TRI LAKES AREA
MARKETABILITY STUDY

APPRECIATION: The “Branson Boom” of the early 1990s brought a tidal wave of new tourists to the area. In general, there was a significant increase in land value in the Branson/Tri-Lakes area beginning in 1992, and this higher than normal escalation continued through 1993. Excessive profits bring ruinous competition, however, and, beginning in 1994, we witnessed a leveling off in certain areas as the market stabilized and some areas actually contracted. We attribute the increases up through 1993 to the national exposure the area had received. This essentially began in December of 1991, when CBS “60 Minutes” aired a segment on Branson as the new “Country Music Capital.” The national publicity and media attention continued along with the announcement of numerous nationally known entertainers opening shows in the area. As a result, there were nearly six million visitors in 1994 and the American Automobile Association declared the Branson area as the second most popular vacation destination in the United States after Disneyworld. The tour bus industry reported Branson as the number one destination in their industry. Since that time, the number of tourists has increased annually to approximately 8 million visitors in 2003 and up to the present. With this publicity and increase in tourism, numerous people have moved to the area seeking employment.

The economic downturn of 2008 has been witnessed in the Tri Lakes area as has nationwide. In the past six years, there has been very little new construction on both the residential and commercial sub-markets. Home prices have plunged as in other parts of the country and our recovery has been non-existent to sluggish at best locally.

HOME SALES VOLUME HAS REBOUNDED

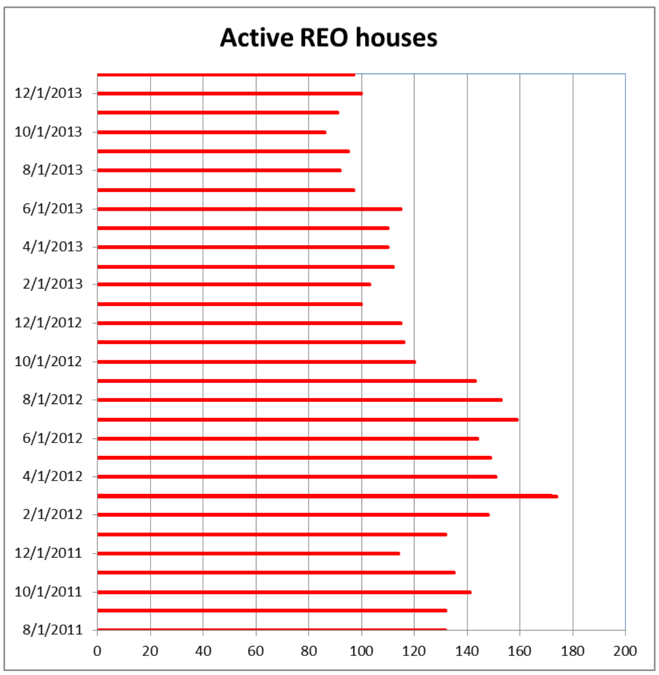
The Branson market was slow to see sharp drops in prices and it has lagged behind the nationwide trends on the recovery as well. Media attention documented the sharp declines in more urban markets in 2007 and 2008 brought on by the foreclosure surges nationwide. Locally, we did not begin to see significant foreclosures and the significant price drops until 2 years later. Year 2010 was the first year we saw across the board price reductions of over 10%.

Our recovery has been slow to take off as well. Some two years after the east coast and west coast markets, we have seen the volume of home sales actually rise above the lows of 2009-2011. Years 2012 and 2013 saw nearly identical sales volume stabilized at approximately 1,570 units per year (all residential types included).

Many area agents and/or appraisers have been looking at the average sold price from the Tri Lakes MLS system to conclude that prices are increasing. For year 2011, the average home price of “residential” units sold was $151,212 per the market report. In 2012, the market report indicates that the average home price was $152,718. In 2013, the average home sold price was $157,488 per Mls.

