



POWELL BANZ
VALUATION

SALEM/KEIZER APARTMENT SURVEY

2018/2019

This survey measures the direction and velocity of change in vacancy and rents in the Salem/Keizer apartment market.

279 Complexes

15,716 Units

SUMMARY

VACANCY



RENT



DAYS ON MARKET



AVG SALE PRICE



AVERAGE OAR



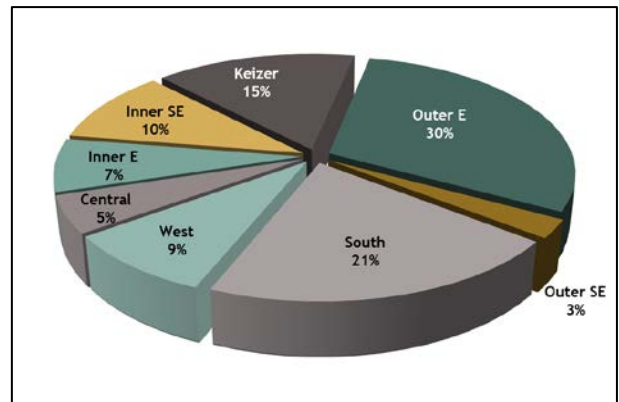
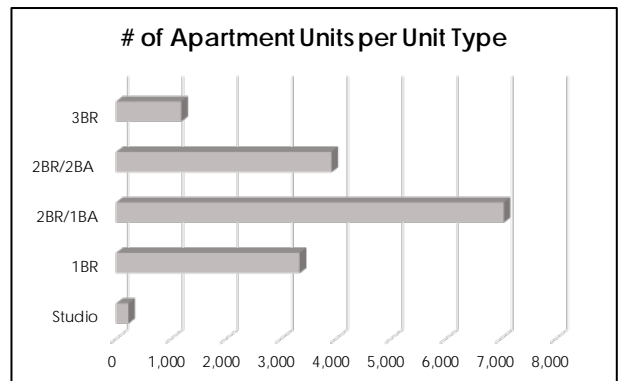
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The following information reports the results from our survey of 279 local apartment complexes (15,716 units) located throughout Salem/Keizer. The information provided was gathered with the generous assistance of property managers, investors, developers, and property owners throughout the area. Their assistance is greatly appreciated.

Apartment units are categorized into five conventional bedroom configurations, as illustrated at right; further broken down by geographical area below.

The multi-family sector continues to outperform most other property types in Salem/Keizer and throughout the Willamette Valley. With continued low vacancy in the multi-family sector, rents have steadily increased across all unit types averaging 10% overall between 2017 and 2018. Studio units are leading the charge with rent appreciation averaging 14% over the past year. 2017

experienced a large influx of new development (633 permitted new units). In 2018, the velocity of new development tapered off, with 314 new units permitted. This suggests the market is stabilizing. Through 2018, all new units brought to market were quickly absorbed due to the pent-up demand and undersupply of available units. Most properties being developed are preleasing, with full absorption expected upon completion of construction – or shortly thereafter.





