



POWELL BANZ
VALUATION

SALEM/KEIZER APARTMENT SURVEY

2017

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

322 COMPLEXES

16,798 UNITS

SUMMARY.....

VACANCY ↓

RENT ↑

DAYS ON MARKET =

AVG SALE PRICE ↑

AVERAGE OAR =

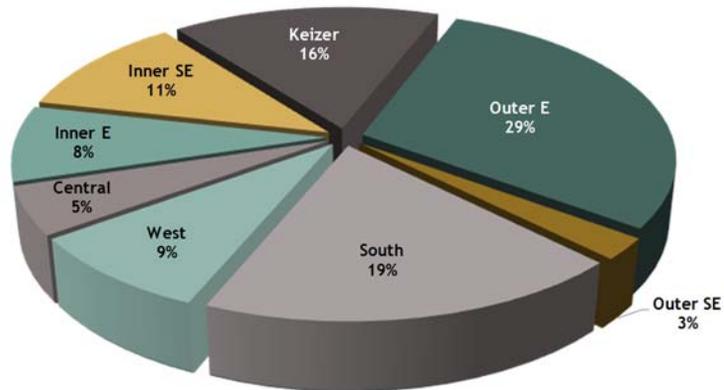
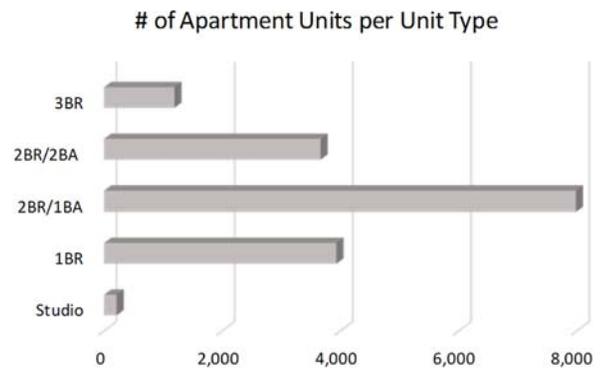
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The following information reports the results from our survey of 322 local apartment complexes located throughout Salem/Keizer. The information provided was gathered with the generous assistance of property managers, investors, developers, and property owners throughout the area. Their assistance is greatly appreciated.

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, with 2BR/2BTH leading the charge with rent appreciation

averaging 15% over the past year. To help offset the imbalance of supply and demand, developers continue to bring new projects to the market, with nearly 1,400 multi-family units in various stages of planning and construction. This is the highest level of new construction seen since before the recession.

Apartment units are categorized into five conventional configurations, as illustrated above; further broken down by area below.



POWELL BANZ VALUATION, LLC provides 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 www.powellbanz.com.



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VACANCY

HIGHLIGHTS

VACANCY

2017: 1.70%

2016: 1.83%

PER UNIT

Studio: 0.00%

1BR/1BA: 1.42%

2BR/1BA: 1.47%

2BR/2BA: 1.94%

3BR: 2.61%

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

The current average Salem/Keizer vacancy rate is 1.70%, a decrease of 7.10% (13 basis points) over the prior year. The downward trend in vacancy over the past several years reflects an imbalance of supply and demand. However, the velocity of change has slowed over the past year, suggesting this imbalance is lessening as the supply of

apartment units changes to meet the demand. New apartment construction is occurring throughout the Salem/Keizer area, with 625 units under construction as of February 2017 and an additional 657 units in various stages of planning. The new inventory should help increase the availability of apartment units to those who need housing.

