Too Big

HOUSTON - CONSTRUCTION COST ESCALATION
CUMULATIVE 2011 - 2016

- 2011: 0%
- 2012: 2%
- 2013: 9%
- 2014: 19%
- 2015: 32%
- 2016: 36%
Guiding Principles

1. Property purchases for Branches should have convenient access and should be located along commuting routes on the “goin’ home side.”

2. There should be a reasonable “exit strategy” for each site purchase and an evaluation of what the completed facility would command upon sale should be considered when evaluating locations.

3. All Branch sites should have space for at least 10 parking spaces in front and 7 at the rear or side of the building.

4. Parking spaces in the front are preferred to be 10 feet wide and should be no less than 9’6” wide.

5. Drive Thru’s should have at least 3 lanes plus a by-pass.

6. There should be stacking for at least 12 cars in the Drive Thru queue.

7. Drive Thru islands should be at least 48 inches in width. Drive Thru lanes should be at least 9’6” wide.

8. Site landscaping should be generous and should enhance the site.

9. Sites should have generous lighting and comply with regulatory requirements for lighting and landscaping. All exterior lights should be LED. Light poles should be set on elevated concrete pedestals. Where possible, exterior lights should be on daylight sensors.

10. Where possible, backflow preventers and similar items should be enhanced with plantings to diminish their visual impact.

11. Where possible, screened trash can enclosures are preferred to dumpster enclosures.

12. Site directional signage should integrate elements of the Brand and directional arrows should be marked on pavement.

13. First impressions count. Both the building and site should be physically attractive to those passing by.

14. Through the wall ATM’s are preferred.

15. Construction budgets should include an analysis of the cost and benefits of upgraded construction materials like brick or metal roofing.

16. New Branch locations should be located in accordance with a long-term plan for market coverage in order to prevent overlapping market coverage with future Branches.

17. Branch interiors should be designed for flexibility, acknowledging that layouts may change over time.

18. Exterior and interior finishes and colors should respect the Credit Union’s Brand image and should be consistent with electronic and printed media Branding efforts.

19. Safety should be considered when designing the Branch layout and locations of the ATM machine and night drop.

20. HVAC units that are located on the ground should be screened with either a fence or plants and have at least three feet clearance on all sides.

21. HVAC units should be capable of accommodating a building automation system.

22. Toilet rooms should not be located near the main entrance.

23. All employees in offices or cubicles should have access to natural daylight.

24. There should be one public entrance to the Branch and one staff entrance.
There is No "Silver Bullet" for the Perfect Network

Location Still Matters
Getting the Right Locations Takes Time
Networks don’t have to shrink Automatically
Not Every Location Should be "The Apple Store"
Exit Strategy Needs to Be Identified for Every Location
It ain’t what you don’t know that gets you in trouble. It’s what you know for sure that just ain’t so.

Mark Twain
The “Steps” to Determining an Appropriate Investment Strategy for the Branch of the Future

1. Real Estate
   • Evaluate Current Branches (Handout)
   • Describe your Branch Network Strategy
   • Develop a Network Vision
   • Identify “holes” in the Network
   • Identify Market Values

2. Facilities
   • Operating Cost
   • Sq. Ft. & Key Metrics
   • Functional Inventory (Drive Thru Lanes etc.)

3. Balance Sheet
   • Book Value
   • Facility Renewal Liability

4. Income Statement
   • Facility Operating Cost
   • Staff Operating Cost

5. Staff
   • Staff by Position

6. Transaction Platform

7. Customer Experience
   • Integration with IT and Training

8. Integration with Brand Experience
Planning – **THIS I KNOW**

- People tend to start with “their comfort zone”
- Buildings Last a long time – 40 years – plan for it
- Locations need to work together to achieve Network goals
- Think Chess, Not Checkers
- You are not rolling out a Branch/Store. You are rolling out a **CUSTOMER EXPERIENCE**.
Real Estate – **THIS I KNOW**

- Planning before Real Estate
- Start with evaluating “what ya got”
- Understand:
  - Where Customers Live
  - Where they work & Commute
  - Where they shop
- Need data to support decisions, but it is less important than knowing the area and the future of the area
CLOSING

• People Don’t Know Where to Start
• People Fail when they Get Caught Up in the Process with inadequate preparation and knowledge
• Strategic Facility Planning Process Guides You to SUCCESS
  • Evaluate what you have First
  • Understand your Options
  • Develop a Written Narrative of How you Want a Network to Work
  • Develop & Analyze Scenarios
  • A Capital Plan Allows you to seize Opportunities as they Arise
Barry Lynch, CFM, SFP, RA, MBA, IFMA FELLOW

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