2017 COMMERCIAL REAL ESTATE

ECONOMICFORUM

SALEM CONVENTION CENTER

WEDNESDAY
FEB 15

2ND FLOOR
WILLAMETTE BALLROOM
200 COMMERCIAL STREET SE
SALEM, OREGON 97301

PRESENTED BY
SVN
COMMERCIAL ADVISORS, LLC

PHOTO BY RON COOPER

7:00 AM NETWORKING

7:45 AM BREAKFAST SERVED
PROGRAM BEGINS

9:00 AM CONCLUSION

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FORUM LINEUP

MASTER OF CEREMONIES
DAN CLEM

AGRICULTURE
GEORGE GRABENHORST

INDUSTRIAL
CHAD FREEMAN

RETAIL
RYAN IMBRIE

TITLE SPONSOR
GREG GILBREATH | U.S. BANK

INVESTMENTS & MULTIFAMILY
KATHERINE POWELL BANZ

OFFICE
CURT ARTHUR

COMMUNITY PARTNERS
THANK YOU FROM SVNCA

GUEST

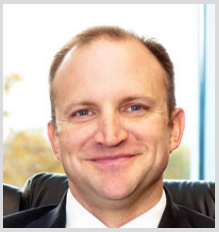
SPEAKERS

Master of Ceremonies
Dan Clem, CEO
Salem Area Chamber of Commerce

Dan Clem's extensive local leadership experience includes local and state government legislative affairs, small business administration, economic development projects, and membership and association management. He retired from the Army and Oregon Army National Guard as a Lieutenant Colonel, and has previously served as the Director of the Oregon Department of Aviation, and as a Salem City Councilor for Ward 8 for more than 10 years. Most recently, he served as the legislative affairs coordinator for the Oregon State Chambers of Commerce.

Agricultural Market
George Grabenhorst
SVN Commercial Advisors

George Grabenhorst has been in the real estate business for 28 years and is a fourth-generation Realtor. George is well known in the community and among his peers for his insight, energy and expertise in the field of property and development. His real estate industry involvements include two-time Past President of the Salem Association of Realtors, two-time Realtor of the Year, Member of the Oregon Association of Realtors, and has been involved in or is a part of many committees and boards for both agencies. George is currently the President of the Oregon Association of Realtors.



Industrial Market
Chad Freeman, CEO
SEDCOR

Chad Freeman is the head of Strategic Economic Development Corporation (SEDCOR), the lead economic development organization for the Mid-Willamette Valley of Oregon. Chad previously served as an Executive Officer with Oregon Business Development Department, an organization focused on the creation, retention, expansion and attraction of business in Oregon. Chad worked primarily with companies within Clackamas and Washington Counties. With broad experience in real estate, economic development and running workforce organizations, Chad has a strong understanding of industry and public/private projects.

Retail Market
Ryan Imbrie, CCIM
SVN Imbrie Realty
SVN National Retail Product Council Chairman

Ryan Imbrie, CCIM, serves as a Managing Director for SVN - Imbrie Realty, specializing in the sale of single-tenant retail and multi-tenant shopping center property throughout the Northwest. Since beginning his commercial real estate career in 2004, Imbrie has exceeded $270 million in career sales volume. His financial background, creativity and transactional experience have made Imbrie a valuable asset to his clients when he acts as a listing or buyer agent. Ryan is licensed as principal broker in Oregon and Washington.

Multi-Family Market
Katherine Powell Banz, MAI
Powell Banz Valuation, LLC.

Katherine Powell Banz, MAI is a Principal and Certified General Appraiser with Powell Banz Valuation, LLC. She is licensed in Oregon and Washington and has performed a diverse range of commercial valuation assignments throughout the Northwest since joining the firm in 2002. Professional experience includes a wide variety of valuation-related work, including consultation, appraisal, expert witness testimony, and feasibility analysis of income-producing properties; including retail, office, development land, industrial, single and multi-family residential, and special use properties such as churches and schools.