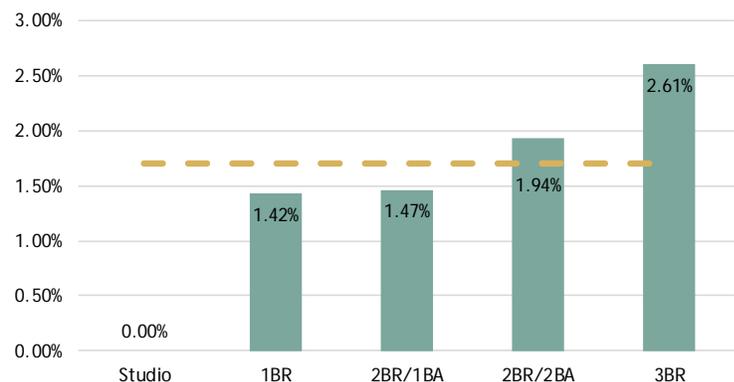
The overall vacancy of 1.70% is juxtaposed against the average vacancy by unit type at right. Vacancy for studios, 1BR/1BA, and 2BR/1BA units is below the average, while vacancy for the 2BR/2BA and 3BR units exceeds the average. This is in part due to the disparity between the various unit types. The 2BR/1BA units account for 47.0% of the units

surveyed, comprising a large portion of the average; conversely, the studio units, which have the lowest vacancy, comprise only 1.2% of the units surveyed. The overall 1.70% vacancy is frictional in nature, which generally reflects tenants moving from one apartment to another - not an oversupply. Interviewed market participants and property managers report nominal turnover and waiting lists for available units.

Annual Overall Vacancy



Vacancy by Unit Type vs. 2017 Average





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RENT

HIGHLIGHTS

PER UNIT

Studio
Avg Rent: \$683
% Chg: 12%

1BR/1BA
Avg Rent: \$779
% Chg: 8%

2BR/1BA
Avg Rent: \$877
% Chg: 13%

2BR/2BA
Avg Rent: \$1,083
% Chg: 15%

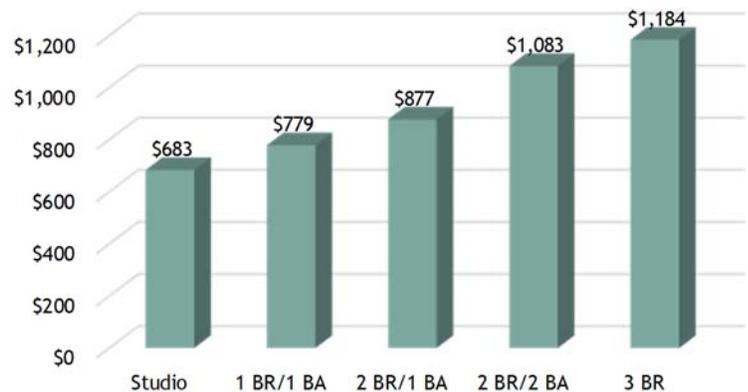
3BR
Avg rent: \$1,184
% Chg: 8%

**Average
Annual
Rent
Increase:
11%**

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 February and May 2017. As expected, rent increases according to unit size, with the 2 bedroom units experiencing the highest rent increases as compared to the prior year, on a percentage basis.

Average Rent by Unit Type



The following graph illustrates the average rent for the various unit types from 2013-2017, demonstrating the change in rents for each unit type over the past five years.

Average Rent by Unit Type 2013 to 2017



Each year the average rent increased amongst all unit types.



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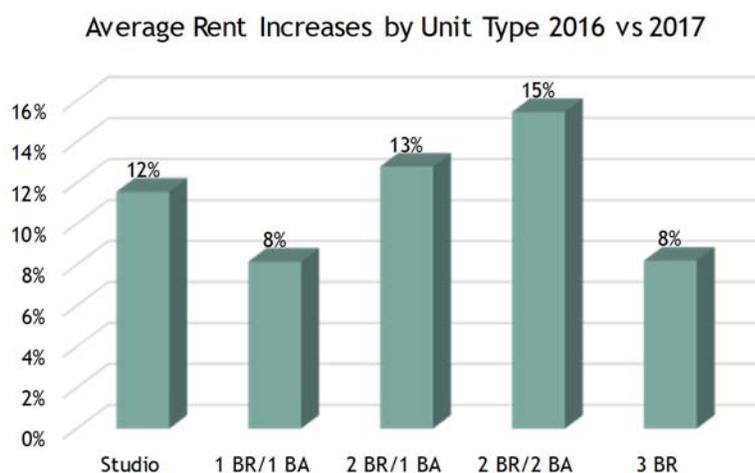
RENT

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

New unit types generally include a mix of studio, 1, 2 and 3 BR units, catering to a wide array of renters, including at least one subsidized 180-unit project.

