



SterlingCRE
A D V I S O R S

**COMMERCIAL
REAL ESTATE OUTLOOK
BOZEMAN**

2023





STATE OF THE MARKET

BOZEMAN'S CRE MARKET IN 2023: SOME ROOM TO BREATHE

The dizzying pace of Bozeman's commercial real estate market seen in 2021 and 2022 slowed in 2023, with investors taking a step back due to costs of capital. However, there is still brisk demand driven by the region's steady economic growth.

The lack of affordable housing in the region has been an on-going challenge for most everyone and has become a substantial impediment to hiring and retention for most small businesses. While landlords might be disappointed in softening rents and demand, the recent surge in multifamily units coming to market is a welcome change for many Bozeman residents.

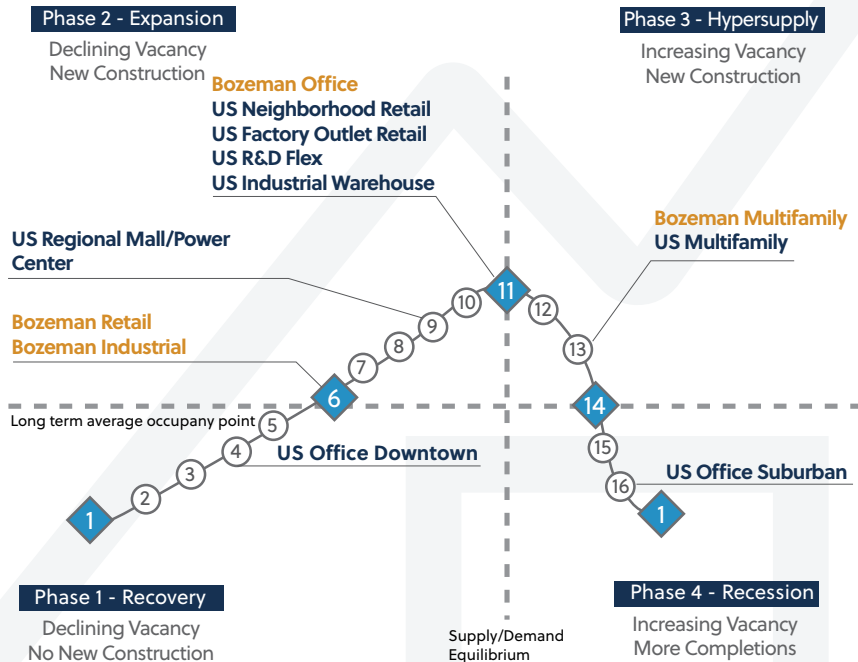
Steady demand for industrial and office space continues. For retailers, quality space in key locations is scarce. Storefronts in popular locations like downtown Bozeman and Big Sky command a stout premium, with some selling for over \$1,000 per square foot.

The start of 2023 was marked by uncertainty for the real estate industry, as rising interest rates and cap rates (impacted by rising 10 year treasury yields) slowed deal volume nationwide. In Bozeman, sale transactions are down by almost 40% year over year.

However, the ultimate driver for commercial real estate is people, not investment returns. Bozeman's high quality of life, job growth, and stable infrastructure continue to draw people to the region and ensures a healthy market for commercial real estate moving forward.



DEVELOPMENT CYCLE



Bozeman's retail and industrial development cycle is currently in the early expansion phase. While vacancy rates saw a minor uptick, they remain well below equilibrium. A small amount of supply is currently under construction. Deliveries in the next 12 months are unlikely to move vacancy rates much higher.

There is a significant amount of industrial and retail space being planned for the Bozeman market which could push vacancy rates up. However, barring a rapid acceleration in the pace of construction, these projects are unlikely to impact the market for at least 18 to 24 months.

Bozeman's office market is in a state of equilibrium. The vacancy rate has drifted up, but remains tight. The construction pipeline has speculative space that will likely deliver in the next twelve months, pushing the vacancy rate up if not absorbed immediately.

Multifamily assets are now in the hypersupply phase in Bozeman. Over 1,100 market rate units are under construction. As they deliver, these units will continue to push the vacancy rate higher. The rapid swing from expansion to hypersupply could potentially cause some development currently in the planning pipeline to delay or stop altogether.



OFFICE

With just a small vacancy increase of 2.11% Bozeman's office market has been able to buck the trend of distress seen in many US markets. Ongoing economic and employment growth keep spaces full. Approximately 260,000 square feet are currently under construction, with about a third of that space being speculative. One potential issue: due to rising construction and land costs, new builds are likely to charge rents well above market as well as pull rates on existing buildings up.