Office Market
Curt Arthur, SIOR
SVN Commercial Advisors

Curt Arthur, SIOR, serves as a Managing Director for SVN Commercial Advisors, in Salem, Oregon, and is a member of the Advisory Board for SVN International. He has over 25 years in the industry and specializes in larger office and industrial sales and leases throughout the Mid-Willamette Valley. He is the only member of the Society of Industrial and Office Realtors (SIOR), one of the industry's most prestigious designations, in the Mid-Valley. He has repeatedly obtained Partners Circle status with SVN International as one of the top 1% of advisors worldwide. Curt takes great pride in his service to his community and to his industry.

TITLE SPONSOR

GREG GILBREATH

PACIFIC WEST DIVISION

COMMUNITY BANKING DIVISION
COMMERCIAL REAL ESTATE
RELATIONSHIP MANAGER

Greg Gilbreath is the Division Commercial Real Estate Relationship Manager for the Pacific West Division. He is responsible for 8 regions in the following markets: Northern and Central California, Northern Nevada, Central Oregon, Eastern Oregon, Eugene, Southern Oregon, Oregon Mid-Valley, and the Columbia Pacific market. His responsibilities are centered in commercial real estate focusing on new construction, asset acquisitions, and asset repositioning.

Greg Gilbreath has been in banking for over 25 years. The majority of that time has been spent in commercial/residential real estate lending to local, regional, and national clients. He has been with U.S. Bank for over 8 years and has served in several different capacities.

Greg and his wife, Susan, have 3 adult children of which two are married. They also have two grandchildren. Greg and Susan reside in Tigard, Oregon.

Greg Gilbreath
U.S. Bank
Pacific West Division - Community Banking
Division Commercial Real Estate Relationship Manager
503.399.4142 | gregory.gilbreath@usbank.com

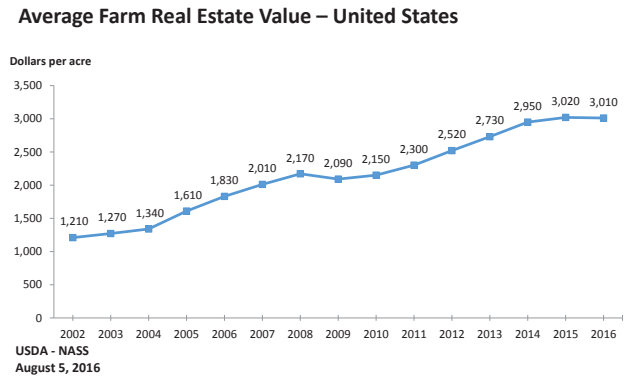
SVN COMMERCIAL ADVISORS, LLC

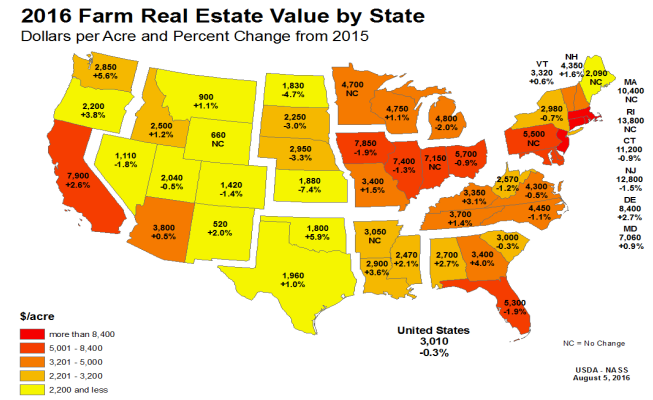
GEORGE GRABENHORST
SENIOR ADVISOR

AGRICULTURAL MARKET UPDATE

LAND VALUES ARE RISING

Last year was a strong year for the sales market in the Willamette Valley for farmland. Prices have risen across the board for cropland as well as pastureland due to the increase in demand for Hazelnuts (filberts), marijuana and a large market of out of state Buyers for vineyard land. Other factors that affect value are: location to the market area, transportation (I-5) soil type, water rights, existing housing and infrastructure. External factors play a part as well, land use laws, right to farm, development of land for non-farm use, governmental regulations and Buyers that are removing property from production for conservation purposes.