Unfortunately, this data includes too wide a variety of types of property to be an accurate indicator of market wide trends. It includes mobile homes (sometimes without land), entry level (starter) homes, lake retirement homes and a large supply of 4,000 square foot “McMansions” built after 2003. Each of these individual segments has different trends and if in one year, there are more $300,000 homes sold (like this year), it will skew the data up to make the average sales price rise. Just because there were more $300,000 lake homes sold in 2013 has no impact on the property values in Savannah Place, Schooner Bay or Pointe Royale for that matter. One has to look at the individual data, not just the average Mls sold price.

Foreclosures/Distress Properties: In summary, there are less foreclosure listings available today than there were three years ago. 2012 was the peak of our foreclosure inventory but they did not disappear rapidly as they have done in other markets. The past six months have seen less than 100 active foreclosures on the market at any given moment, down from a record high 174 units available in March of 2012.



In 2010, 32% of all residential listings were REO or “short sale” properties in distress. That number rose to 34% in 2011 and down slightly to 28% in 2012. Year end 2013 indicates that only 19% of all Mls listings closed were foreclosures or short sales. This data indicates that the supply of distress properties is significantly less than at their peak, but still significant enough to damper any appreciation in home prices in the Tri Lakes market. The local market cannot turn around until the supply of these distress properties dwindles to the point where they no longer have a significant impact on home prices in the Tri Lakes area.

Recently released National Association of Realtors data indicates that 2012 home sales were up over 9% from 2011 to a five year high across the United States. In 2012 NAR also reported that inventories nationally were the lowest since 2001. The increased volume of sales is thought to be a direct result of the record low home mortgage interest rates at or near 3% in 2012.

More recent year end 2013 NAR reports indicate that existing home sales dropped 4.3%, however. The National median existing-home price for all housing types was $196,300, up 9.4% from 2012. Distressed sales (REO and short) accounted for 14% of the total nationwide volume while they were 22% in 2012 and 31% in May of 2011.

On a local level, we can interpret this data to mean that our foreclosures are diminishing just like on a national level, but delayed. It can also be interpreted that our volume of sales may be at our cycle peak right now and we may have slight declines in the future as interest rates climb. Freddie Mac reports that the national average commitment rate for a 30-year fixed rate mortgage was 4.26% in November 2013. The rate was 3.35% in November of 2012.

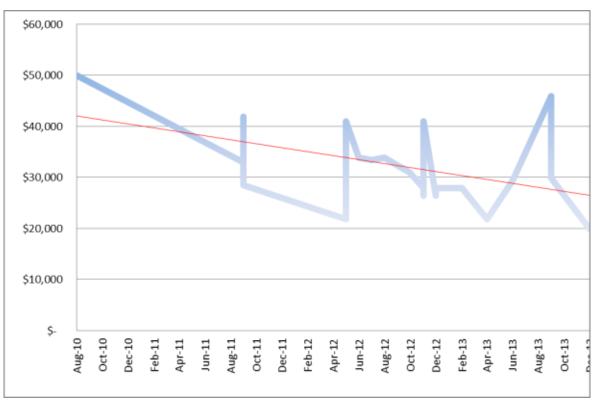
The rise in conventional fixed home loans has led the National Mortgage Bankers Association to anticipate residential lending to drop approximately 30% in 2014 and remain at those levels for the next several years. The drop in mortgage loan applications is not directly a reduction in purchases but more significantly a reduction in refinance loans as most existing mortgagees have already refinanced.

Summary: With interest rates rising, our local sales volume plateauing, and still significant amounts of foreclosure activity in the Tri Lakes market, it is doubtful that there will be any significant appreciation in 2014 marketwide. Based upon this data, we are anticipating a period of stabilization which may settle in for a year or two. Fortunately, much of the Tri Lakes prospective buyer pool comes from outside the market as “baby boomers” execute retirement and realize the low housing cost here. With prices appreciating in Omaha, Chicago and Des Moines and home prices still at record lows in the Branson area, sales volume could diverge from national trends and increase locally which could result in marginal appreciation over the next few years. Only time will tell…

<u>Home Prices:</u> Values took the deepest declines locally in 2011 and 2012. In 2008 and 2009 we saw many sub-markets experiencing only slight declines or "waffling" of prices. In 2010 it became more common for most segments to have significant price drops. The price drops became painfully significant in 2011 and 2012. Local data indicates that prices were down even further in 2013 but not as severe as in 2011-2012.

