



# 2010 COMMERCIAL REAL ESTATE FORECAST

**Commercial One Brokers**

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## BRANSON HOLDS ITS OWN

On behalf of *The Commercial One Brokers* team, we are happy to present the 2010 Commercial Real Estate Forecast for the Branson/Hollister market. Needless to say, 2009 continued to be a difficult year for everyone in business.

*Commercial One Brokers* continues to collect and report vacancy and absorption rates in the various commercial market sectors in order to provide assistance to you in making lending, investment or leasing decisions. We continue to collect information on all new up-coming commercial projects in order to project growth or contraction of the various commercial market sectors. Nearly three million total square feet of area office and retail space is retained in our data base. No other commercial real estate firm provides you this local insight and this degree of detail.

Branson began to feel the negative effects of the national economy mid-year 2008 and the market continued to stay flat to soften slightly throughout 2009. By and large we are not significantly over-built in any commercial category... except the Class "A" office market. It is our opinion that the Branson market may feel the negative effects of the national slow down more this year than last. We still believe however that when the national markets do improve, Branson will move to positive absorption and price appreciation much faster than those high-flying markets that are still bogged down with large amounts of un-sold and vacant inventories. We are happy to share our opinions based on current market data throughout this report. We are also available to meet "one on one" for a more detailed discussion.

We believe that this area continues to offer some great buying and leasing opportunities that has not been available in prior years. As the leading source for commercial real estate in the Branson / Hollister markets we are excited to work with all of you in the coming year. *Commercial One Brokers* is your source for local commercial real estate knowledge...that is all we sell.

Sincerely,  
*Stephen N. Critchfield*  
Broker/Partner

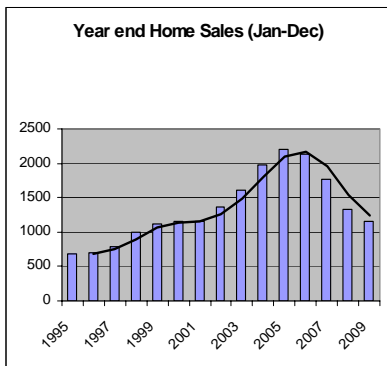
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Hospitality

## Home Sales Fall To 2001 Levels

Commercial markets are historically powered by household growth. For that reason, we continue to monitor the area's housing market. As reflected in the chart to the left, the residential sales market peaked in 2005 and has slowly dropped each year since. Sales have now dropped to 2001 levels.

Source:  
Cooper Real Estate Consulting,  
Tri-Lakes MLS and Commercial One  
Brokers LLC.



SOURCE:  
Cooper Real Estate Consulting

The residential market slow down continues to reflect the softness of the national markets, although the Tri-Lakes area has not suffered to the degree many other markets have. We believe and our consultant, *Cooper Real Estate Consulting*, believes that 2010 will be more difficult than last year. The local market typically trails the national by approximately twelve months.

Based on sales information collected from *The Tri-Lakes Multiple Listing Service* by *Cooper Real Estate Consulting* the number of closings in the Tri-Lakes area dropped a total of 12.8% from 2008 sales levels. This drop comes on the heels of a 25% drop from the prior year. In addition, *Cooper* reports that the total number of listings continued to be high, although down from the prior year.

	RESIDENTIAL			
	Sales	change	Listings	change
2000	1153		1484	
2001	1152	-0.1%	1654	11.5%
2002	1357	17.8%	1562	-5.6%
2003	1615	19.0%	1349	-13.6%
2004	1982	22.7%	1479	9.6%
2005	2203	11.2%	1353	-8.5%
2006	2126	-3.5%	1887	39.5%
2007	1774	-16.6%	2536	34.4%
2008	1320	-25.6%	2447	-3.5%
2009	1151	-12.8%	2253	-7.9%

The average residential sales price as reported by the MLS is just \$152,000...nearly \$80,000 less than national levels. It appears that those homes priced above \$350,000 and up report the slowest absorption rates. Inventories in these price ranges provide several years of unsold inventory at present sales rates. Sales prices generally \$175,000 and less show slight appreciation and a reduced total inventory. Prices from \$175,000 to \$225,000 are the next most active price segment. Overall, 77% of sales in the entire Tri-lakes market was in the under \$225,000 price range, exactly the same percentage as last years performance.