Land Values 2016 Summary (August 2016)
USDA, National Agricultural Statistics Service

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Farm Real Estate Value: The value at which all land and buildings used for agriculture production including dwellings, could be sold under current market conditions, if allowed to remain on the market for a reasonable amount of time.

WHAT'S DRIVING THE MARKET:

The interest in agricultural land has always been high for the Willamette Valley. Historically many land sales never see the open market as they are bought and sold within families or by neighboring land owners. Recently, however there is a trend toward more agriculture properties being listed on the open market as farmers retire and their heirs are pursuing different career paths. Additionally out-of- state buyers and foreign investors up by 31% in some counties. These factors continue to push the market upward.

FARMLAND IN OREGON: TRENDS

- Oregon principal operators aged 65 and over grew from 22 percent in 2002 to 35 percent in 2012. They operate 5.35 million acres of Oregon agricultural land.
- Operators aged 65 and older can be divided into retirement farm operators, operating 24 percent of the farms on 1.8 million acres, and non-retirement farm operators, who hold 11 percent of farms on 3.3 million acres.
- Excluding retirement farms, 55-to 64-year-olds operate the most farms (36 percent), with the next largest share (29 percent) operated by 45- to 54-year-olds.
- 97 percent of farms are owned by a family, an individual, or a family-held corporation.
- 84 percent of all Oregon family farms and ranches are owned as sole proprietorships, and only half of Oregon farms have identified more than one operator with management responsibilities.
- Low supplies of high-quality agriculture land is limiting land sale transactions.
- Strong prices for blueberries, hazelnuts and vineyards are supporting land values in the Willamette Valley.
- Rural residential properties are selling faster and for higher prices. Inventory remains low in western and eastern Oregon

RESOURCE: Oregon State University

HOW COMMODITIES CAN CHANGE THE MARKET:

Simple, diversity of production. Oregon produces more than 220 agricultural commodities, so there are always winners and losers any given year. Several top ten commodities dropped in production value in 2015, but still show strong gains over a 10-year period. This can help create a greater stability to the industry overtime; however, commodities prices can make the market uncertain, leaving farmers to use a crystal ball to see which corps will give them the best return over time. Commodities are ranked by value of production to the grower. In 2009 the number one commodity was nursery/greenhouse ($732.6 Million), but for the second year in a row, cattle and calves tops the list with a production value of $914 million, which is slightly down from 2014. However, over a 10-year period beginning in 2005, the value has increased 71 percent. The cattle industry tends to be cyclical, and the strong prices enjoyed the past couple of years are weakened in 2016.

Nonetheless, cattle and calves is expected to be a mainstay at or near the top of all commodities in the foreseeable future. Grass seed has stayed very stable over the years and ranked number 5 in 2015. Easily the most astonishing growth over the years has been the wine grape sector. Just 10 years ago, the production value stood at $36 million. In 2015, it topped $147 million – a whopping 308 percent increase from 2005. No other Oregon agricultural commodity has seen a higher increase. Overall, the swings in production and prices for Oregon crops and livestock have not been tremendously dramatic, with a couple of exceptions. The top 10 and even the top 20 generally contains the same names with a few changes in ranking. Look for that to continue when statistics are tabulated for 2016.

