2024

Commercial REAL ESTATE FORECAST

EDITION #19

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AREA MARKET CONTINUES SOLID PERFORMANCE

2023 was another tumultuous year as inflation, high-interest rates, and general economic headwinds continued to affect both the national and local economies. The Branson market's performance remained steady, however, after several years of record-breaking visitation. Although final numbers were not available at this time, it appears that visitation was flat to minimally down from the 10.2 million visitors when compared to the record years of 2021 and 2022. Tax collections for the Tourism Enhancement District recorded an 11% increase year over year and set another record for collections of over $12 million.

All commercial property sectors remained strong as occupancies improved in all sectors, even above last year's high occupancy rates. All commercial property sectors and classes are at or near full occupancy. Rents for the warehouse/industrial sector showed the largest rate increases while retail and office remained relatively flat compared to last year. It appears that landlords were concerned about the projected recession and chose to not increase rents or increase them only minimally last year. Knowledgeable owners did increase common area maintenance charges when possible due to higher insurance rates and general operating expenses.

Few commercial properties are currently available for lease and even fewer are available for sale. Owners who have acceptable financing in place have no reason to sell as there is such a limited amount of inventory available to replace their investment, New, usually higher-cost financing makes available properties unattractive for 1031 exchanges. In addition, current property owners who have financing in the 3% range are facing up to 7%+ to refinance and in some cases, if rents won't justify the higher debt service additional equity will be required, and or increased net operating income will be necessary.   Retail sales tax collections did set another record, however, only a 3% increase was recorded, probably barely keeping up with inflation.

Land sales remain challenged as lenders are stingy with acquisition and development loans. Higher interest rates made it difficult to finance many planned development projects. Commercial construction remained active with several public projects that either started or continued during the year. Little to no new inventory was added to the office and retail market segments. Only the industrial/warehouse segment saw new production with new inventory focused primarily on the office/warehouse segment.

Lodging properties continued their strong performance although slightly less than the prior year. Occupancies were the only performance segment that increased, reaching just over 50%. Both Average Daily Rates and Revenue Per Available Room we down slightly. Tourism tax collections for the lodging segments declined 2.2% over the previous year with a solid 8.6% increase in collections for the nightly rental segment. This fact is more proof that the market is demanding newer lodging properties with more amenities than the current motel/hotel inventory. No new hotel inventory has been added in over 17 years. The strongest, highest revenue and occupancy is being generated by the higher quality hotel properties further reflecting a need for these types of rooms.

Based on the total number of multifamily units available in the market for rent, the number of units vacant in the county we estimate to be in the 8% vacancy rate range. This rate generally reflects vacancies in the January and February months when many seasonal workers and residents might not be living in the area. Typically, vacancy rates drop beginning in March/April. Traditional apartments (3+ units) rent for between $520 to $800+ a month while two- to three-bedroom units rent for $850 to $1,100+, which we believe is well below the rent needed to support new construction for these types of units.

Residential demand typically follows commercial development, and the Tri-Lakes area continues to suffer from a shortage of housing inventory. We've asked Brad Gore, a long-time area REALTOR to provide us with some details about the residential housing market later in this report. Conversion of older motel properties will continue to slow as several hundred new apartment and dormitory units are being built by The City of Branson, Silver Dollar City and Big Cedar Properties. These new units will help support the temporary summer workforce and relieve some of the inventory shortage for year-round workforce housing.

After a start to such an uncertain year, it appears Branson continues to perform well as compared to other tourist destination markets.

Now in our 19th year, Commercial One Brokers are happy to support this area and provide this market report for all our clients, lenders, and friends. We thank everyone for their continued support and another great year as we are looking forward to 2024.

