2011 COMMERCIAL REAL ESTATE FORECAST

Commercial 1 Brokers

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2011 Real Estate Report

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IS IT OVER YET?

On behalf of *The Commercial One Brokers* team, we are happy to present the Fifth Edition of our annual Commercial Real Estate Forecast for the Branson/Hollister market. Needless to say, 2010 continued to be a challenge for our industry and the local market. *Commercial One Brokers* 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. Nearly three million total square feet of area office, retail and industrial space is retained in our data base. No other commercial real estate firm provides you this local insight and this degree of market detail.

We asked *Jerry Jeschke of Jeschke Appraisal* to provide us his residential analysis for this years report. It appears that some segments of the residential market has perhaps bottomed out and are about to show some small improvements this year. Overall, we expect this year to be as difficult…perhaps more in some categories as last year was. 2010 was a challenging year as investors generally sat on the side lines either waiting for a better buy signal or lower prices. Quality Tenants expect concessions for leasing space.

Only the office market continued to soften in 2010 as the retail market was basically flat while the residential market began to show some support at the lower price levels. A large amount of Class “C” retail was converted to Office use and helped to continue the downturn of the office market. The industrial market generally remained flat to slightly down as few companies have expanded and or moved into the market.

No new major project was started or announced last year. The $27.7 million dollars of total construction for 2010 was nearly 50% less than the prior year. In fact, 2010 was the worst year for new construction in more than ten years.

Protecting the future value of the owner’s properties is today’s property manager’s challenge. We would be happy to discuss in more detail any part of this report.

Sincerely,

Stephen N. Critchfield
Broker/Partner

Robert Huels, Jr. CCIM
Broker/Partner

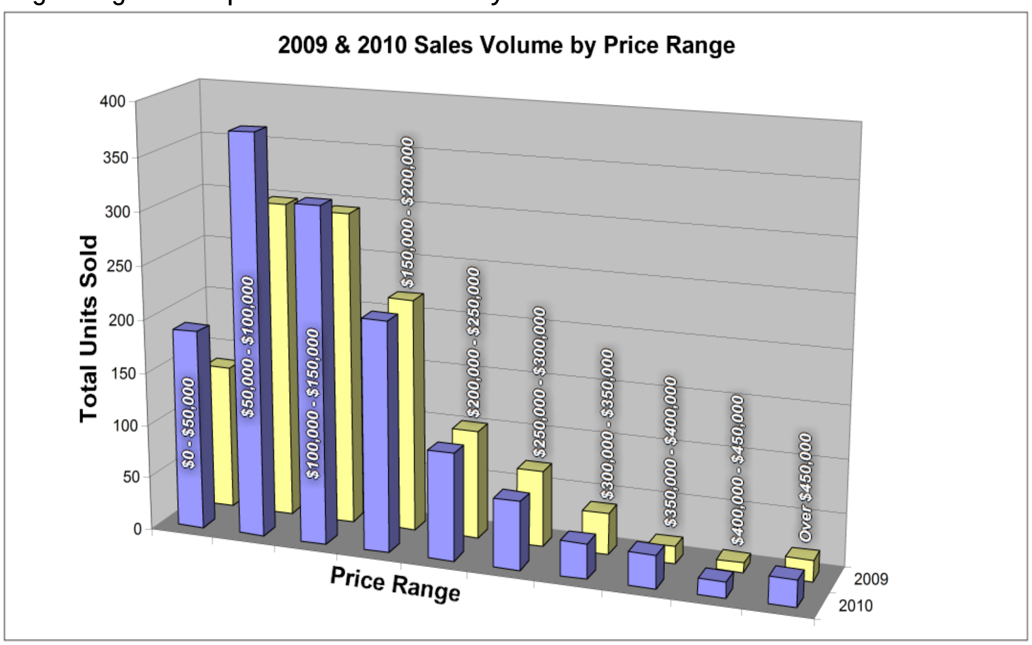
Home Sales Show Signs Of Life

By Contributor: J. Jeschke Appraisal

*Source:
J. Jeschke Appraisal,
Tri-Lakes MLS and Commercial One Brokers LLC.*

The most frequently asked questions in our offices are "what is happening in the market?" and "what are values currently doing?" We have studied the residential and commercial markets in Stone and Taney Counties over the past 28 years and we have been tracking certain statistics for the past 10 years to keep our clients abreast of the happenings in the market. Statistics that we are currently tracking indicate that the residential real estate markets in the Ti-Lakes area began to show some signs of life in 2010.