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VACANCY

HIGHLIGHTS

VACANCY

2018: 2.38%

2017: 1.70%

PER UNIT

Studio: 0.90%

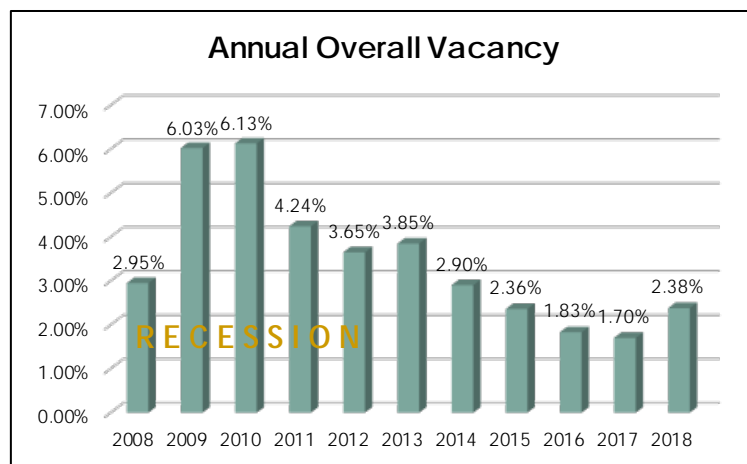
1BR/1BA: 2.28%

2BR/1BA: 2.21%

2BR/2BA: 2.32%

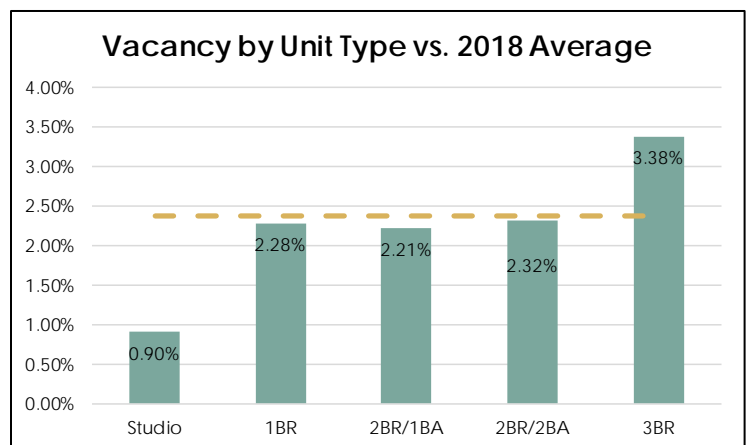
3BR: 3.38%

Apartment vacancy typically fluctuates around a 5% industry benchmark. The housing boom, bust, and subsequent recession caused a sharp swing in vacancy rates. Apartment vacancy more than doubled from 2.95% in 2008 to 6.13% in 2010, followed by a steady decline through 2017. This decrease reflects the economy's transition from the recovery to the growth phase.



The current average Salem/Keizer vacancy rate is **2.38%**, an increase of 40.00% (68 basis points) over the prior year. The increase in vacancy does not suggest a decline in demand. Rather, it reflects the additional new units that have entered the market over the past three years. Market participants and property managers report continued overall low vacancy, with nominal turnover and waiting lists for available units. As of January 2019, 1,475 multi-family units were in various stages of planning and construction. Of those, 532 new units are currently being developed in Salem/Keizer, with another 943 units in planning, review, and permitting. With the influx of additional supply, vacancy is anticipated to continue increasing as the need for additional units is filled.

The overall vacancy of 2.38% is juxtaposed against the average vacancy by unit type at right. Vacancy for studio units is below the average, 1BR/1BA, 2BR/1BA, and 2BR/2BA units are near the average, and vacancy for 3BR units exceeds the average. The 2BR/1BA units account for 44.9% of the units surveyed. Conversely, the studio units, which have the lowest vacancy, comprise only 1.40% of the units surveyed. The overall 2.38% vacancy is frictional in nature, which generally reflects tenants moving from one apartment to another – not an oversupply.