OREGON'S TOP 20 COMMODITIES:

RANK	COMMODITY	VALUE - DOLLAR
1	Cattle & calves	914,324,000
2	Greenhouse & nursery	894,833,000
3	Hay	604,062,000
4	Milk	474,486,000
5	Grass seed	383,972,000
6	Wheat	217,433,000
7	Potatoes	176,450,000
8	Pears	152,497,000
9	Grapes for wine	147,550,000
10	Onions	125,273,000
11	Christmas Trees	123,857,000
12	Eggs	116,161,000
13	Blueberries	104,307,000
14	Hazelnuts	86,800,000
15	Cherries	68,102,000
16	Mint for oils	52,544,000
17	Apples	44,383,000
18	Corn, sweet	39,493,000
19	Blackberries	38,036,000
20	Crab	33,900,000

RESOURCE: Oregon Department of Agriculture

NOTEWORTHY PROJECTS:

Most of the farm land sold are relatively small acreages, 5 to 80 acres. Here are some notable sales, one being the sale of the former Mallorie's dairy in Silverton Oregon totaling 623 acres of which 431 acres is useable for cultivation, will be closed within the next few months.

Mallorie's Dairy in Silverton Oregon

The largest transaction was the sale of 410 acres of land in the Gervais area, which sold for $19,250.00 per acre, for total sales price of $8,000,000.00.

410 acre bare land sale in the Gervais area.

2017 PREDICTIONS:

Supplies are tight, demand is strong and marketing times are tighter for high-qualityagricultural properties in Oregon. Lower cattle prices may impact pasture land values going forward. More land has been developed for permanent crops such as blueberries, hazelnuts and vineyards in western Oregon. Market data supports stable to increasing value for most properties across the state.

SVN COMMERCIAL ADVISORS, LLC

CHAD FREEMAN, CEO
SEDCOR

INDUSTRIAL MARKET UPDATE

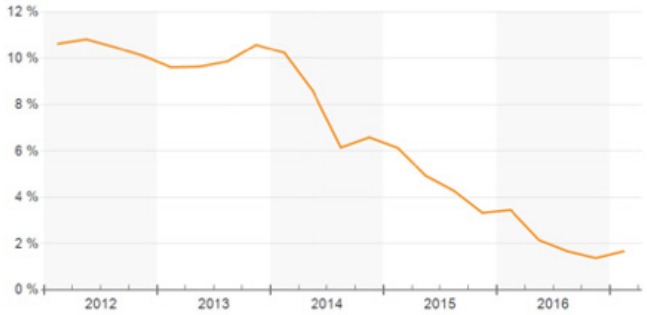
2016 RECAP

After a massive amount of absorption in 2015 the Salem Metro area continued to see a tightening of the industrial market. This led to a vacancy rate of 1.7% for non-owner occupied industrial buildings in the market, compared to 3.5% in 2015. Strong demand, combined with the lack of supply, meant rents predictably rose as well. Market rents currently are above $5.80 per square foot, per year, a net increase of 30% since the end of 2014.

The combined forces of low vacancies and increasing rents have led to an increase in development regionally, as well as in Salem. The larger projects representing this new development include: Specht Development continuing to move forward with their project in Woodburn bringing over one million square feet of new space to the market, a new PacTrust development at Mill Creek Corporate Center in Salem with several buildings of 50,000 sq. ft. or larger, and the planned Oak Grove Industrial Park adjacent to the new State Police facility with five(5) buildings ranging from 16,800 to 20,000 sq. ft each .

In addition to this new development space planned in the market, we are seeing a significant increase in occupied buildings being constructed. As of the end of 2016 there is over 500,000 sq. ft. of industrial space currently under construction. Henningsen Cold Storage is building a new facility at Mill Creek Corporate Center. This 40 acre project broke ground in July and the first phase, a 186,000 sq. ft. cold storage facility is expected to be completed by May 2017. Breaking ground this year as well was the new Wilco/Oregon Hazelnut facility in Donald, Oregon (226,000 sq. ft.), and new industrial space in Hubbard representing 70,000 sq. ft. Due to the additional development deals pending in the market we expect 2017 to be a big year for the construction of industrial space.