As the chart on the previous page illustrates, the unit type with the greatest change in rent since 2013 is the 2BR/2BA units, which reflects a 53.0% increase or 13% per year on average. Studio, 1BR/1BA, 2BR/1BA, and 3BR units experienced increases ranging from 39% to 44% or roughly 10% to 11% per year since 2013. This suggests higher demand for 2BR/2BA units when compared to the other unit types in Salem/Keizer.

Drilling down further to reflect the most recent time period between 2016 and Spring 2017, the following chart illustrates the average percent change in rents according to the various unit types over the past year.



The 2BR/2BTH units continue to outperform the other unit types with regard to rent increases, with a 15% increase over the most recent time period. Contributing factors related to the continued rent increases include:

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

Clearly the disparity between income growth and rent appreciation is not sustainable over the long term.

During the course of the survey, market participants were queried regarding rent increases in their respective properties. Some indicated that below market rents were being brought to market by new ownership, while others stated that property managers and owners were raising rents on a regular basis in an effort to pre-empt the pending rent control legislation that was part of the 2017 legislative session. While the rent control measure was ultimately sidelined, it left a measurable impact on rents.



APARTMENT RENT BY SUBMARKET

Below 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.
- All averages are weighted.
- 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.

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	\$1,150	N/A	\$780	\$750	\$775	N/A	N/A	\$864
1BR - no amenities	N/A	N/A	NA	\$680	N/A	N/A	N/A	N/A	\$680
1BR - with amenities	\$869	\$1,327	\$710	\$907	\$915	\$875	\$850	\$912	\$921
2BR/1BA - no amenities	N/A	N/A	\$762	\$776	N/A	N/A	N/A	N/A	\$769
2BR/1BA - with amenities	\$905	\$825	\$938	\$849	\$1,038	\$975	\$865	\$900	\$912
2BR/2BA - no amenities	N/A	N/A	N/A	\$915	N/A	N/A	N/A	N/A	\$915
2BR/2BA - with amenities	\$985	\$1,880	\$1,443	\$1,024	\$1,205	\$1,019	\$1,052	\$1,004	\$1,201
3BR - no amenities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3BR - with amenities	\$1,246	\$2,537	N/A	\$1,185	\$1,207	\$1,201	\$1,253	\$1,208	\$1,405
Average Rent	\$1,001	\$1,544	\$963	\$890	\$1,023	\$969	\$1,005	\$1,006	
Vacancy Rate	1.64%	3.02%	4.50%	1.83%	1.87%	1.24%	2.14%	2.76%	
Total Vacancy	2.07%								

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	\$643	\$550	\$595	\$558	N/A	\$600	\$515	\$577
Studio - with amenities	N/A	N/A	N/A	N/A	\$600	N/A	NA	N/A	\$600
1BR - no amenities	\$648	\$719	\$659	\$630	\$660	N/A	\$638	\$720	\$668
1BR - with amenities	\$757	\$873	\$708	\$691	\$708	N/A	\$722	\$732	\$742
2BR/1BA - no amenities	\$811	\$755	\$787	\$774	\$747	N/A	\$817	\$805	\$785
2BR/1BA - with amenities	\$818	\$1,850	\$780	\$834	\$810	N/A	\$842	\$794	\$961
2BR/2BA - no amenities	\$905	\$1,325	\$1,100	\$839	NA	N/A	\$850	N/A	\$1,004
2BR/2BA - with amenities	\$1,039	\$1,615	\$881	\$821	\$1,044	N/A	\$901	\$895	\$1,028
3BR - no amenities	\$965	N/A	\$1,000	\$824	N/A	N/A	\$1,125	N/A	\$979
3BR - with amenities	\$1,026	N/A	\$903	\$1,113	\$1,090	N/A	\$1,140	\$1,100	\$1,062
Average Rent	\$871	\$1,112	\$819	\$791	\$777	N/A	\$848	\$795	
Vacancy Rate	1.31%	1.75%	2.68%	1.12%	0.36%	N/A	1.41%	1.70%	
Total Vacancy	1.42%								