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RENT

HIGHLIGHTS

PER UNIT

Studio

Avg rent: \$782
% Chg: 14%

1BR/1BA

Avg rent: \$884
% Chg: 13%

2BR/1BA

Avg rent: \$955
% Chg: 9%

2BR/2BA

Avg rent: \$1,132
% Chg: 5%

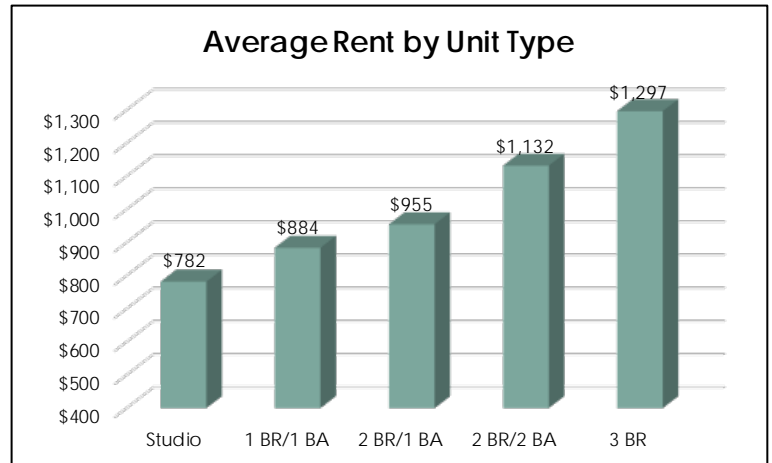
3BR

Avg rent: \$1,297
% Chg: 10%

**Average
Annual
Rent
Increase:
10%**

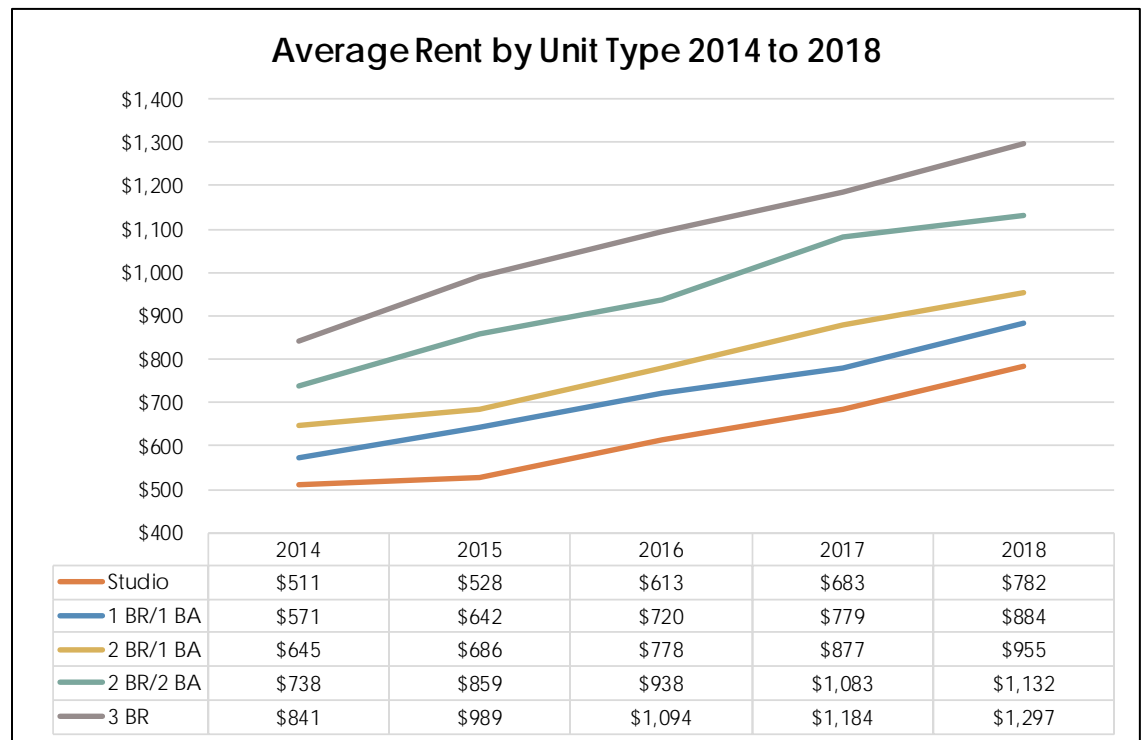
The following charts illustrate the average rent based on unit type, categorized by the number of bedrooms and bathrooms in each unit.

The chart at right depicts the average rent for each unit type. Data was collected between December 2018 and January 2019. As expected, rent increases according to unit size, with the studio units experiencing the highest rent increases as compared to the prior year, on a percentage basis.



The following graph illustrates the average rent for the various unit types from 2014-2018, demonstrating the change in rents for each unit type over the past five years.

Each year the average rent increased amongst all unit types.





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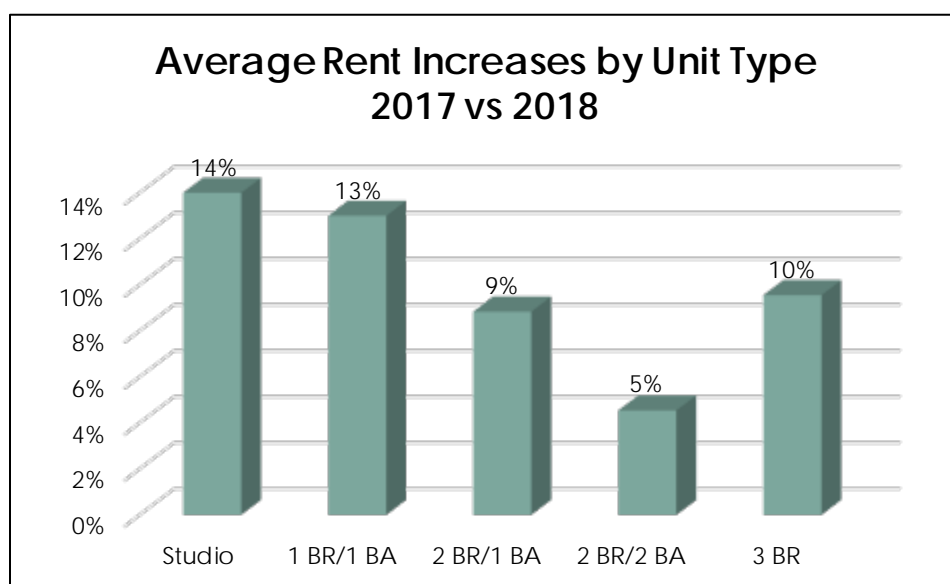
RENT

With new apartment construction occurring throughout Salem/Keizer, rent appreciation is expected to continue to slow over the coming years.

New unit types generally include a mix of studio, 1, 2 & 3 BR units, catering to a wide array of renters.