	Bozeman	US*
Vacancy Rate (Avg Annual)	5.12%	13.2%
Average NNN Asking Lease Rate	\$27.00	\$35.16
Average Sales Price***	\$440.25	\$301.00
Square Feet Under Construction	260,386	124 Million

*Source: Lee & Associates / ** Per square foot- free standing

Pipeline Notes:

Under Construction- Ground has been broken

Permitting- Developer has applied for building permits

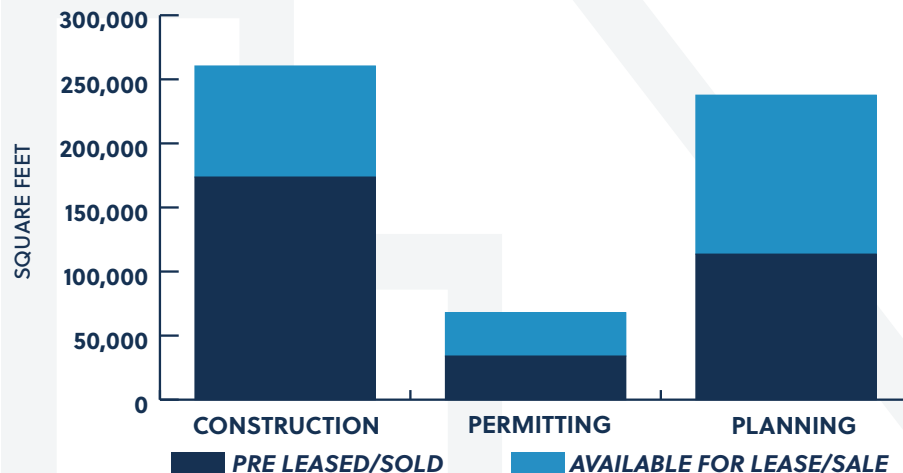
Planning - Documents have been submitted to planning for review. Projects in planning may not be built



Opportunities

- Downtown office spaces with a focus on walkability
- Tenants looking for higher quality, smaller spaces to accommodate a hybrid work model

BOZEMAN OFFICE PIPELINE





Bozeman retail is all about location. Retailers are eager to gain a foothold in places like downtown and Big Sky which offer access to a pool of affluent year-round visitors. For businesses lucky enough to find a space, they'll pay a premium, with sale prices for Big Sky storefronts eclipsing \$1,000 per square foot.

Close to 80,000 square feet is under construction, with over 80% is preleased or sold to tenants. Bozeman's retail vacancy rate is 2.95%. With both national and local retailers looking to gain a foothold in Montana's fastest-growing market, space is unlikely to be empty for long.

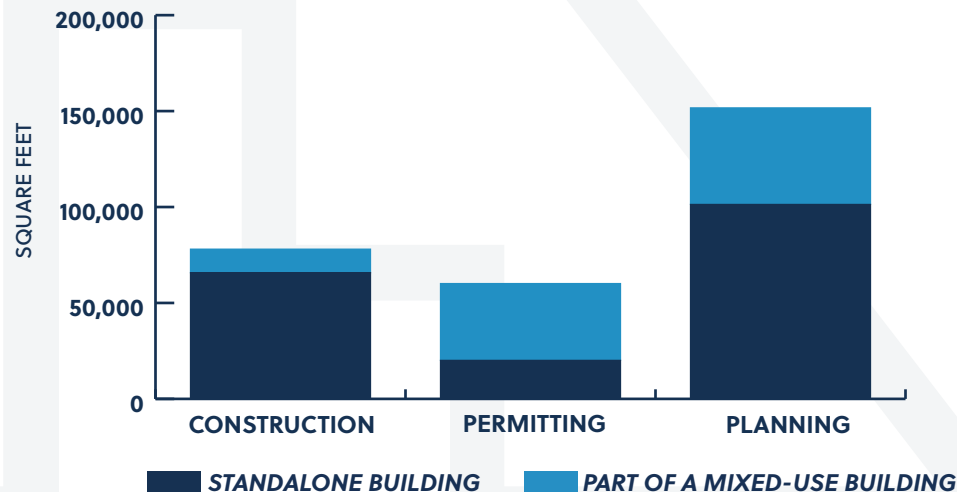
	Avg Lease Rate**	Avg Sale Price***	Available Space
Bozeman (excludes Downtown)	\$21.52	\$400.86	95,155 SF
Downtown Bozeman	*	\$433.14	11,664 SF
Big Sky	*	\$1122.89	0 SF
All	\$21.52	\$557.77	110,804 SF

* Currently no space for lease / **Per Square Foot, NNN Equivalent / ***Per Square Foot

Opportunities

- Class B & C redevelopment along primary commerce corridors and downtown

BOZEMAN RETAIL PIPELINE





INDUSTRIAL

Bozeman's industrial market has seen a small uptick in the vacancy rate with stable rents and pricing. The city has no single-use, speculative industrial space under construction at this time. There are several projects in permitting which focus on mixed-use options. It is likely that larger scale projects will come in the form of build-to-suits, at least in the short term.