INDUSTRIAL VACANCY RATE



NET ABSORPTION

We have seen the absorption rate return to a more normalized rate after the previous two years. In 2016 the market absorption was approximately 280,000 sq. ft. This is about half of the average for the last five years and a bit more representative of the marketplace. Currently the Salem Metro market has about 290,000 s.f. vacant, almost exactly the number which was absorbed last year. This speaks to the lack of choice for companies looking at new facilities in the region.

The Salem Metro market represents a little over 21,000,000 sq. ft. of industrial space total with the new projects going on in this region we could see an increase of almost 10% in total available building square footage in the market. While a significant part of the new inventory will be owner occupied, this will clearly have an impact on both absorption rates and the market as a whole.

RENT OVERVIEW

Rents continue to push upward with the lack of inventory and continuing demand. Industrial asking rents have escalated to $.5.80 per square foot, per month. As mentioned earlier this represents an increase of 30% from just two years ago. We expect to see rental rates continue to grow, but the rate of increase may slow due to the new construction on the horizon.

ASKING RENTS SALEM METRO

RESOURCE: COSTAR

Based on the low vacancy mentioned earlier it should come as no surprise that the strong majority of the vacant space in the market is classified as Class B or C. The new product being developed is expected to be Class A which may serve to increase the average rental rate in the region as well.

Rents for new Class "A" industrial buildings constructed in the past 24 months range from $.48 to $.56 per square foot, triple net. This is up from $.38 to $.42 per square foot just four years ago. Portland currently has over two million square feet under construction, or in the development pipeline, largely fueled by institutional developers like ProLogis or Trammel Crow. The valley needs any new construction to absorb immediately to get these developers to consider anything of scale in our market.

MARKET QUICK FACTS

AVAILABILITY	SURVEY	5-YEAR AVG
RENT PER SF	$5.51	$4.43
VACANCY RATE	1.40%	7.20%
VACANT SF	293,574	1,518,873
AVAILABILITY RATE	1.70%	8.70%
AVAILABLE SF	353,289	1,854,799
SUBLET SF	0	15,128
MONTHS ON MARKET	7.4	17.5

The Market Quick Facts show a sub-market that is out of balance from a supply and demand standpoint. Without new industrial inventory the supply will not exist for local businesses to expand and companies from outside the area have no options to locate within the valley.

That also puts upward pressure on the value of existing buildings both for sale and for lease. Asking prices and asking rents will continue to climb until supply and demand are back in balance.

NOTEWORTHY PROJECTS

HENNINGSEN COLD STORAGE

- 204, 500 sq. ft. - Phase One
- 607, 700 sq. ft. - All Phases
- 33.35 acres

WILCO DONALD PROJECT

- Wilco Farm Cooperative merged with Hazelnut growers of Oregon (HGO)
- 170, 000 sq. ft.

PAC TRUST PROJECT

- 49,000 & 67,000 sq. ft. - Phase One
- Six buildings total
- Mill Creek Corporate Center

SVN COMMERCIAL ADVISORS, LLC

RYAN IMBRIE, CCIM
SVN NATIONAL RETAIL PRODUCT COUNCIL CHAIRMAN

RETAIL
MARKET UPDATE

2016 RECAP

Based on CoStar data, the 2016 retail vacancy rate in Marion County encountered a 0.1% increase in climbing to 5.6% from 5.5% in 2015. The market currently has 2,030 buildings representing approximately 20 million SF of space. In the past year the market has seen positive net absorption of 28,000 SF, a significant reduction from the 193,112 SF absorption in 2015. Retail construction continues to be seen in the market but still at a much lower pace than over the past decade. Currently we are seeing 35,000 of construction in the market. In 2016, Marion county leasing recorded 111 leases throughout the year representing a total of 356,345 Square Feet.