Information summarized from the Tri-Lakes Board of Realtors Multiple Listing System (MLS), indicated a decline in the number of properties listed for sale for the first time in more than three years. In addition, the total sales volume also increased for the year. We have been tracking sales volume since the year 2000 and residential sales increased in 2010 for the first time since 2005 when the sales volume peaked. Closer analysis of the data suggests that most of the gains were in the 4th quarter of 2010. The local residential property sales volume is cyclical and usually predicable. Sales normally lag in the fist quarter, peak in the second or third quarter then gradually fall in the third and fourth quarters. In 2010, the 4th quarter sales exceeded 3rd quarter sales for the first time since we began keeping these statistics. We hope that it is the beginning of an upward trend but only time will tell.

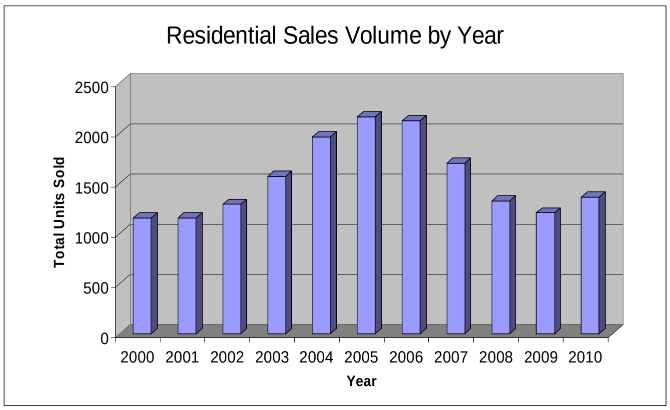


Source: J. Jeschke Appraisal

The lower price segments of the market continue to make up the bulk of the sales but properties priced between $300,000 and $400,000 are doing slightly better as well. However the average sale price as reflected on the graph is shifting to the left. That shift indicates a decrease in the average sale price that may be due to sales of foreclosed properties at lower prices. Banks continue to sell foreclosed properties at an average discount of between 15 and 20% below market. While there do not appear to be a huge number of foreclosed properties in the market, there tends to be one or two in each submarket area at all times. We believe that fact is causing the market to reset at a point that is below where it should be.

(HOUSING MARKET continued)

There is currently no easy way to track distressed sales in the market. While the Tri-Lakes Board of Realtors provides its members the ability to indicate distressed sales in its multiple listing system, there is no way to summarize the data. Further, a brief overview of the data indicates not all Realtors are indicating that properties are foreclosed or short sales. Survey and opinion data suggests that the Tri-Lakes region has far fewer distressed properties than other areas of the United States but we are not aware of a method to confirm that claim. However, we are observing increased competition for properties in the lower price ranges and fewer foreclosed properties to choose from. We should also note that the data maintained by the Tri-Lakes Board of Realtors is not complete. Most developers are not members of the Tri-Lakes Board of Realtors and we are finding that many buyers in the upper price ranges are requesting that the information be left out of the multiple listing system.



Source: J. Jeschke Appraisal

New construction is at an all time low. While there appears to be demand for new homes in the market, most find it is not possible to assemble a new home for less than its value when complete. That fact is limiting builder/investors from constructing new speculative units. Most of the new homes currently being constructed are custom homes where the buyer has the cash to construct a significant portion without a bank loan.

Condominium sales continue to struggle due to financing issues. Fannie Mae and Freddie Mac have not been offering financing on condominiums for several years which leaves buyers with less attractive financing options.