There are a number of industrial subdivisions delivering shovel ready sites. Properties that offer municipal infrastructure, industrial zoning and easy access to major interstates can be hard to find. Having these sites at the ready will attract more businesses to the region.

	Last 12 Months June 2023	Last 12 Months June 2022	Change From 2022
Vacancy Rate	2.36%	0.40%	+1.94%
Average Lease Rate*	\$12.89	\$12.37	+4.20%
Sales Transactions	42	69	-39.13%
Average Sales Price**	\$192.14	\$191.86	+0.14%

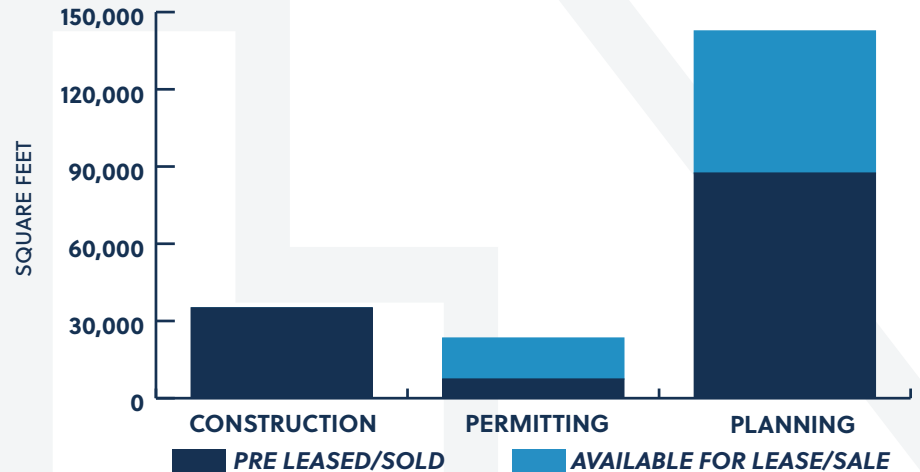
*Per Square Foot, NNN Equivalent | **Per Square Foot - Free standing



Opportunities

- Build-to-suit projects
- Small bay warehouse condos for sale or lease

BOZEMAN INDUSTRIAL PIPELINE





SELF-STORAGE



People looking for a storage unit in Bozeman may have had to look to Belgrade and/or Three Forks as an alternative. A recent survey showed no available non-climate-controlled units in Bozeman. Gallatin County saw considerable rent growth over the past 12 months.

A demand driver is the lack of central warehouse space. Companies unable to find suitable warehouse space are looking to self-storage to house goods. The average climate-controlled self-storage space in Bozeman rents at \$1.57 per square foot while the average warehouse runs \$1.07. While the gap seems wide, self-storage rates are all-inclusive, while warehouse tenants typically pay for operating expenses, insurance, and property taxes. Storage rental agreements are typically month-to-month allowing for flexibility to increase rents

- Opportunities
- Larger units - specifically in rural areas
 - Climate-controlled units
 - 24/7 access with security features



	2023	2022	Change From 2022
Avg Rent* Bozeman**	\$0.74	\$0.69	+\$0.05
Avg Rent* Climate Bozeman	\$1.57	\$1.57	+\$0.00
Avg Rent* Belgrade**	\$0.68	\$0.58	+\$0.10
Avg Rent* Climate Belgrade	\$1.25	\$1.22	+\$0.03

* Per square foot | ** Non-Climate



MULTIFAMILY



In the past year, Bozeman's multifamily market has shifted gears. While a rapid run-up in the vacancy rate and declining rents may be problematic for some landlords, it's a positive for the community. More housing and moderating rents will help create a more stable workforce.