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FINANCIAL INDICATORS

HIGHLIGHTS

2016:

Average Price/Unit:
\$70,040

42 Transactions

931 Units

2017 (Jan to Jun):

Average Price/Unit:
\$72,638

8 Transactions

430 Units

This study presents apartment financial indicators in Salem and Keizer. Since the indicators for 2017 only reflect the first six months, there was limited data available for calculations, which may lead to anomalies in the average reporting for 2017.

PRICE PER UNIT

Overall, the average sale price per unit increased slightly between 2016 and the first six months of 2017. Broken down between mature and contemporary units, the 2016 average price per unit for Mature Complexes increased \$10,749 when compared to 2015; however, the first six months of 2017 show a decrease when compared to

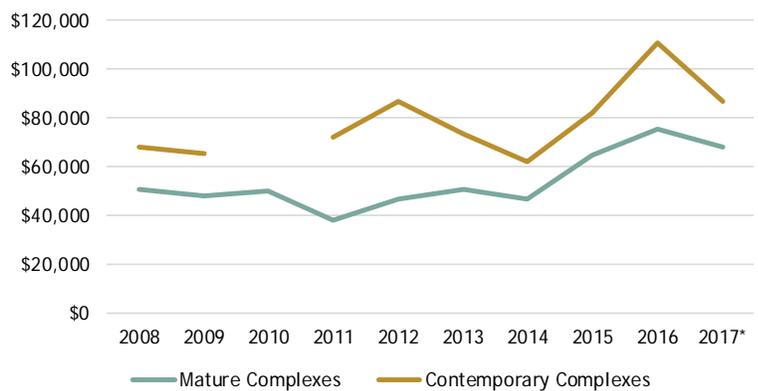
the prior year. Contemporary Complexes also experienced an increase from 2015 to 2016 in average price per unit; albeit, a decrease in 2017. While not significant, further decreases may occur during 2017 due to the product on offer, which generally includes properties with potential issues such as needed repairs or struggling cash flows. Available properties with a secure income stream and no issues are limited and tend to be sold before hitting the open market. 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)

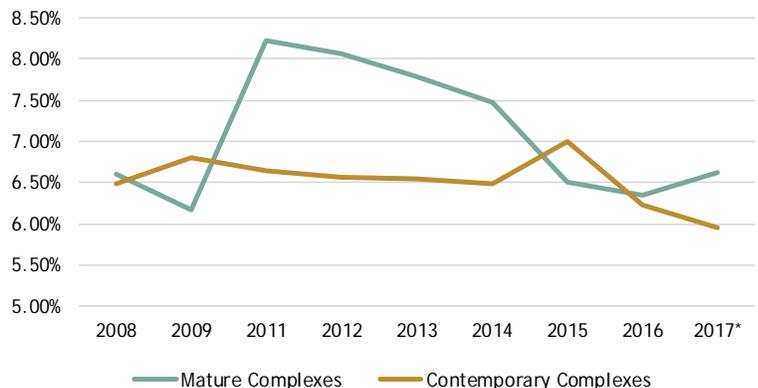
Overall, the average capitalization rate in the first six months of 2017 registered 6.40%, which is generally unchanged from the average OAR of 6.39% in 2016. Broken down into mature and contemporary, the rates are 6.62% and 5.96%, respectively, as illustrated in the chart at right. While the Mature units report a slight uptick in the average OAR, Contemporary

Complexes saw a decrease in their overall rate (OAR) from 2016 to June 2017.