Based on recent studies of resale values by *Cooper*, the Tri-Lakes market has remained stable to slightly down....less than 10% in worst cases. In order to verify the current status of home prices, *Cooper Appraisal, LLC*, conducted an extensive analysis of homes that have sold in the September 2008 thru December 2009 time frame. This analysis involved over 250 individual home sales where a recent prior sale was also verified. A matched paired analysis of home sales compared to that same home's previous sale in the past indicated an average of about 2% annual appreciation overall. Many homes were purchased in 2007 and then later resold in 2008 or 2009 for modest profits.

## OFFICE VACANCIES INCREASE 10%

Occupancy rates have dropped to 64% as the local office market continues to soften from 2009 levels. Beginning in the fourth quarter of 2008 and continuing through out 2009, small and large companies alike are combining office space and reducing the number of employees.

Market segments such as local real estate brokers, mortgage brokers, construction and title companies have either moved to smaller less expensive offices or have gone out of business in some cases. A new 36,000 sq. ft. speculative "Class A" condo building went on the market in late 2009. About a third of this building has been either sold and or leased since marketing began. A total negative absorption of (-28,000) sq ft was recorded in the 2009 office market.



*THE VETERANS ADMINISTRATIONS OPENED THEIR NEW 29,000 SQ FT CLINIC IN 2009*

Concessions continue to be offered to quality tenants either through a rate ramp up, increased tenant improvement allowances or free rent for a period of time in return for a 3 to 5-year lease term.

Market wide rental rates range from approximately \$6 a sq. ft. to just over \$15.00 per sq ft NNN depending upon location and quality of facility. Average market-wide rates have dropped to \$11.66 a sq ft NNN from last year's \$12.69 average.

Due to downsizing, demand for smaller suites (1000 sq ft or less) have increased noticeably and are currently in short supply.

## RETAIL VACANCY RATES INCREASE SLIGHTLY

A market-wide negative absorption rate that totaled over (-80,000 sq ft) has increased the retail vacancy rates from 12.57% on December 31, 2008 to 16.32% one year latter.

The retail sector began to soften during the second half of the year. For the first time in many years, rents along Hwy 76 (The Strip) have softened considerably. Rates that once were \$18 to \$21 a sq ft. NNN are now \$15 per sq ft. per year NNN. Only The Grand Village Shops have maintained one hundred percent occupancy and their rate structure. However, the owner has invested additional funds into marketing and property maintenance last year in order for the tenants to maintain and even increase their sales over the prior year. Over all...the Branson market slow down has been much less then the national or even the state markets have experienced. We believe that this market sector has probably bottomed out and occupancy rates should be flat next year.

Only recently has Branson seen additional or expansion of new national retailers with the opening of Branson Landing and the Branson Hills development. Of course these national retailers have closed many stores and are not in an expansion mode nationwide. The leasing activity that Branson is currently experiencing is from predominantly local/regional "mom and pop" companies. These companies are now able to lease locations that were not typically available or affordable to them in past years.

*(RETAIL VACANCY RATES INCREASE SLIGHTLY continued)*

Over all, our company's retail leasing activity has remained steady as compared to last year. Instead of increasing occupancy in these centers however, we are now only replacing other tenants who have closed and or are not renewing their leases. Credit will continue to be difficult to obtain and retailers and landlords will be under the gun, pinched by further contracting of consumer spending.

Communication and negotiations will be the key to evading future vacancies for both tenants and landlords. It is important that landlords or landlord management representative know when tenants are in trouble and stay ahead of the curve when a vacancy is inevitable. Re-leasing the space will take time and the sooner the problem is identified the better. We strongly suggest that everyone share honestly about their problems to see if there are creative ways to solve these problems and help get everyone through this slow down.

As with previous forecasts, we continue to believe and to witness that the properties that are well located, marketed and well maintained will retain stronger occupancies and will be more stable. Those properties built in lesser locations and are poorly designed and managed will suffer more transience and lower rental rates.