Financing on condominiums tends to be 5 year adjustable rate mortgages amortized over 30 years with 20% down and mortgages held by local or regional banks. Many of the sales we have observed involve terms with little or no financing. Some major lenders are relaxing qualifications for condominiums but it is not having a significant affect on sales to date.

AVERAGE RETAIL RENTS DROP 20%

It seems the slightly “off” retail locations are very clearly suffering the blunt of the economic downturn. Many of these properties that are more tertiary or “back road” location are being redefined and repurposed as office instead of retail. These properties are now providing some of the lowest office rents in the market for backroom users who do not require great visibility. Typical rental rates for these properties are now $6 to $7.50 a sq ft NNN depending on the amount and quality of the infill.

In comparison, those retail properties located on primary and secondary roads are experiencing small increases in vacancies but at a cost of a 12% to 16% reduction in average rental rates. Typical rental rates for properties located on Hwy 76 range from $18 to $24 a sq ft. NNN. These same rents were $21 to $24 last year. Properties off of Hwy 76 currently are asking from $10 to $12 a sq ft. NNN. Only the very top retail locations were able to continue to offer their properties at last years rates.

The total available retail inventory fell some sixty one thousand five hundred square feet due to a change in use from retail to primarily office. Highway 76 vacancy rates ended the year at 10.28% while off 76 was 21.14% excluding the outlet malls and Branson Landing which we hold out in separate categories not published. Market wide retail vacancy rates have dropped from 16.32% to 13.63%, primarily due to the reduced overall inventory.

Office Market Continues To Soften

Market wide, we are seeing an office vacancy rate of 35% as of December 31, 2010 as opposed to a vacancy rate a year ago of 26%. The vacancy rate rose due primarily to the re-aligning of retail space to office use. The total available office sq ft of 284,213 square foot was increased to 372,748 square foot by the conversion of some existing retail to office use. Much of this newly converted space was vacant. The change in use took place due to changes in the type of available tenants as well as changes in traffic patterns of the end users.

Rents have also fallen to levels of $7.50 to $8.00 NNN for class B and C- spaces and $9.00 to $13.00 NNN for A-B+ space. Average rates dropped approximately 15% from those offered last year. These reductions continued a three year drop in rents. The office market has also suffered its third year of negative absorption as well.

AVG. NNN OFFICE RENTS

YEAR	AVG. NNN RATE
2008	**$12.69**
2009	**$11.66**
2010	**$9.97**

Source: Commercial One Brokers LLC

Two large users (HCW, Skaggs) constructed office space for their use and vacated a large amount of inventory in 2010 and thus adding to the vacancy rate. We believe one or two large office properties will suffer foreclosures this year and this action will continue to put pressure on both market rental and absorption rates.

Today's office users are seeking even smaller office suites (500 to 1200 sq ft in size) versus the typical 2000 sq ft and up spaces.

SMALL OPERATING IMPROVEMENTS IN THE HOSPITALITY MARKETS

According to the most recent Smith Travel Report, area hospitality reported slight increases in Room Demand, Average Daily Rates and Revenue for the year. A larger issue appears to be the lack of financing for property acquisitions. Typically area lenders require 50% equity investments and will only consider properties that are less than 100 rooms … on the strip and preferable with flags. We understand that even Wall Street is showing no interest in the Branson market. These lenders want to see higher occupancy rates before putting Branson on their radar. We believe that most small motel owners will have to consider some sort of owner financing in order to sell their properties over the short term or to sell to buyers with large balance sheets and big cash reserves.

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.**

OBSERVATIONS, OPINIONS AND THOUGHTS

COMMERCIAL REAL ESTATE MARKET PREPARES FOR THE FASB'S (Financial Accounting Standard Board). NEW POLICIES WILL HAVE A SIGNIFICANT AFFECT ON THE MARKET.

