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Competition in Close Quarters

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Big Plans for Expansion, Desire for Prime Spots
Drive Local Banks Into a Rush for Real Estate

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For more than three years, Chevy Chase Bank has focused its considerable corporate muscle on a shabby wood-frame building at the corner of Hunter Mill and Chain Bridge roads in Fairfax County -- outbidding several competitors for the land, navigating a tortuous rezoning process and agreeing to relocate onto county parkland a small 1890s schoolroom buried inside another building on the site.

The dilapidated Appalachian Outfitters store, a fixture on that site for thirty years, will soon be torn down. The prize for banker B. "Frank" Saul II, Chevy Chase's owner, was the location: 3,700 square feet surrounded by thousands of middle-age, upper-middle-income, mortgage-heavy families that one demographer dubs the "high society" class.

"Within a five-minute drive, there are over 53,000 residents and 30,000 employees," said Wendy Cobrda, founder of demographic research firm Catenate LLC, which advises banks and retailers on where to put new locations. "That's a tremendous source of business alone. Add another five minutes drive time and you're up to 116,000 employees and 122,000 residents. . . . The spending potential [of the neighborhood] for nearly every financial service is two times or more than national average."

In a building frenzy bankers say is unprecedented in this region, banks are tearing down restaurants and gas stations, moving into spaces formerly occupied by delis and gift shops, and paying record prices to snag what they consider the best spots.

With 3,361 people per branch, Washington is already the fourth most-saturated banking market in the country. But the area's economic expansion and rapid population growth have attracted aggressive newcomers to the area, like Commerce Bank, and put pressure on existing market leaders like Chevy Chase to expand rapidly or risk falling behind. Since 2004, banks have opened 124 new branches in the area -- a 9 percent increase compared with 3 percent nationwide.

Dozens more branches are planned for this year. Guided by the type of sophisticated demographic research that the savviest retailers have used for years, banks are zeroing in on locations -- spots in the middle of money or on open land where they think people and money are heading. In fast-growing Loudoun County, for example, the number of bank branches increased more than 80 percent from 2000 to 2005.

And they are spending freely -- even for spots dense with competitors.

Chevy Chase paid \$3.65 million for the Appalachian Outfitters lot. [Bank of America](#), [Wachovia](#) and [BB&T](#) already have branches at or near the same intersection.

In Maryland at a small Potomac shopping center, "There's so many banks here you could spit at all of them in the middle of the parking lot," said owner Bruce Hendrix, whose small development has three bank branches within a few feet of one another. A fourth is on the way: BB&T recently rented the

storefront occupied for 28 years by the Potomac Village Deli, a small space in the middle of a wealthy neighborhood.

Chevy Chase bought an old Friendly's restaurant on Lee Highway in Arlington, and Commerce Bank recently bought a long-standing Chili's in Gaithersburg -- both plan to tear down the restaurants.

"In the past, banks were never eager to go head-to-head with each other with dueling sites, like coffee shops, grocery stores, like health clubs are," said John A. Asadoorian, president of Asadoorian Retail Solutions, which represents banks in lease negotiations. "But that has definitely changed. They want to go head-to-head. They feel like they have to. We've never experienced banks being like that. It's very weird and interesting."

The annual rent for a standalone spot in a suburban shopping center is now up to \$400,000, double the rate five years ago.

"I can remember not too long ago thinking, 'Lord, we're paying \$200,000 for that site, how are we ever going to make money?'" said Dick Prosser, a vice president at BB&T who has the difficult job of finding locations for the North Carolina bank. "It just goes to show you, the old adage about location, location, location still applies."

For customers, the proliferation of branches may mean greater convenience and higher interest rates on deposits as the banks go beyond offers of free toasters and checking to attract business. Chevy Chase and BB&T, already dominant in most suburban counties, are also offering among the highest certificate-of-deposit interest rates in the region, according to [Bankrate Inc.](#) It is also putting pressure on fees, especially account-servicing fees, according to experts. Only ATM fees levied against non-customers appear immune to competition.