As the chart on the previous page illustrates, the unit type with the greatest change in rent since 2014 is the 1BR/1BA, which reflects a 54.8% increase or 13.7% per year on average. Studio, 2BR/1BA, 2BR/2BA, and 3BR units experienced increases ranging from 48.1% to 54.2% or roughly 12.0% to 13.3% per year since 2014.

Reflecting the most recent time period between 2017 and year-end 2018, the following chart illustrates the average percent change in rents according to the various unit types over the past year.



The **average overall rent increase was 10% between 2017 and 2018**. While the 1BR/1BA units outperformed the other unit types with regard to rent increases over the last five years, the studio units reflect the greatest percentage increase over the past year, measuring 14% over the most recent time period.

Contributing factors related to the continued rent increases across all unit types include:

- Increased population
- Lack of available supply
- Increasing single-family home prices
- Generational shifts



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RENT

In 2017, proposed rent control legislation exacerbated the steep rent growth that year as property owners and managers took preemptive measures to raise rents in an effort to push the market prior to the institution of rent caps. That legislation ultimately faltered; however, **on February 28, 2019, Governor Kate Brown signed into law statewide rent control via Senate Bill 608**. The new legislation limits rent increases to 7% (plus inflation) and prohibits no-cause evictions following the first year of occupancy. The House of Representatives passed the bill by a vote of 35 to 25. Oregon is the first state in the nation to mandate statewide rent control.

Annual rent increases in Salem/Keizer have averaged between 10% and 14% over the past three years. Limiting future increases to 7% plus inflation erects an arbitrary ceiling on multi-family property value increases; however, the rent cap is not so low that it will discourage investment and new development altogether. In addition, new construction will benefit from an exemption for the first 15 years. Many property owners have utilized the steady rent increases over the past three years to bring below market rents to market, which will likely result in a decrease in the velocity of rent increases in coming years – even without rent control. Rent growth is slowing organically, without legislative interference.

APARTMENT RENT BY SUBMARKET

On the following page are two tables that illustrate the average rent and vacancy rates for various submarkets in Salem and Keizer. Divided by pre and post 1990 construction dates, a comparison between the tables illustrates the difference in rents that may be attributed to age of complexes. There are several things to consider:

- Units are categorized as “with amenities” if they have at least one of the following:
 - Washer/dryer hookups or washer/dryer in unit
 - Covered parking or garages
 - Recreational amenities such as pool, club house, etc.
- It is important to consider the market share of each unit type.
- N/A denotes that there were no units of that type surveyed in that specific submarket.
- Disparities and irregularities between average rents may be indicative of varying management goals or small sample sizes.



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RENT

Contemporary Complexes (Constructed After 1990)

Apartment Type	Keizer	Central	Inner E	Outer E	Inner SE	Outer SE	South	West	Average
Studio - no amenities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Studio - with amenities	N/A	\$1,200	N/A	\$843	\$860	\$795	N/A	N/A	\$925
1BR - no amenities	N/A	N/A	NA	\$771	N/A	N/A	N/A	N/A	\$771
1BR - with amenities	\$1,006	\$1,313	\$1,029	\$963	\$983	\$982	\$964	\$990	\$1,029
2BR/1BA - no amenities	N/A	N/A	\$925	\$847	N/A	N/A	N/A	N/A	\$886
2BR/1BA - with amenities	\$991	\$1,020	\$1,034	\$955	\$1,121	\$1,070	\$1,016	\$973	\$1,023
2BR/2BA - no amenities	N/A	N/A	N/A	\$1,100	N/A	N/A	N/A	N/A	\$1,100
2BR/2BA - with amenities	\$1,052	\$1,637	\$1,424	\$1,166	\$1,260	\$1,081	\$1,183	\$1,190	\$1,249
3BR - no amenities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3BR - with amenities	\$1,342	\$2,417	N/A	\$1,286	\$1,348	\$1,329	\$1,330	\$1,329	\$1,483
Average Rent	\$1,098	\$1,517	\$1,103	\$991	\$1,114	\$1,051	\$1,123	\$1,120	
Vacancy Rate	1.49%	3.02%	1.89%	2.57%	1.06%	1.24%	2.55%	4.27%	
Total Vacancy	2.37%								

Mature Complexes (Constructed Before 1990)