The expected changes are going to have a drastic impact on both investors as well as tenants. Currently, all owners of real estate who record investments in real estate on their books are recording at historical costs. Now it appears that it is going to change.

FASB's proposed changes will force all real estate companies to record their real estate investments on a fair value basis. Since there will be no exception to this policy, it will affect any entities that invest in or lease real estate.

It may no longer make since for tenants to sign long term leases but could be more logical to purchase instead. This could drastically affect property owners and their lenders. We strongly suggest that you check with you CPA and ask that they get up to date on these changes that are to go into effect this year and how they might affect you.

HOW DOES BRANSON COMPARE TO THE NATIONAL COMMERCIAL REAL ESTATE MARKET

Although our part of the word typically lags behind national market trends….both good and bad, it is sometimes of value to see how the national market is performing. According to Real Capital Analytics, commercial property transaction volumes for the first three quarters (2010) were up 82% over the same period last year. These numbers are still less than a quarter of the amount booked for 2007. Class "A" properties and "gateway cities" are seeing transactions closed with large price premiums, while all other assets are trading well off of 2006-2007 levels. Similarly, Integra Realty Resources, Inc. is aware of 20 large multifamily properties in major metropolitan areas that sold in 2010 for cap rates of 6% or below. The combined sales prices for these transactions exceeded $1.6 billion and $250,000 per unit. Of course these types of sales beg the questions…are institutions with a need to deploy capital overpaying for institutional properties?

BRANSON'S COMPREHENSIVE PLAN MUST BE REVIEWED BY THE INDUSTRY AND THE PUBLIC

Many of you follow our intermittently updated BLOG that is housed at:
http://commercialrealestatebranson.blogspot.com/
If you follow our blog, then you will remember that we have been writing for several months about the Comprehensive Development Plan in process by the City of Branson. The city has hired a Colorado company to complete this plan. If you haven't followed this process, feel free to go to our BLOG site and start reading at entry dates as far back as last August. We have tried to inform the public of this process every step of the way. Commercial One Brokers believe that the citizens must engage in order to defend their rights of real property ownership and use.

What we believe is happening in this process is a slow and calculated attempt to remove rights from property owners. This process appears to be centered upon increasing the power of City Hall in matters regarding land use, tree removal, building placement and size, building uses, private enterprise and entrepreneurialism. Recent releases from the process, the "White Papers" are just now being reviewed and searched for the tiny changes that will slowly amount to near complete control over what can and can not be done on private property in the city of Branson and now even outside the city if Council gets their desired legislation approved.

While this report is too small to attempt to publish within it the results of the half dozen or so hearings and questionnaires that had so many leading and open ended questions designed to affect the predetermined outcome desired by those in power, on some level our BLOG will make that attempt.

For general overview, the City hired a company from Colorado to "sell" the community on a picture of the Branson of tomorrow. The picture is not clear to the public yet, but seems to be very much a step backwards. We believe the end results will be less development, more parks and "wilderness areas", less people, fewer jobs, and unfortunately less money invested in our town.

Controlled growth will be attained by limiting the amount of construction on hills or sloped lands, a commodity that seems abundant in the Ozarks. Local directives that would change the "green space" requirement to a more aggressive and a more goal oriented definition that takes the usable land away rather than the unbuildable portion that could naturally remain green. These requirements would in essence double the amount of land taken from the land owner while doubling the costs to the builder/developer. By combining these rules and regulations, most small lot development will be reduced or even eliminated. Since it will take more land to finish a project that generates the same income, the land will naturally be reduced in value which will cause the values of all lands to drop.

This is only the tip of a very large iceberg….

Contact us for more information on how to help keep free enterprise in Branson or go to our Blog and read more about the process going on NOW.

CONVENTION CENTER RESEARCH REPORTS POSITIVE COMMUNITY BENEFITS

Since the convention center/The Landing has been in operation for nearly four years now, a study was commissioned by Jerry Henry & Associates to conduct a study last year of a sample of convention goers in order to learn more about them. The following are some of the Key observations and analysis from Mr. Henry's report.