It also risks a backlash.

Prosser and other retail-location specialists say banks have embarked on what drugstore chains and coffee shops did 10 years ago, and gasoline stations did in the 1970s -- snapping up as many spots as possible in the best neighborhoods, if only to stave off competition. Along with overexpansion, consumers may get fed up by seeing delis and dry cleaners disappear: Rapid branch openings in the Chicago suburbs prompted more than a dozen counties and towns to ban new bank branches.

"I'm shocked where we are with the banks these days," said Dallan Cheney of Madison Retail Group, which represents retail landlords in the Washington area. "It's like nothing I've ever seen before. I guess they think the business is just so lucrative that they don't need to discriminate."

The rapid growth in branches also reflects changes in the banking business. From 1986 to 1999, a wave of bank mergers actually decreased the number of branches in some areas, as new owners shut down facilities in an effort to shave costs.

The strategy has shifted as banks realized they needed to court consumers with more convenience, not less. Branches may be expensive to run, but they are potent sales engines for a variety of high-margin loan and investment products, not to mention the best way to collect cheap deposits, particularly from businesses and wealthy customers with the biggest checking accounts.

One-upsmanship also plays a role. With several banks, especially Chevy Chase and newcomer Commerce Bank, promising to open hundreds of branches in the next decade, competitors can't afford to cede a neighborhood. One bank plants its flag and others feel compelled to match it.

"The demand is creating a feeding frenzy for some neighborhoods," said Chris Weilminster, senior vice president of leasing at [Federal Realty Investment Trust](#), a Rockville company that owns 32 shopping centers in Maryland, Virginia and the District, many in the prime suburban locations coveted by banks.

Commerce and Chevy Chase, in particular, are going head-to-head for new locations, according to bankers and brokers familiar with their strategies. The fight matches up two sharply divergent men: Commerce's Vernon W. Hill II, whose first career was finding and developing sites for [McDonald's](#) restaurants in the Washington area, and Saul, who used his family real estate business as the foundation for Chevy Chase, now the dominant local bank with 250 branches.

Real estate sources and others familiar with the two banks, who spoke only on condition of anonymity because both companies are closely guarding their strategies, say both are deploying SWAT teams of site selection, development and leasing agents to find prized locations before the other one does.

"Frank is consumed with fighting off Commerce," said one friend of Saul, 73. "He's always been very competitive, but I've never seen him like this before."

Saul, who rarely speaks to the media, did not return phone calls and neither did members of his executive team.

Hill, meanwhile, said the high prices he is paying to build branches in Washington is not a concern because "our business model works. . . . We will pay the most for the best sites because the best sites generate the most same-store sales growth. That's what we do better than anyone."

Through rapid branching and a focus on capturing retail consumer accounts, Hill turned a tiny, suburban New Jersey community bank into one of the East's fastest-expanding banks, currently with more than 400 branches and 179 in development from New York to Florida. Commerce, which has one branch in the District and three in the Virginia suburbs, plans 10 more in the region this year and 200 in the future.

Nowhere is the competition more evident than in Potomac Village, where zoning laws have reduced available retail space into a dense shopping area at the corner of River and Falls roads. When BB&T moves into Potomac Promenade, 12 full-service branches will stand within 300 yards of one another, in addition to four stand-alone ATMs and, for good measure, a large Morgan Stanley brokerage.

"I know personally of six or eight others that want to be here," said Hendrix at Potomac Promenade. "But I think we may have reached our saturation."

Adam Greenberg, co-owner of Potomac Village Deli and the Potomac Pizza next door, said he decided to close the deli because it wasn't big enough to support his growing catering operation. When Hendrix learned Greenberg wanted to break his lease, he said all he had to do was put a call in to BB&T.

"I was pretty surprised to hear another bank was moving in here," Greenberg said. "I guess everybody needs a bank, but do they need three banks right next to each other?"

Staff writer David Murray contributed to this report.

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