Apartment Type	Keizer	Central	Inner E	Outer E	Inner SE	Outer SE	South	West	Average
Studio - no amenities	N/A	\$715	\$625	\$695	\$660	N/A	\$685	\$625	\$667
Studio - with amenities	N/A	N/A	N/A	N/A	\$650	N/A	NA	N/A	\$650
1BR - no amenities	\$751	\$809	\$742	\$767	\$784	N/A	\$757	\$823	\$776
1BR - with amenities	\$903	\$898	\$854	\$783	\$811	N/A	\$827	\$825	\$843
2BR/1BA - no amenities	\$894	\$838	\$920	\$910	\$848	N/A	\$938	\$913	\$895
2BR/1BA - with amenities	\$996	\$977	\$902	\$902	\$1,019	N/A	\$980	\$930	\$958
2BR/2BA - no amenities	\$1,100	\$1,258	\$1,150	\$1,002	NA	N/A	\$975	N/A	\$1,097
2BR/2BA - with amenities	\$1,081	\$1,010	\$971	\$983	\$1,143	N/A	\$1,114	\$895	\$1,028
3BR - no amenities	\$1,075	N/A	\$1,075	\$1,052	N/A	N/A	\$1,250	N/A	\$1,113
3BR - with amenities	\$1,137	N/A	\$1,139	\$1,180	\$1,255	N/A	\$1,200	\$1,248	\$1,193
Average Rent	\$992	\$929	\$931	\$919	\$896	N/A	\$970	\$894	
Vacancy Rate	2.01%	2.09%	3.62%	2.46%	1.06%	N/A	2.19%	4.18%	
Total Vacancy	2.39%								



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FINANCIAL INDICATORS

HIGHLIGHTS

2017:

Average Price/Unit: \$79,850

30 Transactions

914 Units

2018:

Average Price/Unit: \$101,783

26 Transactions

330 Units

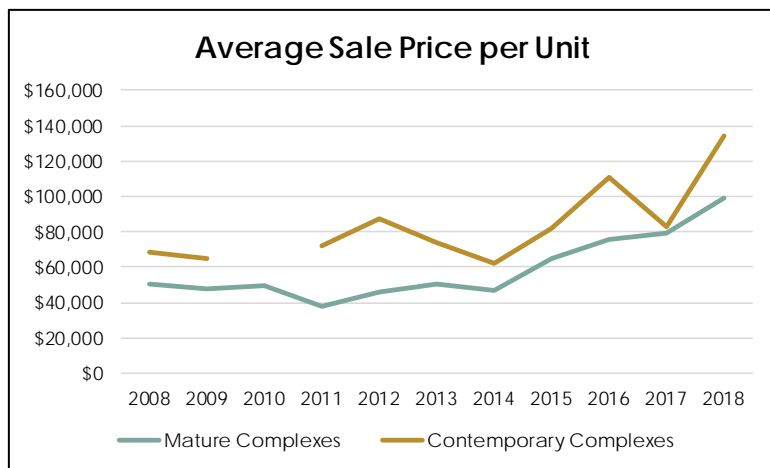
Sources:

CoStar & Internally Verified PBV Data

This study presents apartment financial indicators in Salem and Keizer. The data reflects sales of apartment properties with four or more units. When possible, the actual financial indicators are used.

PRICE PER UNIT

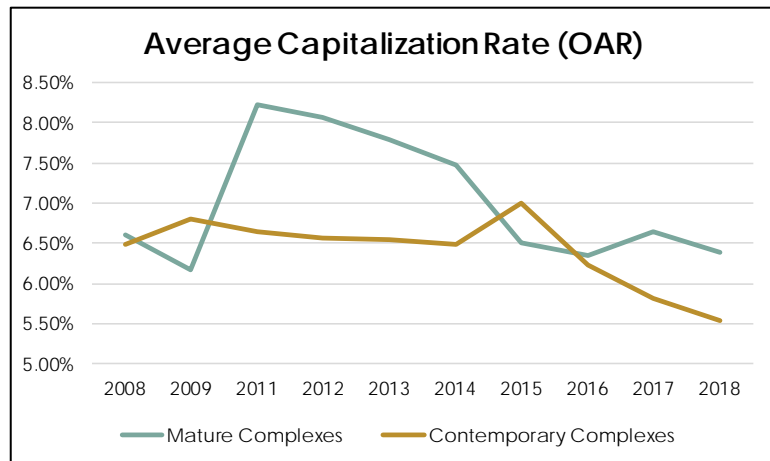
Overall, the average sale price per unit increased between 2017 and 2018 (approximately 27%, overall). Broken down between mature and contemporary units, the 2018 average price per unit for mature complexes increased by approximately \$20,000. Noting rising rents, the increases seen in the average sale price per unit are expected due to the correlation between income and value.



Available properties with a secure income stream and no issues are limited and tend to be sold before hitting the open market (30 out of the 56 total transactions for 2017 and 2018 did not have days on market data available). With such a tight rental market, owners are holding on to their investments, taking advantage of the steady income stream, and increasing revenues.