Every segment is different, the worst segments involved several contributing factors to push prices lower and lower. For example, the Emory Creek development had issues with how the homes were sold in the beginning. The creative financing at this project on its own became the catalyst. This resulted in a very quick surge of foreclosures long before they became common throughout the market. Many houses sat unfinished in the 2008 thru 2010 time frame with unkempt lawns and some tenant occupancy contributing to the lower values. In 2013, sales volume as started to increase in Emory Creek with much of the foreclosure activity in the past.

Pointe Royale had some issues with respect to large increases in assessments and dues which, when combined with the market slow down, created an evacuation of people attempting to leave this previously highly desired community. Pointe Royale has had a sharply declining past 3 years, much more than in the 2009-2010 time period. The prices for 1-bedroom condos (see table at right and below) were generally in the $50,000 range in 2010, dropping to the $40s in 2011. The most recent sales have been below $30,000 in general since November of 2012. The active listings really illustrate how prices still have not recovered. So prices have dropped from the $40s to the $20s in the past 3 years.



This data does not show that prices have begun to rise but they might be stabilizing for 2014.

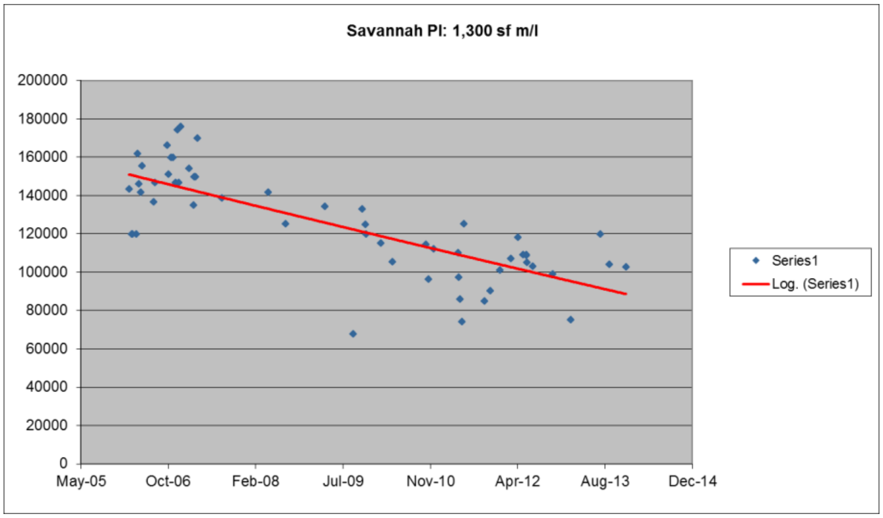
Pt Royale 1-bd condos

354838	Dec-13	$	20,000
354227	Sep-13	$	46,000
351656	Sep-13	$	30,000
351813	Jun-13	$	29,500
351368	Apr-13	$	22,000
349949	Feb-13	$	28,000
349635	Dec-12	$	26,500
350452	Dec-12	$	28,000
347497	Nov-12	$	28,000
347008	Nov-12	$	39,900
335530	Nov-12	$	26,500
349204	Nov-12	$	41,000
345805	Oct-12	$	31,000
347991	Aug-12	$	34,000
341313	Jul-12	$	33,500
345556	Jun-12	$	34,000
346726	May-12	$	22,000
345163	May-12	$	30,500
346445	May-12	$	41,000
343460	Sep-11	$	33,000
342101	Sep-11	$	42,000
341984	Sep-11	$	28,600
333696	Aug-10	$	50,000