Sincerely,

STEPHEN N. CRITCHFIELD, CCIm
Broker/Partner

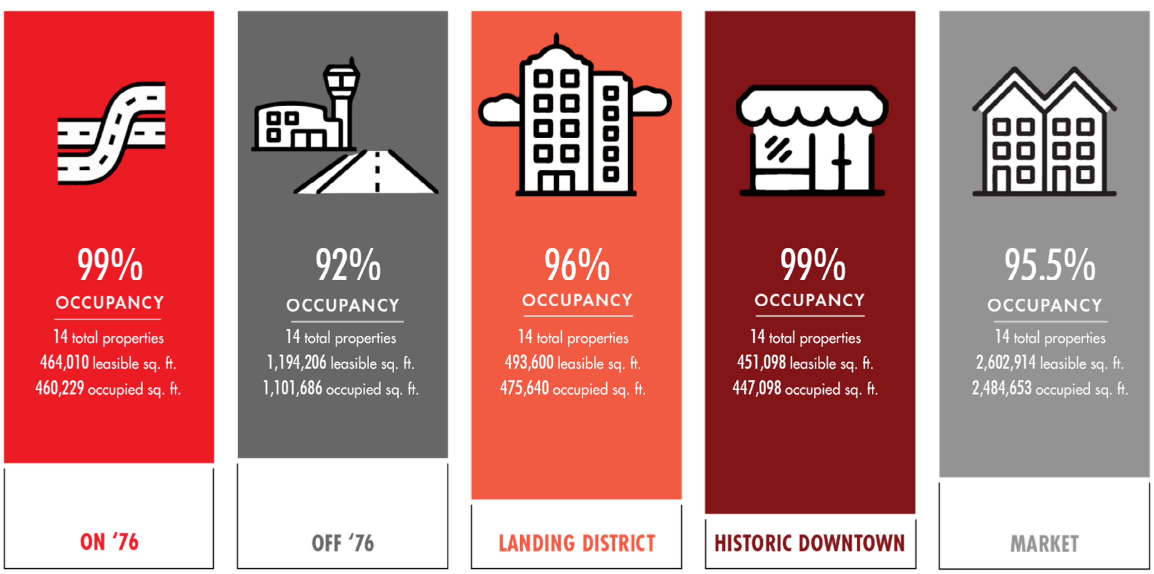
ROBERT R. HUELS, CCIm
Broker/Partner

RICH CROWELL
Sales Agent

AVAILABLE RETAIL SPACE IS HARD TO FIND

All classifications and all market areas reflect the shortage of retail inventory. With Historic Downtown and 76 Country Blvd leading the way with nearly 100% occupancy rates, retail tenants are having to search hard for a location. Even though landlords may have not been as aggressive last year with rate increases, they did become more selective about new tenants. We anticipate 2024 will see some bumps in rent for those properties off the strip and much less interest in negotiating terms and prices for properties on the strip. In addition to base rent increases, common area maintenance, and operating expenses are sure to continue to increase as property insurance is projected to rise an average of 11% a year for the next few years.

Positive absorption was nearly 40,000 sq. ft. for the year as the total overall retail market moved up to a 95.5% occupancy rate. 2023 saw the remaining unoccupied space in the Branson Mall sold for a future entertainment project.



SOURCE: Commercial One Brokers Data Base. Includes All Multi-tenant Properties of 5000 sq ft.+

Restaurant and food service entities recorded a 7.1% increase in tourism tax collections for the year down from the record 15% increase in 2022. The top ten restaurants in Branson, we believe, averaged over $5.5M in sales for the year. Gross sales ranged from $3M to over $7M for these top performers.

Future retail demand going forward will force base rent increases plus occupancy cost increases. Besides higher rents and less available inventory, placemaking will become the new buzzword in retail and restaurant development. Unique experiences in shopping and dining will be necessary to continue for driving traffic to these locations.


HARD LUCK
DINER

OFFICE MARKET MAINTAINS HIGH OCCUPANCY RATES

Return to Office Full-time remote work is another COVID-era behavior that never really took hold in this market. The Branson office occupancy numbers increased during COVID and are still near pandemic levels of 95%.

Base rents and common area occupancy rates have both increased during the year by 5-7%. We expect renewals in 2024 to also increase in a similar range. Class C properties are nearly 100% occupied and are extremely limited. Class C spaces are typically found in lower levels of retail centers and older office buildings. As is the case with retail property owners, office landlords are becoming more selective with their tenant selections as well. The Class A space totals 107,202 sq. ft. with 93% occupied at an average rate of $13.00 net per sq. ft. Leasable Class B space totals 119,174 sq. ft. and averages just over $11.00 net per sq. ft. for the 110,000 feet currently occupied.

No new inventory is expected to be added to the market this year and occupancy levels and rents will continue at elevated levels. Pressure will mount throughout the year for landlords to increase rental rates.