OVERALL RATE (OAR)

Overall, the average capitalization rate in 2018 was 6.28%, slightly lower than the average OAR of 6.48% in 2017. Broken down into mature and contemporary, the rates are 6.38% and 5.55%, respectively. Both mature and contemporary complexes saw a decrease in their OAR from 2017 to 2018.





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FINANCIAL INDICATORS

The following chart summarizes trending for the various multi-family financial indicators. Information regarding the transactions from 2017 and 2018 was taken from both CoStar and internally verified PBV data. Only internally verified PBV was used for all years prior to 2017. Of the 56 total transactions for 2017 and 2018, 26 transactions had days on market information available, 31 transactions had capitalization rates available, and 20 transactions had the necessary information available to calculate the EGIM, Operating Expenses (% EGI), and the Operating Expenses (per Unit).

Typical Salem/Keizer Apartment Financial Indicators											
Mature Complexes	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Avg. Units/ Transaction	47	47	18	35	57	21	73	29	27	24	11
Price/Unit	\$50,794	\$47,841	\$49,697	\$37,815	\$46,362	\$50,630	\$46,739	\$64,557	\$75,306	\$79,170	\$99,051
Price/SF	\$66	\$65	\$71	\$56	\$60	\$75	\$60	\$82	\$91	\$106	\$103
EGIM	8.23	8.95	8.07	6.19	6.71	7.35	6.77	8.45	8.62	9.69	10.26
Operating Expenses (% EGI)	43.51%	40.50%	37.94%	44.15%	43.77%	40.58%	47.33%	42.83%	43.30%	39.48%	34.64%
Operating Expenses (per Unit)	\$2,651	\$2,233	\$2,518	\$2,793	\$2,841	\$2,653	\$3,068	\$2,963	\$3,401	\$3,111	\$3,866
OAR	6.60%	6.17%	6.89%	8.23%	8.06%	7.79%	7.47%	6.51%	6.35%	6.65%	6.38%
Days On Market	79	129	243	161	165	172	145	93	141	145	115
Contemporary Complexes	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Avg. Units/ Transaction	81	17	NONE	44	23	60	43	66	18	56	35
Price/Unit	\$68,158	\$65,158		\$72,020	\$86,957	\$73,454	\$62,177	\$82,057	\$110,920	\$82,569	\$134,571
Price/SF	\$74	\$77	N/A	\$72	\$111	\$80	\$70	\$79	\$114	\$85	\$146
EGIM	8.88	8.77	N/A	8.15	9.63	8.28	7.97	8.42	10.19	9.54	12.20
Operating Expenses (% EGI)	38.22%	34.9%	N/A	39.89%	33.50%	43.06%	45.73%	38.26%	32.23%	45.77%	32.00%
Operating Expenses (per Unit)	\$2,850	\$2,571	N/A	\$3,514	\$3,351	\$3,480	\$3,392	\$3,557	\$3,563	\$4,308	\$4,391
OAR	6.49%	6.80%	N/A	6.65%	6.56%	6.54%	6.49%	6.99%	6.23%	5.82%	5.55%
Days On Market	117	299	N/A	216	548	59	64	101	94	14	78

— RECESSION —>

2019 Year-to-date: While not included in the chart above or previous charts, the average sales price per unit for 2019 year-to-date is \$135,254. However, this only includes six total transactions. One of the transactions was **Newcastle Place**, a 54 unit complex built in 2013. It sold for \$172,375 per unit, a record high for an apartment of that size in the Salem/Keizer market.



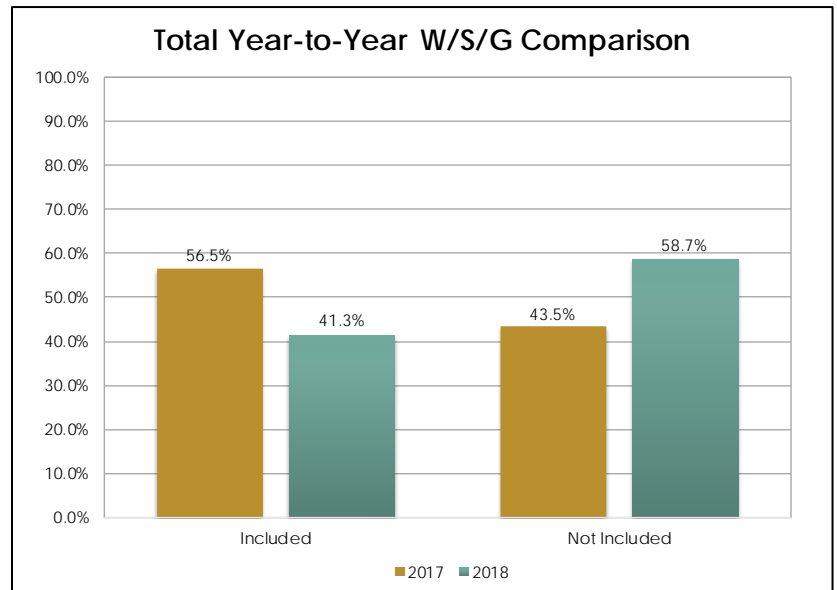
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UTILITY STUDY