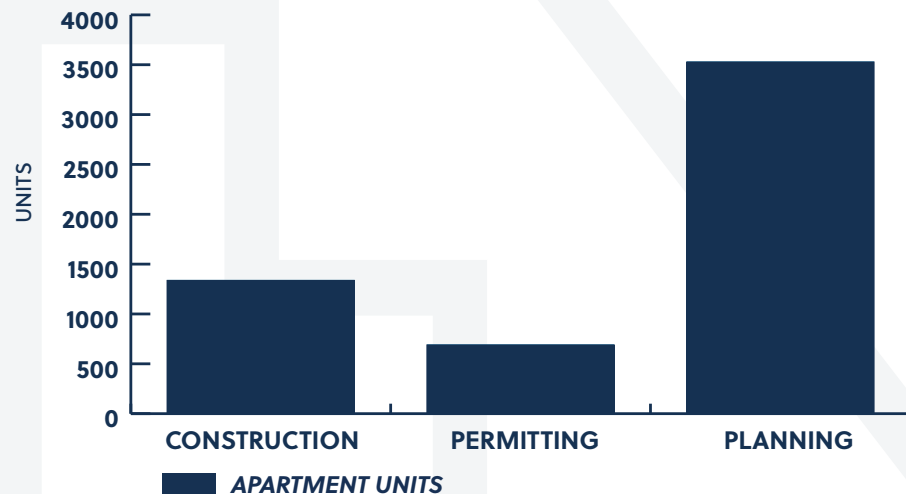
New supply has driven the increase in vacancy. In the past twelve months, 814 new units have been delivered to the market. These deliveries have increased existing inventory by over 17% over the past year, with many more units on the way.

	LTM 6/2023	LTM 6/2022	Change From 2022
Vacancy Rate	6.92%	1.32%	+5.6%
Average Lease Rate	\$2,140	\$2,213	-3.27%
Sales	7	12	-41.67%
Average Price Per Unit	\$271,833	\$304,964	-10.86%
Average Price Per SF	\$272.92	\$329.86	-17.26%

Opportunities

- Build-to-rent communities
- Larger units with work-from-home nooks

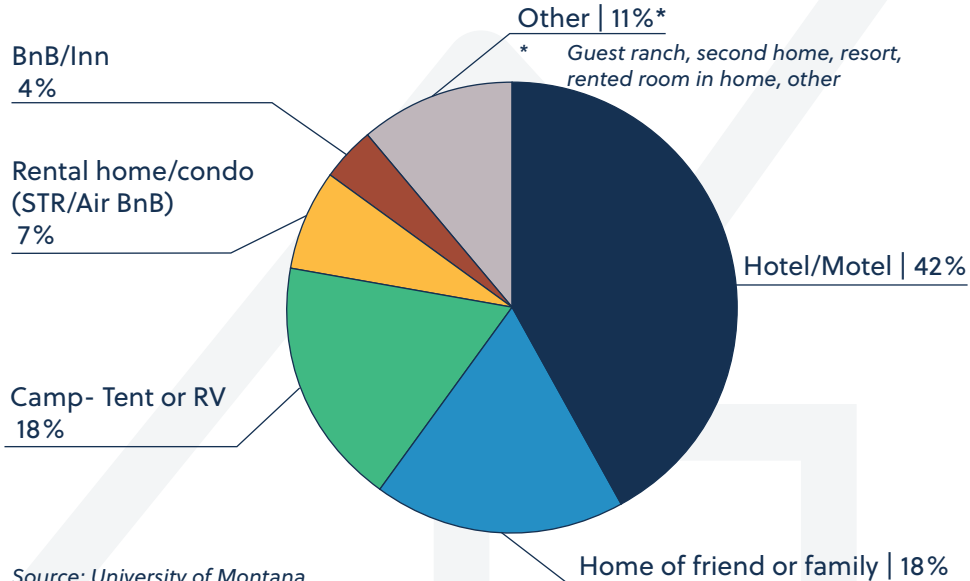
BOZEMAN MULTIFAMILY PIPELINE





HOSPITALITY

BOZEMAN TOURIST LODGING CHOICES



Source: University of Montana
Institute for Tourism & Recreation
Research

Gallatin County plays host to over 5.5 million out-of-state guests a year.

When combined with local travelers this adds up to high demand for lodging. About 42% choose to stay at a hotel or motel in the region. Bozeman has about 2,400 hotel rooms.

Hotel developers have been active in the market. Bozeman offers a strong market for tourists eager to visit Yellowstone or ski at Big Sky. It is also a hub for medical services, air travel, youth sports and is home to Montana State University. These demand drivers provide hotels with a steady flow of guests even outside of peak travel season.

There are currently eight new hotels in the pipeline. At this time, 333 new units are under construction. One hot spot for hotels is in downtown Bozeman. Close to 500 new rooms have opened downtown since 2015. The development pipeline shows an additional four hotels planned for downtown.



RECENT TRANSACTIONS





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**OUR
TEAM**



*The people who aren't pictured here
are even more important.*

At SterlingCRE, every deal, detail, and on-demand market report is animated by an ace team of operations, marketing, and research professionals. Recruited from many industries, the SterlingCRE team meets up at the intersection of getting stuff done and raising the bar.

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