VACANCY & ABSORPTION

Quarter	Vacant Percent % Total	Net Absorption SF Total
2016 Q4	5.6	57,801
2016 Q3	5.6	-68,311
2016 Q2	6	107,189
2016 Q1	5.7	-69,030
2015 Q4	5.5	95,319
2015 Q3	6.2	7,415
2015 Q2	6.2	72,183
2015 Q1	6.2	18,195

RESOURCE: COSTAR

RETAIL INVESTMENT OVERVIEW:

The total number of retail investment sales in the Salem-Keizer market during 2016 over $1,000,000 totaled 11 properties. This activity reflects $41.4 million in transaction volume. The price per square foot for these properties varied wildly with the lowest price per square foot reflecting $40 for the Big Lots along Lancaster Dr NE and the highest price per square foot being $1,089 for the Dairy Queen on Lockhaven Drive NE. The capitalization rates for single tenant assets in the market benefited sellers in 2016 - the Key Bank in Keizer traded at a 4.4% CAP. The highest reported CAP rate of the 11 properties was 6.75%.

Since the November election, we have seen the cost of debt increase significantly. The 10-year treasury has increase from a low in July 2016 of 1.34 to high of 2.62. Many debt markets rely on the treasury index as a basis for debt. An increased of over 100 basis points is having a negative impact on the interest rates borrowers rely on. We may experience CAP rate softening based on this changing dynamic in the market.

2017 PREDICTION

Nationally, we should expect a slowdown in the retail investment market in 2017 driven primarily by the impact of higher interest rates coupled with the continued impact of e-commerce sales. CAP rates are expected to stabilize or post a small increase from 2016. This year we can also expect to see several retailers continue to struggle to survive. In January Sears announced the closing of 108 Kmart and 42 Sears stores, and Macy's will close 68 stores by mid-year. In Oregon and Washington we will be losing three Macy's, one Kmart and one Sears. The Limited also announced they will be closing all 250 stores nationwide slashing 4,000 jobs. One cause for this, according to Costar, is that retail sales per square foot have continued to decline over the last decade. A decade ago the publicly traded companies Costar tracked had retail sales that exceeded $350/sf. The same retailers today are generating sales of less than $330/sf. Another trend in 2017 is that Retail REITs will continue to shed more of their secondary and tertiary investments as they turn their focus to core properties.

This past year, the Salem retail market benefited from the addition of several new anchor tenants bringing vibrancy back to under-performing properties. New construction remains driven by tenant demand with developers only breaking ground when significant pre-leasing has taken place. In South Salem, Wilco successfully navigated the challenges of deed restrictions and opened in the former Safeway on Commercial St. SE. Chipotle and Panda Express co-located in a new development in front of Northern Lights Theatre Pub and Cash & Carry opened their second market location next to Tupper's Furniture and Walmart off South Commercial. Starbucks will anchor the new three tenant development on South Commercial just south of Roth's Vista Market. In Keizer, Schoolhouse Square added B-Fit Fitness and is constructing a new multi-tenant strip center in the parking lot to be anchored by Jersey Mike's and Human Bean. Rumors in the Keizer planning department is that the former Roth's space at Schoolhouse Square may be converting to a roller skating rink. The Keizer Creekside property in which Albertsons vacated has been acquired by WinCo who will be putting a Waremart into the space. And Holiday Inn Express is poised to construct an 80 unit hotel at Keizer Station in 2017.

In East Salem the Lancaster Mall is poised to embark on a complete retrofit which will turn the design inside out - providing a fresh look to the mall. In addition they will be adding 150,000 sq. ft. of anchor and junior anchor space and three new pad locations. In the Lancaster Center East, The Salvation Army Family store opened in August.

In Downtown, Starbucks is set to open their new flagship store - their third in the last 12 months in the market - at Church & Ferry Streets and Pacific Office Automation is set to retrofit the building at 260 Liberty St. NE for third quarter occupancy.

NOTEWORTHY PROJECTS

SILETZ TRIBE
4675 PORTLAND RD.
20 ACRES. - $12.3M

KEIZER WINCO/
WAREMART
4675 PORTLAND RD.
35,922 SQ FT. - $2.02M

STARBUCKS ANCHORED
6,300 SQ FT.

