

BB&T-SunTrust Deal Could Send Landlords Scrambling for New Tenants

Upside? Many Properties Tend to Be in Good Locations for Other Uses



SunTrust Bank branch in Charlotte, North Carolina Source: CoStar

When BB&T completes its acquisition of SunTrust, the two regional banking giants won't just be combining deposits. In time, they could be depositing empty bank branches onto the real estate market as they shut redundant locations.

Many of those locations are not entirely owned by the banks, meaning much of the uncertainty falls on the individuals, usually high-net worth types, who often own the ground underneath the properties. Banks often sign what is known as ground leases in which they build and operate a branch and pay rent to the owner of the land. Or, if they are taking space in someone else's building, they typically enter into "net leases," in which they cover their own day-to-day costs and send a rent check for use of the property. Such leasing arrangements can run 15 to 20 years.

These days, though, the average time left on a lease is five to seven years across ground- and net-lease bank properties, according to Randy Blankstein, president of The Boulder Group, a firm specializing in single-tenant net leases.

The owners likely to face the most immediate impact are those who were in the process of trying to sell their properties. According to Blankstein, there are 11 BB&T branches and 42 Suntrust branches up for sale now. That real estate "will likely not trade until more clarity emerges regarding the merger," he said.

Closing branches has become old hat for the banking industry over the past several years. "Banks have been closing far more stores than they've been opening," said Barry Wolfe, managing director for investments with Marcus & Millichap.

The internet is a big reason. So much more banking is now being done online, leaving little need to go into a physical building. When banks do open a branch, they tend to do so in space that takes up a smaller footprint than before, Blankstein said.

BB&T and SunTrust had been paring branches long before their decision to merge. BB&T, in particular, which now has about 1,800 branches, had been closing branches following earlier acquisitions and for business reasons.

Since the beginning of last year, the bank has closed 259 locations and opened just one branch, according to a Federal Deposit Insurance Corp. database. In 2017, BB&T had 2,188 branches, according to a presentation BB&T Chief Executive Officer Kelly King made to the Barclays Global Financial Services Conference. Many cuts came in Pennsylvania after BB&T acquired Susquehanna Bancshares in 2015 and National Penn Bancshares in 2016.

SunTrust has about 1,200 branches and there areas of the Southeast and Mid-Atlantic where there is overlap with BB&T. It has closed 65 over the past 13 months, the FDIC data shows, and opened just eight in that time.

Real estate experts expect that the banks will now be formulating strategy to deal with redundant branches. Blankstein said what may happen is the new combined bank may just let leases expire rather than close the branch exit abruptly. But there is also a chance the new institution decides to close branches and attempt to buy its way out of the lease, or pay rent and attempt to sublease the space.

Subleasing can be challenging, however, because not every business easily fits into a bank space.

Wolfe said “some owners could get dinged” if the bank was paying above market rent for the space. A new tenant might demand a lower rent comparable to what is being offered elsewhere in the market. But the empty branches often are considered some of the more desirable real estate to the market. Banks tend to be in good real estate locations – high visibility street corners. “There will be developers drooling over them in some circumstances,” Wolfe said.

The most likely scenario for empty branches, especially older ones, is for the owner to tear down the building and ready the site for a new use – a gas station, convenience store or a fast food restaurant. Blankstein noted that many bank branch sites are particularly suited for fast food outlets because they often are zoned for a drive-thru. “A lot of them are scraped,” he said.