Class "A" Space

Occupancy

3 total properties **107,202** leasible sq. ft.
99,564 occupied sq. ft. **$12.00 PSF** asking rent range
$13.00 PSF AVG asking rent range

Class "B" Space

Occupancy

5 total properties **119,174** leasible sq. ft.
111,364 occupied sq. ft. **$8-11.00 PSF** asking rent range
$11.07 PSF AVG asking rent range

Class "C" Space

Occupancy

9 total properties **123,655** leasible sq. ft.
120,655 occupied sq. ft. **$7-10.00 PSF** asking rent range
$10.00 PSF AVG asking rent range

Source: Commercial One Brokers database based on all properties of 5000 sq. ft. and larger inside city limits of Branson.

LODGING PROPERTIES BENEFIT FROM CONTINUED STRONG VISITATION

Overall tourism tax collections for the lodging market segment were down 2.2% year over year. The nationally published STR report shows the overall market occupancy rate increased to 50.2%..... one of the highest in years. The Average Daily Rate slipped slightly from 2022 to $123.72 but the Revenue Per Available Room increased to $62.13.

When the older, exterior corridor properties are removed from the list, all performance numbers increase markedly. When only the convention quality properties are considered ADR's and RevPar reach considerably higher performance levels. As we have reported for years, the last new hotels built in Branson were the Branson Landing Hiltons in 2006 and 2007. Another property was added in 2012 in Hollister and later was sold and remodeled by the Johnny Morris Company. This lack of new, fresh inventory has helped to make the VRBO / Nightly rental inventory increase as it has become the focus of development. Large multi-bedroom cabins have had several hundred new units added over the last three to four years. This segment of the lodging market reported a 7.5% increase in tourism tax collections in 2023. This was down from several years of double-digit performances in prior years. It is our opinion that inventories for this product are nearing an over-built stage.

New development is needed near the convention center assuming that the convention center is expanded as is currently being decided. An additional property could also be justified on the west side of town. It is anticipated that a new Flagged hotel will be built near the Ballparks of America property that will help support their ever-increasing visitation from around the country.

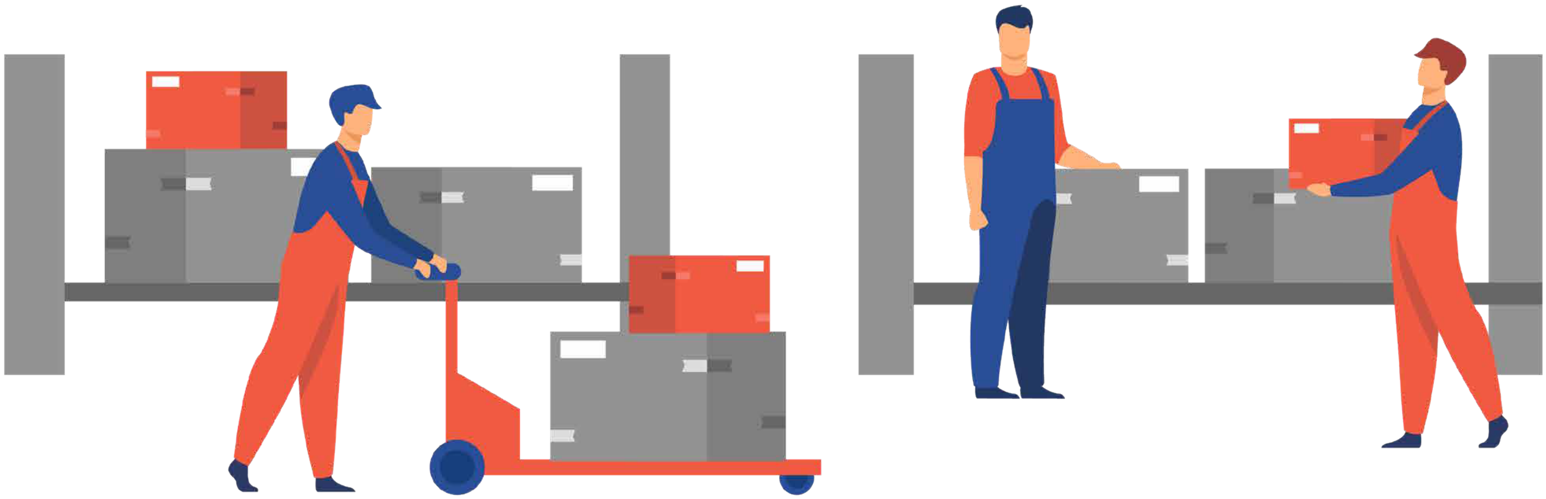
Lodging property sales remain active although marketable properties are limited as with all commercial segments, elevated financing has provided a headwind for investment.