- **Beyond 300 Miles**. More than half of attendees come from beyond 300 miles.
- **Average Length of Stay**. Convention attendees have about the same length of stay as the average leisure visitor.
- **More First Timers**. Convention attendees are more likely to be visiting Branson for the first time.
- **Younger Visitors**. Convention attendees are considerably younger than the average leisure traveler who visits Branson.
- **More Likely to Fly Than Average**. Most (90%) convention attendees drive to Branson. But, they are more likely to fly than the average Branson leisure visitor. Interestingly, however, convention attendees are slightly more likely to use the new Branson airport.
- **Meetings Drive Convention Center Usage…But.** About half of the groups at area convention hotels are there for meetings while the other half are comprised of corporate events, sporting events, & other.
- **Longer Planning Time**. Convention attendees take about a month longer to plan their Branson trips than the average leisure traveler.

Visitation Skews to Key Area Icons. Convention attendees tend to shop, attend Music Shows, and visit the lake or SDC.

- **Many See Shows**. Nearly half of convention attendees see a show while in town. Well over half of those who do see shows see 2 or more during their stay.
- **Convention Attendees Spend More**. As is true nationwide, convention attendees spend considerably more per person in Branson than does the average leisure traveler. Even with estimated lodging expenditures removed, convention/meeting attendees still spend 24% more than the average Branson traveler.
- **Much of That Spending Extends Beyond Downtown**. One-quarter (25%) of convention attendees expenditures are spent outside of the immediate downtown Branson area.
- **Most Shows Seen are Outside of Downtown**. Nearly 60% see shows outside of the immediate downtown area of Branson.

SOURCE: Jerry Henry & Associates

As the convention center continues to reach stability, usually in year five and as the research shows…this project will have even a greater positive impact on the community. If the Branson airport continues to attract airlines and passengers it too will help the convention center and this community go to another level. I couldn't imagine what a little town of 7000 would say if someone wanted to invest $500 million in a Landing type project or over $130 million in a private airport in their community. Thank God someone wanted to do that in our town as it is probably helping us through what could have been a very tough time.

BRANSON MARKET HOLDS IT'S OWN

The area's economic engine, tourism held it's own in tough market conditions. Even though the visitor came from much closer in and spent less, the city continued to enjoy an overall sales tax increase.

2010 VISITATION *(Preliminary)*

Market	Visitors	% of Total	vs. 2009
Core Markets (0-100 mi.)	1,510,629	19.0%	+37%
Primary Markets (100-300 mi.)	1,974,949	24.8%	-1%
Outer Markets (301-650 mi.)	1,970,161	24.8%	-4%
National Markets (650+ mi.)	2,504,261	31.5%	-4%
TOTAL VISITORS	7,960,000	100%	+2%

FINAL 2010 TAX INFORMATION

TCED Tax	+7.16%
City of Branson Tourism Tax	+6.69%
City of Branson Sales Tax	+3.45%
Stone County Sales Tax	+9.20%
Taney County Sales Tax	+1.44%

Note: A portion of the increases were due to a change in the reporting system

FINAL 2010 CITY TOURISM TAX BY INDUSTRY

Packagers/Resellers	$ 257,125	+26.8%
Hotel/Motel	$4,917,135	+7.6%
Amusements	$1,364,404	+6.7%
Overnight/Condo	$ 687,259	+6.0%
Restaurants	$ 959,995	+5.5%
Theaters	$3,746,868	+5.0%
Campground	$ 108,688	+3.1%

Continued on next page

FINAL 2010 VISITOR PROFILE

	2010	**2009**
Spending Per Party	$891.52	$961.4
1st Time Visitors	25%	29.9%
Party Size	3.88	4.06
Length of stay (nights)	4.39	4.54
Families	37.5%	38.5%
Avg. Adult Age	56.7 yrs	57.0

SOURCE: Branson Lakes Chamber of Commerce & CVB
City of Branson, MO.