*THE GRAND VILLAGE MERCHANTS  
ENJOYED A SOLID YEAR OF  
PERFORMANCE IN 2009*



## HOSPITALITY MARKET SEES SLIGHT DROP IN ROOM DEMAND

The local hospitality market began to mirror the national market conditions in late '08 and the market segment continued to soften in 2009. Again, Branson hospitality performed at levels well above our typical competitors who saw 12 - 14% occupancy drops. According to Smith Travel, Branson saw an occupancy drop of slightly more than 3% while increasing slightly the average daily rate. The national occupancy rates dropped over 6% per Smith Travel. The Branson Hospitality market is just another of the commercial segments that are down, but are also performing at rates far better than the country as a whole.

As for sales of Hospitality properties...marketing times have increased to over a year on average while valuations have also decreased substantially. It appears that sold properties have ranged in value from \$15,000 to \$20,000 per room depending on quality, gross sales, location and condition of the property. Prices over this range will be difficult ...if not impossible to sell during the immediate future. Investors interested in purchasing Hotel/Motels must plan to increase invested equity to 40-50% of the purchase price and must provide a strong, successful track record in the hospitality business in order to have a prayer of obtaining financing. The number of sales transactions have slipped from a robust 2007 when 15 properties closed to just 4 last year.

## NEW COMMERCE PARK PROVIDES ROOM FOR BUSINESS EXPANSION

Three former partners with Accenture, the world's largest management and technology consulting firm, have purchased the 150-acre Commerce Park of Branson. Jack Redwine, Phil Lopez and Tim Jury...all Kansas City businessmen, have formed BCP Land Company LLC that completed the land purchase late last year.

The development is located at the SW corner of Buena Vista Rd. and Hwy 248. The installation of all infrastructure is nearly complete with any remaining cleanup to be finished by the end of March, depending on weather. "Just as soon as the streets are striped, we will be dedicating them to the city of Branson"....said Phil Lopez, partner in BCP Land Co.

The Park has been designed for local, national and international customers who need high speed communication and abundant electrical service typically found only in larger cities. The Park is expected to accommodate light manufacturing businesses, warehousing, office, show room-warehouse as well as possible call centers, education and job training facilities.



We believe this park will play a key role in the future health of the Branson area economy. Commercial One is the exclusive marketing and sales agent for the development. We hope to be able to help local businesses who wish to expand and take advantage of a number of incentives that could be available to them. Commercial One will provide a one-stop source to help area businesses design, finance and build their new facilities. Parcels range in size from approximately one acre to over thirty acres. Prices range from \$2.50 to \$3.00 a sq ft and are being quoted as the introductory land prices. All parcels are fully developed and will have natural gas, high speed cable and three-phase electricity.

An adjoining parcel has also been purchased and developed into affordable housing. Single family and multi-family lots and parcels are nearing completion. All infrastructure has been completed and builders will now be recruited to build homes targeted to the working families in the region. It is anticipated that the residential portion of this project will be a major attraction for the success of The Commerce Park.

### Five Stages Of The Market After A Slow Down

1. Owners think property is worth more than we are telling them.
2. Ok...I'm not selling unless you get me more than it is worth.
3. I have to sell...what do we have to do in order to sell?
4. I don't think we will see another good market again
5. This is the bottom and the best time to buy.

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## OBSERVATIONS, OPINIONS AND THOUGHTS

### Local Market Performance (Source: Branson Lakes Area Chamber and CVB)

2009 Visitors (through Nov) were more often first-time (30% vs. 23%) spent more and stayed longer. Travelers stayed closer to home and replaced more distant trips with a Branson vacation. The Branson reputation for value, central location and new low cost air service helped to keep our visitor numbers from falling to far.

Visitation falls slightly more than (-3%) from last years numbers. After adding last years decline, the market has given back approximately half of the record growth experienced in 2006 and 2007.

Core Market (0-100 miles)	14.8% of total market	-0.7%
Primary Market (100-300 miles)	26.0 % of total market	+0.9%
Outer Market (301-650 miles)	26.2% of total market	-0.8%
National Market (650+ miles)	32.9% of total market	-9.6%

Tourism tax collected by industry had only two segments increased.