INDUSTRIAL WAREHOUSE CONTINUES TO LEAD COMMERCIAL DEVELOPMENT SEGMENT

The warehouse and office warehouse market demand has remained strong since 2019. The area suffered from a shortage of this type of product for several years. The supply chain issues during COVID increased demand for orders of hard-to-get business inventories and added to an already short supply of warehouse inventory. Inventory remains extremely tight for those looking for warehouse space, climate-controlled warehouses, and office warehouse spaces. Much of the available warehouse inventory lacks the required ceiling heights and loading docks that many occupants require. Suitable land for building industrial space is also in short supply and expensive.

As with retail and office occupancy rates, the industrial segment has easily maintained rates above 90% +. Last year saw some of the largest rent increases that jumped from $6.50 and $7.00 gross per sq. ft. to $8.00 for quality properties in 2023.

These increasing rents have spurred the construction of several new office/warehouse developments. Two new projects are now completing lease-up and are approaching full occupancies. We believe that supply and demand are nearing in balance and any new project may begin to experience a longer leasing period. Factors driving demand for industrial space include e-commerce, third-party logistics providers and reshoring investments. With governments incentivizing new construction to address supply chain issues, more growth is expected in the near term. As long as small contractors and service suppliers remain active in this area, we believe the office/warehouse market will remain strong.




EPAL

RESIDENTIAL

Inventory constraints became the topic of the year in 2023. Inventory in all categories — single-family, condominiums, and nightly rentals — fell to record lows following the shocking erosion in buying power predicated by the fastest federal funds rate increase in history. A sharp contrast to past cooling periods has been the continued increase in home prices. The average single-family sold price in 2022 was $329,834, the average price per square foot was $149.91, the average days on market was 36, and average discount-to-list price was 1.9%. Despite interest rates on home loans topping 8% for the first time in two decades (Bankrate.com), the average sold price increased by 9% to $363,362, average price per square foot increased $159.42, days on the market increased to 55, and the average discount-to-list price increased to 2.9%.

The contradictory nature of 2022-2023 averages, increases in sold price and price per square foot, and increases in both days on market and the list-to-sold price discount indicate a market in transition. Nationwide, new home starts are down sharply and showing no signs of recovery. Homeowners who want to sell are postponing listing in hopes of more inventory driving prices down or lower interest rates increasing buying power, neither of which seems to be occurring quickly enough to balance to the

housing market. In 2022, there were 1,386 single-family homes sold, but only 1,006 were sold in 2023, a decrease of 7%.

Over the five-year period from 2019 to 2023, average single-family home prices in the Tri-Lakes area grew from $219,384 to $363,362, an increase of 60%, while interest rates increased from an average of 3.94% to 8.45%. Demand continues to outpace supply, while at the same time owners of existing homes and new home builders retreat from the market, further exaggerating inventory issues and driving single-family home prices higher. This is in sharp contrast to the current state of the condominium and nightly rental investment home market, which has experienced a dramatic decline in activity. In the period from 2019 to 2022, nightly rental condominiums and standalone units (cabins, villas, chateaus, and lodges) increased in price from an average just over $200,000 to over $700,000. These units sold in less than 30 days at 99% of list price with over 2,500 properties sold, representing 1/3 of all properties sold during that time period. In 2023, the average price dropped to just below $450,000, took 81 days to sell, and sold at a discount of 3.5%. While the total number of units sold dropped by more than 1/3, total units sold remained approximately 1/3 of all units sold. One interesting data point concerns the number of bedrooms in sold nightly rental units. In 2016, the average nightly rental unit contained 1.5 bedrooms. By 2019, this had increased to 3 bedrooms. By 2023, that average increased to 3.75 bedrooms, indicating larger lodge-type nightly rental units have become far more popular than smaller condominiums.

Beginning in the last half of 2023 and into the first quarter of 2024, inventory has continued to decrease with only limited inventory in all categories. In the same time period, there were no new single-family subdivision developments announced or platted, but there were several new multifamily and workforce housing projects in the development or completion stage. Affordability and access to public funds continue to be drivers for this type of housing supply. The three largest local builders of single-family housing supply averaged nearly 200 new starts per year in the preceding four years but started less than 100 in 2023. Total listed properties in 2019 were 4,062; 4,288 in 2020; 4,348 in 2021; 4,256 in 2022; and 3,767 in 2023. As of January 1, 2024, there are 755 residential properties listed for sale in the Tri-Lakes area.