Current Active Lisitngs

356201	$20,000	
355421	$29,500	
355381	$29,900	pending

Savanah Place is a typical first time home buyer subdivision located on the periphery of Branson. This specific subdivision had become popular with no money down or little money down buyers in 2000-2008 residential "boom". The 2005-2006 data indicates these homes selling between $140,000 and $160,000 in general. The 2008 home prices were at $130,000 +/-. In 2010 the first serious price drops began occurring with homes selling between $96,000 and $115,000. At this point, many home owners in the neighborhood still owed much more than these prices and they become "upside down" on their mortgages. With many mortgages for this size of home in Savannah Place at or over $140,000, many home owners with very little cash invested opted to walk away from the property resulting in a spike of foreclosures. In 2011 we saw many home prices selling for as low as mid 70s with most others only selling for well under $100,000. In 2012 we saw several sales back up over $100,000 but generally less than $110,000. The most recent sales in Savannah Place within the past six months have all been above $100,000. This data would indicate that the lowest pricing point for this neighborhood was in 2011 with the home prices stabilizing in 2012 and 2013 between $100,000 and $110,000 in general.



The Thousand Hills condos have varying prices. These comps at right are all from the Greens phase located on Green Mountain Drive. The eight year history illustrates the levels that the prices have dropped. Up through 2008, these units were selling at or near $100,000. The low point for these condos appears to have been in the summer of 2012 with some sales at or below $50,000. The most recent sales have been at $80,000 or less which means this specific project appears to have already stabilized in the $70s.

The current active listings at $84,900 (Mls 355005) and $84,900 (Mls 355006) may very well sell for close to their listing price and would indicate that this specific segment has stabilized already with the worst of the sales behind them.

The Greens, Thousand Hills 2-bd condos		
MLS#	Close Price	Close Date
302990	$ 92,500	5/12/2006
301694	$ 96,000	5/12/2006
302902	$ 89,900	5/18/2006
304436	$ 97,000	6/30/2006
202576	$ 89,500	7/7/2006
202567	$ 88,500	7/14/2006
304716	$ 92,500	8/4/2006
305749	$ 90,000	8/18/2006
304719	$ 95,000	12/5/2006
300255	$ 96,000	2/21/2007
308968	$ 105,900	2/28/2007
310253	$ 87,900	4/25/2007
311903	$ 97,000	5/3/2007
319063	$ 112,000	4/22/2008
320230	$ 87,000	8/15/2008
324155	$ 112,000	10/23/2008
323601	$ 107,000	3/10/2009
325254	$ 85,000	6/12/2009
332008	$ 93,000	12/14/2009
323745	$ 92,500	2/26/2010
331660	$ 87,000	3/22/2010
335974	$ 90,000	8/26/2010
337563	$ 82,500	12/2/2010
341090	$ 82,000	4/29/2011
343605	$ 67,700	10/20/2011
343716	$ 62,000	10/26/2011
344217	$ 80,000	12/14/2011
343069	$ 49,000	7/6/2012
345155	$ 57,000	10/15/2012
347072	78000	3/25/2013
345535	$ 77,000	5/13/2013
353179	$ 77,000	9/20/2013
353492	$ 80,000	11/14/2013
353698	$ 70,000	12/31/2013

It seems that the segments of the market that have fared the best are those subdivisions where panic selling or foreclosures are much less of a factor. Neighborhoods with a larger retiree population and/or lake properties have generally been affected to a less severe extent.

We try to explain to home owners that lake properties have held their values better. Projects like Schooner Bay that are mostly (if not all) owner occupied and very often retiree occupied, have not had large foreclosure ratios. They have not had the panic selling associated with 3 bank repos on the same street like in Savannah Place. What we generally see is that prices are beginning to stabilize for most specific segments.

Which houses are selling better ?