The following charts depict the percentage of apartment units in Salem/Keizer that include or do not include water, sewer, and garbage (W/S/G) in the rent.

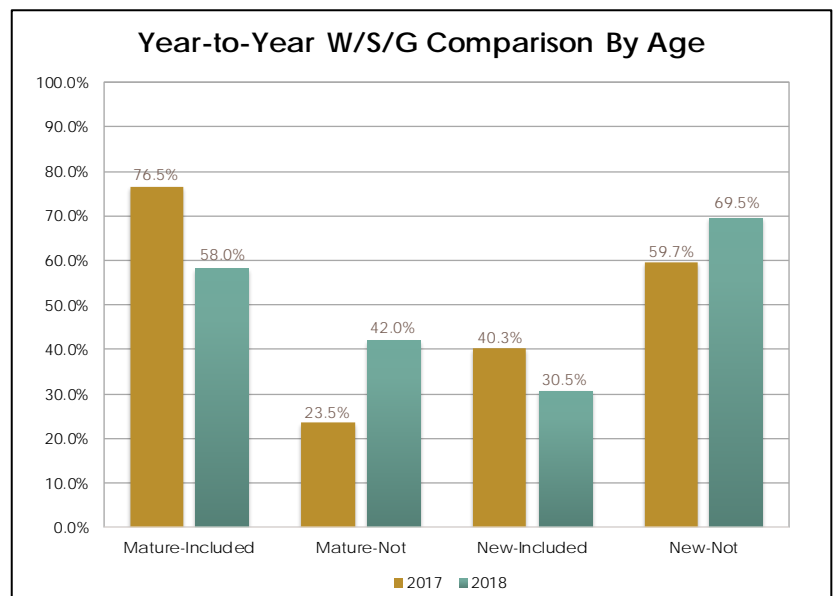
BY YEAR

It is becoming more common for apartments across all submarkets to pass on utility costs to the tenant. Among all the properties surveyed in 2017, 56.5% included W/S/G in the rent. However, 2018 shows only **41.3% of all properties surveyed to have W/S/G included in the rent**. According to property managers and owners throughout Salem/Keizer, utilities are getting more expensive. Multiple managers and market participants explained that the cost for garbage, specifically, has risen at a faster rate than other utilities. Managers and market participants noted that this is due to the increased cost associated with recycling, resulting in more total garbage pickups for complexes.



2017-2018 COMPARISON BY AGE

For mature apartments constructed prior to 1990, it remains more common to include W/S/G in the rent than to pass on those charges to the tenant. Approximately **58% of mature units include W/S/G** in the rent, leaving 42% that do not. However, in 2017 76.5% of mature complexes included W/S/G in the rent. This represents a 24% decrease in the number of mature complexes that include utilities. For contemporary apartments built after 1990, the majority do not include utilities in the rent. Approximately **30.5% of contemporary units include W/S/G** in the rent. This represents a 24% decrease from 2017. The utility reimbursements are typically in the form of third party billing or flat fees, which generally range from \$20 to \$50+ per unit per month.