Average Sale Price per Unit



Average Capitalization Rate (OAR)



* Through June 2017



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FINANCIAL INDICATORS

The following chart summarizes trending for the various multi-family financial indicators:

Typical Salem/Keizer Apartment Financial Indicators										
Mature Complexes	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Avg. Units/ Transaction	47	47	18	35	57	21	73	29	27	40
Price/Unit	\$50,794	\$47,841	\$49,697	\$37,815	\$46,362	\$50,630	\$46,739	\$64,557	\$75,306	\$68,249
Price/SF	\$66	\$65	\$71	\$56	\$60	\$75	\$60	\$82	\$91	\$104
EGIM	8.23	8.95	8.07	6.19	6.71	7.35	6.77	8.45	8.62	N/A
Operating Expenses (% EGI)	43.51%	40.50%	37.94%	44.15%	43.77%	40.58%	47.33%	42.83%	43.30%	N/A
Operating Expenses (per Unit)	\$2,651	\$2,233	\$2,518	\$2,793	\$2,841	\$2,653	\$3,068	\$2,963	\$3,401	N/A
OAR	6.60%	6.17%	6.89%	8.23%	8.06%	7.79%	7.47%	6.51%	6.35%	6.62%
Days On Market	79	129	243	161	165	172	145	93	141	230
Contemporary Complexes	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Avg. Units/ Transaction	81	17	NONE	44	23	60	43	66	18	76
Price/Unit	\$68,158	\$65,158	N/A	\$72,020	\$86,957	\$73,454	\$62,177	\$82,057	\$110,920	\$86,517
Price/SF	\$74	\$77	N/A	\$72	\$111	\$80	\$70	\$79	\$114	\$91
EGIM	8.88	8.77	N/A	8.15	9.63	8.28	7.97	8.42	10.19	9.74
Operating Expenses (% EGI)	38.22%	34.9%	N/A	39.89%	33.50%	43.06%	45.73%	38.26%	32.23%	39.35%
Operating Expenses (per Unit)	\$2,850	\$2,571	N/A	\$3,514	\$3,351	\$3,480	\$3,392	\$3,557	\$3,563	\$3,365
OAR	6.49%	6.80%	N/A	6.65%	6.56%	6.54%	6.49%	6.99%	6.23%	5.96%
Days On Market	117	299	N/A	216	548	59	64	101	94	N/A

*Through June 2017

— RECEPTION —>



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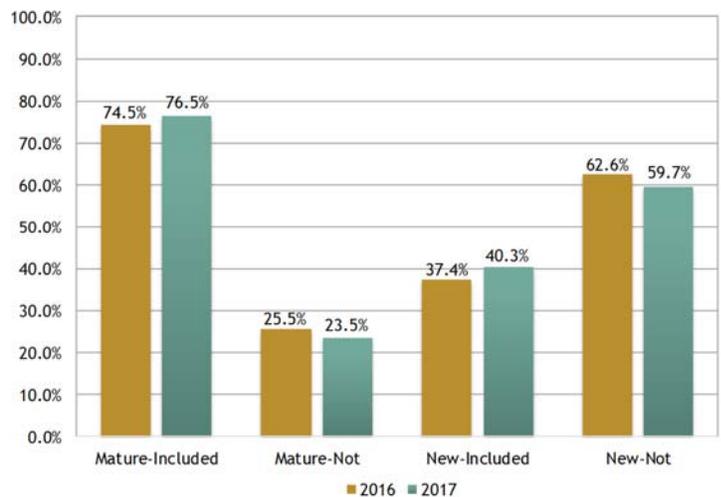
UTILITY STUDY

The charts below 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.