SOLD VS. LISTING RATIOS

YEAR END 2013

2013	Sub-Market	list	sold	Sold/List %	YEAR END 2012
1	Stone County < $75k	70	92	131.43%	5
2	Taney County $75k-$125k	186	229	123.12%	2
3	Taney County < $75k	250	292	116.80%	HOTTEST
4	Stone County $75k-$125k	123	122	99.19%	8
5	Taney County $125-$175k	178	165	92.70%	7
6	Taney County $175k-$225k	101	93	92.08%	4
7	Stone County $175k-$225k	69	61	88.41%	3
8	Stone County $125k-$175k	120	105	87.50%	9
9	Stone County $225k-$275k	62	50	80.65%	6
10	Stone County $275k-$350k	82	61	74.39%	12
11	Stone $350k-$500k	61	39	63.93%	13
12	Taney County $225k-$275k	87	49	56.32%	10
13	Taney County $275k-$350k	62	34	54.84%	11
14	Taney $350k-$500k	70	28	40.00%	14
15	Stone > $500k	51	13	25.49%	15
COLDEST	Taney > $500k	52	12	23.08%	COLDEST

The Tri-Lakes market is not unique in that the bulk of homes sales are for the largest "base" of the potential buyers. As can be seen in the table, the under $225,000 price categories for both Stone and Taney Counties have the highest demand as well as the most reasonable list to sold ratios. Over 77% of all homes sold in the Tri Lakes MLS system are under $225,000. These more affordable home categories have the best sold/list ratios meaning the demand is much better for them (compared to the supply).

<u>Rental Properties:</u> There are some pros and cons for the long-term rental segment of the market. Interviews with various property management firms indicate that there is a very strong demand for rentals in the Branson area. An influx of former owners who are now renters combined with a work force turn over have kept the demand for rental housing strong. There has been a large increase in the number of available newly constructed properties over the past five years, however. Much of the new construction has been targeted at the "working poor" section of the community with government subsidized housing being constructed at several locations. The need for this specific type of housing has been identified since the Branson Boom of 1992-93 and desperately called for. The increased supply of this specific category has positive impacts on the community as a whole but has changed some demands for non-government subsidized housing. The tenants of a 3-bedroom home formerly paying $700 per month may now be eligible for $400/month government subsidized housing. The shift of this income level of tenants has slightly dropped rental rates in comparison to typical rents just 2-3 years ago. Three bedroom 4-plex units formerly renting just two years ago for $750 are not struggling to get $600 per month.

New construction of multi-family buildings has only been economically feasible with the tax incentives associated with subsidized housing. Other multi-family construction (condos or apartments) is not currently economically feasible with the current market rents in the Branson area. Multi-family construction has been the most recent “boom” across the nation as a flood of people are now looking for a place to live after having been foreclosed upon. Unfortunately, Branson’s typical annual household incomes are well below other more metropolitan markets. It is extremely difficult to fill units at $1,000 per month rent when the average household income in Stone and Taney counties is approximately $40,000 per year.

Commercial: Many business owners have called us wanting to know how much their commercial property has dropped in value. We immediately ask them “how are your revenues?”. Many people tell us that they have had to drop commercial lease rates to entice tenants in this poor economic environment. The Leap Day tornado of 2012 decreased the amount of space for lease which improved occupancies for retail and more affordable motel lodging. Today, as we finally see much of the tornado debris finally removed, we have not seen any positive indications for commercial sales prices.

Motel Properties: Motel properties in Branson were some of the hardest hit by the recession. Many of the properties that were constructed during or shortly after the “boom” years in the early 1990’s had never been remodeled and were in dire need of remodeling to meet the demands for updated furnishings, flat screen TV’s and granite counters that many motel patrons are coming to expect. These properties were not in a position to meet these demands due dwindling cash flow as a result of declining occupancy and rack rates. Many of these properties were turned over to the banks carrying the notes or sold at a deep discount to more successful motel operators in town who purchased them at liquidation prices allowing the new owner to completely remodel the property. Through economies of scale, these operators are able to use their existing marketing department to drive customers to the newly remodeled rooms shortening the market stabilization time frame.

Besides the properties that have been revitalized through acquisition and remodeling several other older properties were destroyed by the February 2012 tornado. As a result of these two phenomena the Branson lodging market has been somewhat revitalized without the addition of any new properties. While there are still several properties in town that are underperforming and need remodeling there are many properties that are operating at a profit as a result of efficient management and good maintenance plans.