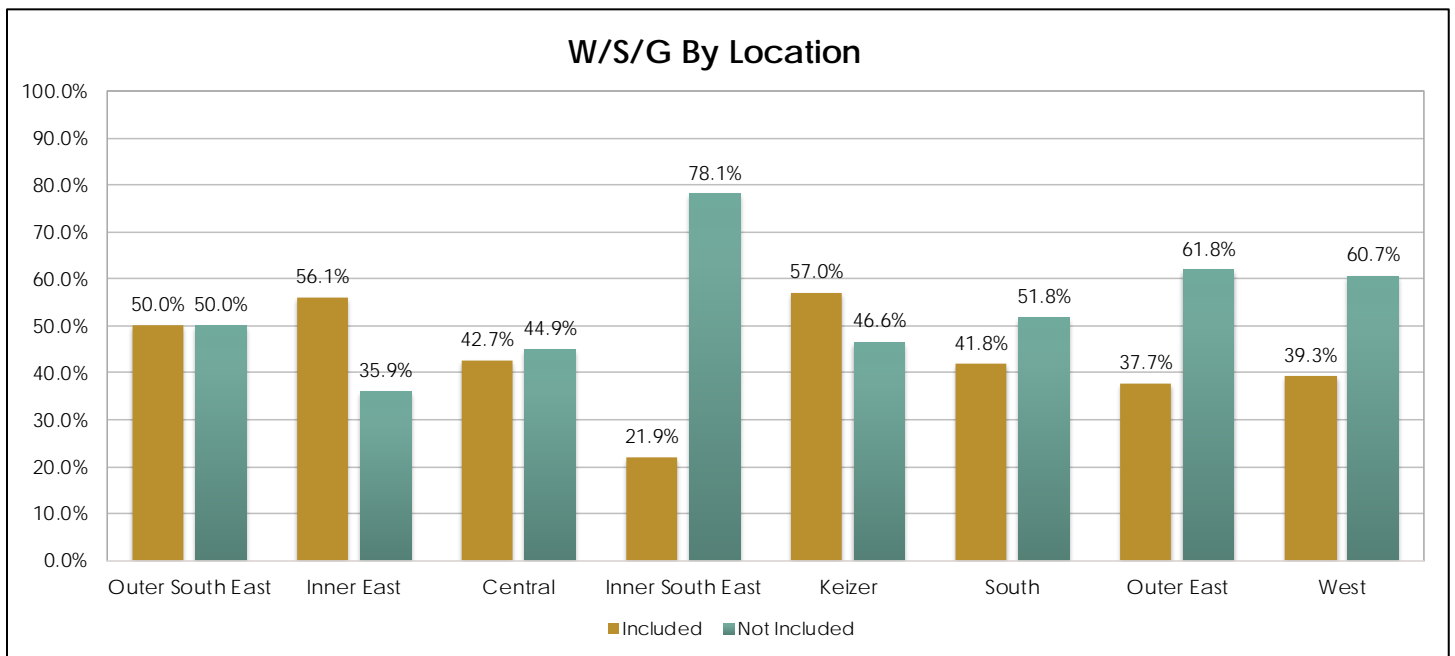


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UTILITY STUDY

BY LOCATION

As depicted in the chart at right, **utility charges vary widely by location**. The submarkets that tend to have a larger portion of higher income earning tenants, such as West Salem (W), also have a high percentage of units that do not include W/S/G in the rent. The Inner South East, Outer East, and West market areas have the highest percentage of units that do not include W/S/G in the rent. By contrast, the Keizer market has the most units that do include W/S/G in the rent.





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2019 PREDICTION

The multi-family sector is expected to remain stable during 2019. Several new projects are slated to come on line during the year; however, absorption remains positive and the influx of new units is tempered compared to the prior two years. A slight uptick in vacancy is anticipated, albeit, not in excess of 100 to 200 basis points; remaining well below the 5% industry benchmark. The new statewide rent control legislation likely spurred near-term rent increases as property owners and managers attempted to reach or surpass market-accepted rents prior to the passage of the proposed legislation. Even with the new statewide rent control, at a 7% plus inflation cap, the near-term opportunity for rent growth remains due to increased population and a shortage of readily developable land available for new projects.

Despite additional planned interest rate increases in 2019, multi-family investments are anticipated to remain a viable option for those desiring a stable income stream. Investors continue to hold on to well-performing assets, resulting in a lack of transactional activity. If interest rates continue to climb, capitalization rates may follow suit.

POWELL BANZ VALUATION, LLC

Team Members:

PRINCIPALS

Katherine Powell Banz, MAI

Jonathan B. Banz, MAI

APPRAISERS

C. Spencer Powell, MAI, AI-GRS

Dan Harms, MAI

Shelly Montagne

London Fergus

John Gillem

Austin Wiesner

Kathleen Hendersen

Tyson Giza

David Aizuss

SUPPORT

Sarah Hays, Office Manager

Monica Murray, Production Support



Katherine Powell Banz, MAI
kbanz@powelbanz.com



Jonathan B. Banz, MAI
jbanz@powelbanz.com

Powell Banz Valuation, LLC specializes in appraisal and consultation services to clients nationwide. With primary emphasis on income-producing properties in the Northwest, a wide variety of real estate valuation and consultation services are offered. To access previous surveys of the Salem/Keizer apartment market and the Salem/Keizer office and retail markets, visit our website at <https://powellbanz.com/market-research/>

Powell Banz Valuation, LLC

201 Ferry Street SE, Suite 300, Salem, Oregon 97301

P: (503) 371-2403 | F: (503) 371-2613

www.powellbanz.com