2016-2017 COMPARISON BY AGE

For mature apartments constructed prior to 1990, it is more common to include W/S/G in the rent than to pass on those charges to the tenant. Approximately **77% of mature units include W/S/G** in the rent, leaving just 23% that do not. However, for contemporary apartments built after 1990, it is becoming more common to pass on the utility charges to the tenant. Approximately **60% of contemporary units do not include W/S/G** in the rent. 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.

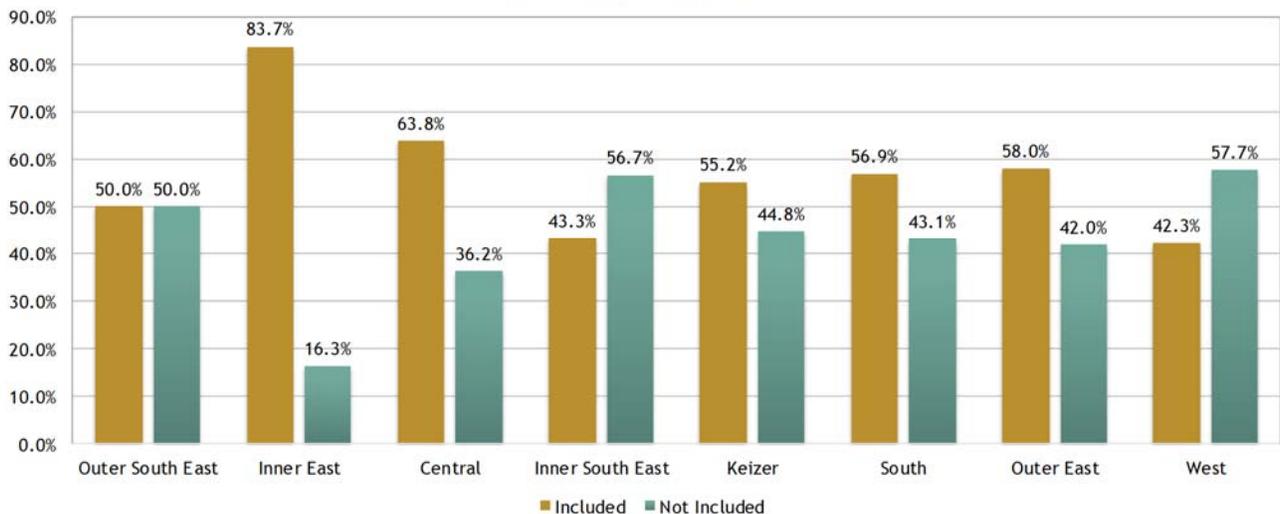
Year-to-Year W/S/G Comparison By Age



BY LOCATION

As depicted in the chart below, **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. With the exception of the Inner East (IE) submarket, all regions seemingly have relatively similar percentages of units that include or do not include W/S/G service.

W/S/G By Location





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2017 PREDICTION

Despite the affordability gap, opportunity for rent growth remains due to increased population, continued lack of supply, and shortage of readily developable land available for new projects. This is reiterated by the recent redevelopment of previously improved sites and several new and planned projects pending conditional use approvals and/or zone changes prior to development.

Once the developing and planned projects come online, rent appreciation is expected to slow, and vacancy may increase slightly; albeit, not in excess of one to two hundred basis points. This is anticipated to begin in mid to late 2017 due to the upcoming deliveries such as Keizer Station Apartments (180 units, Keizer), Hyacinth Street Apartments (56 units, NE Salem), The Fairway (201 units, South Salem), and River Valley Terrace (60 units, West Salem).

If interest rates continue to climb, capitalization rates will follow suit, which may lead to a decrease in transactional activity and sales volume in 2017. However, the multi-family property sector is anticipated to remain the darling of commercial real estate investments in the near term.

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