Commercial Land: In the past 2-3 years we had been seeing many commercial land sales at or near previous (stable) levels. Recently, however, we have seen many list prices being severely dropped to liquidation prices. A case in point is the Highway 13 corridor between Kimberling City and Reeds Spring. Demand has always been relatively low with only a hand full of sales in recent years. List prices for much of the frontage along this corridor have recently been significantly dropped with some very recent closed sales representing 50% or less of previous values. The realignment of Highway 13 in the Stoneridge area has been a source of much of the change in pricing. It is unknown if the new bypassed area will experience the history of the downtown Reeds Spring market…when bypassed, demand effectively went to near zero and in turn property values plummeted. The downtown area of Reeds Spring has not recovered to the level of the early 1990s. The bypass of the Branson West area did not have this same impact, however, as the traffic counts were not essentially eliminated (as in Reeds Spring).

Subdivisions, on the other end of the spectrum have dropped dramatically in value. A recent client (from outside the area) was shocked to find that the residential subdivision they had a loan against had dropped 50% in less than 3 years. With the case of residential developments, there are several factors, which have affected subdivision values. First, home buyers are just not buying new homes like they used to. Second, home builders are not building new homes on "speculation" that they will find a buyer about the time they put the carpeting in. Third, many lending institutions don't want to loan money to a builder to construct a "spec" because of #1 and #2 above.

Then you factor in the flood of residential lots that have been thrown into the market over the past 4 years. Banks have repossessed entire developments and are trying to liquidate these lots. In 2010, there were no builders to buy these lots because there were minimal amounts of home buyers for the finished product. The prices on these lots (individually) become dramatically affected (50%). In 2011, however, we saw a few entry-level builders purchasing drastically reduced single-family lots in Emory Creek, Holiday Haven and Keeter Heights. These builders have illustrated that there still is demand for the $120,000 +/- new home. Interviews with these new home builders indicate that there is very little if no profit in the construction of the home with the bulk of the profit lying in the land itself. Builders who have been able to get previously priced lots at $15,000 from a bank for $5,000 now have a profit incentive to build.

In the case of residential subdivisions, time is money. Historically developers could sell out a 50-lot project in 2-3 years, however, with the hesitant buyers-builders-bankers triangle, this may very well extend out 10 or more years now. This seriously drops the value of that 50-lot project when you look at 2 years versus 15 years to sell all your lots.

Many economists and real estate professionals are concerned that the projections for the future are ultimately the same market conditions we have now. The “good old days” of property values rising 5% or more every year may very well be a thing of the past for the current generations. Large surges of real estate appreciation associated with a booming economy, very flexible lending practices and a general “safe” feeling about real estate as an investment may become unheard of to new generations entering the home buying phase of their lives. Many economists believe that new “housing formations” may be very satisfied with renting as opposed to the previously coveted idea of homeownership. Real estate as a wealth building tool might not be an avenue for entry into the middle or upper middle class as one experienced between 1950 to 2000. Real estate as a gamble or speculative investment with little or no long term appreciation may become the norm for the next 10 year time frame or longer for the local market. This may be the “new normal”.

Our real estate market is constantly changing, some might say evolving. We are hearing many people refer to “the new normal”. We are all starting new in a sense. Properties once purchased as nightly rental investments have “reset” to price levels enabling long-term rental. With an increase in the number of foreclosures, prices have dropped but a larger pool of long-term tenants has been created, increasing demand for both single and multi-family rental property. With some prices as low as 50% off from just 5 years ago, many real estate opportunities are looking more enticing. From a seller’s perspective, the tougher market has increased marketing times and opened incentive doors such as owner financing or seller concessions (i.e. down payment assistance). From a buyer’s perspective, the purchasing power of their dollar has been increased opening up many more opportunities to purchase homes that may have previously been out of reach.

Our recommendations for sellers are now to be patient with respect to longer marketing times or financing incentives. For buyer’s, maybe its time to become a home owner for the first time now that prices are so low.