The Tri-Lakes area will continue to struggle with a housing shortage through 2024 and potentially far into the future. Although days on market continue to increase, prices are continuing to rise. The predicted typical fall in prices that is expected with rising interest rates has not occurred. It is yet to be seen what the potential upcoming reductions in the Federal Funds Rate will do to spur both buyer demand and seller interest in testing the market. It has become clear in the Tri-Lakes that demand will continue to outstrip supply.

THIS REPORT PROVIDED BY:
BRAD GORE
Realtor, Managing Partner
The Real Pro Team @ ReeceNichols
Ph: 417 496 4818
Office: 417 243 0808

MISCELLANEOUS MARKET THOUGHTS

The Future of Branson Lodging

We anticipate the lodging market will receive more weekend boosts from a series of large concerts and events produced at Thunder Ridge Natures Arena by Big Cedar Properties. This 25,000-seat arena will host some of the top music recording and touring acts, rodeos, bull riding, and motocross events. These popular events and viral happenings will create massive opportunities for local retail, dining, and area advertisement. Events create a powerful draw that produces significant opportunities in the surrounding areas and reveals the need to update the way we view the event spaces themselves. The first concert at Thunder Ridge featured Garth Brooks last year and sold out all the rooms within a 60-mile radius of Branson as well as producing increased shopping and dining. The city has recently authorized a market study for the expansion of the Branson Convention Center. The BCC is at or near break-even and the site is designed to add up to a possible 25,000 sq. ft. of additional meeting and conference space.

What Is Happening In The Dining Segment?

Nationally, experiential dining and entertainment concepts emphasized the power of investing in consumer engagement. Customers today are looking for more than good food, service, and retail items they can probably buy on Amazon. They also want an experience to share plus the food and or the shopping. This need is going to become more evident in tourist markets like Branson. Major dining brands will continue to be developed in key growth markets like Branson throughout the year as the impact of COVID continues to recede, Branson will continue to need to develop "chef-driven" restaurant concepts to satisfy our visitors and provide a unique experience they won't find in their hometown.

Retail Development and Leasing

One form of placemaking is to group diverse tenants in a single space or neighborhood to give different types of consumers a reason to visit the area. Individual retailers can also use placemaking tools to diversify their offerings and give consumers multiple reasons to visit – and spend time – in their venues. The Commercial One Brokers leasing team is very considerate at mixing the right tenants in their centers to make sure each tenant can be successful.

It is Good To Have A Market Bookended By Two Billionaires

Johnny Morris on the south side of Branson and Herschend Family Entertainment on the north, are each making large investments in the market. The Big Cedar Properties are currently building their sixth golf course, the Thunder Ridge Nature Arena, and ongoing additions to The Big Cedar Lodge. Big Cedar has become one of the country's top resort destinations. Herschend's Silver Dollar City Theme Park on the North is replacing a 50-year-old ride with an all-new generation ride at the park. In addition, the company has recently purchased over 1000 acres of land next door to the park for future expansion. In addition, both Morris and Herschend are investing in new dormitory buildings to help support their growing workforce. Silver Dollar City was just awarded the Top Theme Park designation in the county.

Is Regionalization Coming To The Ozarks?

The regionalization conversation is certainly increasing throughout the area. The amazing growth in the Bentonville area to the south including breweries, national biking amenities and a world-class art museum along with the growing sports marketing business, the mother store of Bass Pro, and the world-renowned Wilderness Aquarium in Springfield to the north. These developments have spurred conversation about marketing the entire region as the Ozarks. Of course, some want us to sink into our silos and not see what could be if all our wonderful amenities and the Ozark Mountains were combined into one marketing story and tourist destination.

We Are Always Asked What Is This Market Missing

Of course, Branson could support many new attractions and experiences. If we had to pick just one thing, it would be an 85,000 sq. ft.+ Indoor arena that could accommodate traveling sports teams for basketball, soccer, and other traveling teams that bring families to our market. Perhaps it could accommodate other large gatherings as well including concerts, boat, and car shows, etc. This project is going to probably require a public-private partnership arrangement of some type.


TRACK


Hilton

C1B

1015 STATE HWY 248 ST. D

BRANSON, MO 65616

417.334.3149