Campground	+12.2%	(available sites have decreased over the last 2 yrs due to the development of Branson Landing taking a portion of the city park)
Packagers/Resellers	+0.4%	
Restaurants	-3.6%	
Hotel/Motel	-5.0%	
Theaters	-9.4%	
Overnight/Condo	-10.0%	
Amusements	-14.3%	(effect of the closing of Celebration City)

Visitor Profile	2009	2008
Spending per party	\$928.50	\$881.11
First-time visitors	29.2%	22.6%
Length of Stay (Nights)	4.39	4.25
Families Make Up	37.9%	36.6%
Avg. Adult Age	55.1	57.1

### Inflation vs. Deflation Arguments....what will happen

The majority of investors believe that due to the amount of federal borrowing...inflation is sure to raise its ugly head soon. The thought is the federal government is not only crowding out investors for capital but will also create huge sums of money chasing a limited amount of inventory. There is a growing counter point of opinion however that has been voiced by Steve Ballmer, CEO of Microsoft. He recently said the following: "We're certainly in the midst of a once-in-a-lifetime set of economic conditions. The perspective I would bring is not one of recession. Rather, the economy is resetting to a lower level of business and consumer spending based largely on reduced leverage in the economy."

If you believe in inflation you are looking for big appreciation...but if you believe in Mr. Ballmer's view...possible deflation, you will purchase real estate with a longer view and one that will require acceptable cash flows and not inflation.

### From The Friendly Folks Who Run The City Of Branson

If you listen closely this year you are going to hear a lot more about "sustainability" from our city leaders and staff. This is a code word for "No-Growth. Zoning, subdivision ordinances, a new master concept plan and building codes will all be rewritten to limit growth, direct growth

**OBSERVATIONS, OPINIONS AND THOUGHTS continued)**

and stop growth. This will all occur under the goal of saving trees, providing open space, carbon foot prints, global warming and other environmental concerns. We are going to give our city leaders the benefit of the doubt that they are just confused and misled by other "no-growth" communities and planners. We don't want to believe that there is a concerted effort to stop growth or limit demand for workers and salary increases. Whatever their reasons...no growth, less jobs, lower sales tax collections and lower salaries are sure to be the result from "sustainability" and its supporters. The city of Hollister and Taney County should get ready for a lot more growth; because the cork is out of the bottle and sound projects will continue to come to this area...they just may not be built in the city of Branson.

**The Springfield Branson Airport Should Give Us A Big Kiss**

They should at least give a big thank you to the developers of the Branson Airport who have helped Springfield bring down the cost of their flights which in turn helped to increase their airport traffic a great deal. They should also thank the Branson Airport people and the Branson Chamber for advertising low cost air service nationally that no doubt help sell a few additional round trips through Springfield. The Branson Airport MUST SUCCEED or we will all go back to the high priced air travel and few if any Branson air travelers. Good news this week that Frontier will be connecting Branson to the west. We hope this is just the beginning. Believe us...this airport is very important not just to the tourist industry, but also to businesses that will be attracted to the new Commerce Park. In short, more jobs and better year round jobs will come to this region with good, low cost air travel.

**Thank You Former City Councils, The Mayor and HCW LLC.**

Thanks to past Branson city council members and a Mayor who pushed for the passage of The Branson Landing and the Branson Hills commercial TIF. Being able to collect even half of the sales taxes paid in Branson Hills has proven to be very beneficial to the economic health of this city. The activity generated and positive image that The Landing and the Convention Center have provided has been a positive to the local business community.

**Commercial One Brokers Enjoys a Decent Year**

We believe that our services are needed in good times and maybe more so in down markets. Our company leased in excess of 79,000 sq ft of retail, office and industrial space last year. We added more than 120,000 sq ft of properties to our management company and sold a half dozen other properties. The services provided by our management company continue to be more in demand as financial institutions are either taking back properties and or suggesting to their clients that their assets would benefit from professional management. With the possible increase in foreclosures, we have added a new list of available services to our property management program. Lenders can have our team take foreclosed properties from possession day conditions to fully market ready condition and maintained at that level until sold. We offer the services of a full REO department to investors and out of town and local lenders.

**PARTIAL CLIENT LIST - Leasing and Total Management**

Vista Plaza	Hwy 76
The Grand Village	Hwy 76
VA Medical Clinic	Gretna Rd and Hwy 248
Gretna Plaza	248 at Gretna Rd.
The Falls Shopping Center	Hwy 165
Dixie Station	Hwy 76
Hollister Properties	Hollister Industrial Park
Branson Financial Center	Main Street
Manchester 5 Office Bldg.	Hwy 248