DOWNTOWN STARBUCKS
205 CHURCH ST SE

LANCASTER MALL
ADDING 150,00 SQ FT.
& 3 PADS

PACIFIC OFFICE
AUTOMATION
260 LIBERTY ST NE
2017 OCCUPANCY

GOODWILL - WEST SALEM
JERSEY MIKES/CARL'S JR.

HOLIDAY INN EXPRESS
KEIZER STATION
80 ROOMS

OAK HILLS MALL
1495 EDGEWATER NW
132,982 SQ FT.
$12.25M (7/16)

PACIFIC BUILDING
$2.8M (8/16)
8.58% CAP

SVN COMMERCIAL ADVISORS, LLC

KATHERINE POWELL BANZ, MAI
PRINCIPAL AND CERTIFIED GENERAL APPRAISER

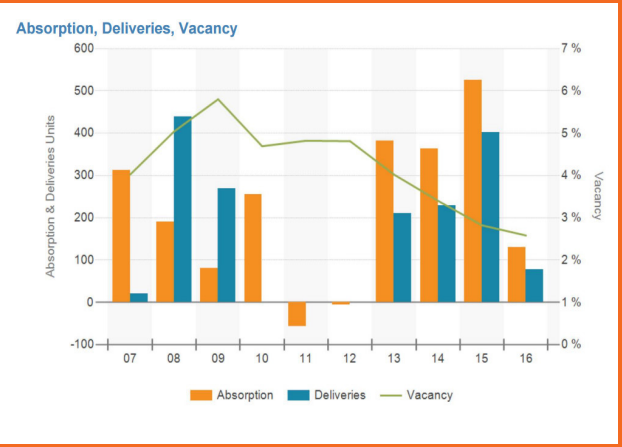
INVESTMENTS & MULTIFAMILY MARKET UPDATE

2016 RECAP

The multi-family sector continues to outperform other property types in Salem/Keizer and throughout the Willamette Valley. This is most evident in the current vacancy rate of 2.6% and rent increases across all unit types.

A slight uptick in vacancy was reported via CoStar as of January 2017. However, interviewed market participants and property managers report continued decreases in vacancy, with nominal turnover and waiting lists for available units.

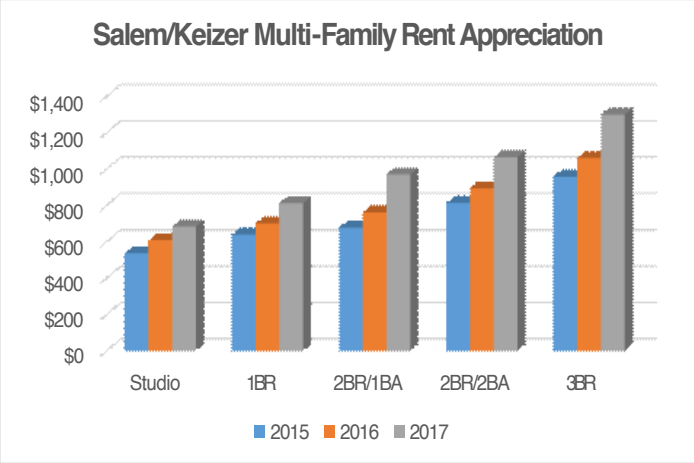
Absorption continues to outpace deliveries, with all units brought to market effectively absorbed in the past four consecutive years. With continued low vacancy, new units are absorbed quickly, exceeding the market norm of 12 units per month, reflecting a continued imbalance of supply and demand in this sector. Demand remains high for additional inventory.



To help offset the imbalance of supply and demand, developers continue to bring new projects to the market. 1,372 multi-family units are in various stages of planning and construction. This includes the recently completed South Block Phase II, seven multi-family projects currently under construction totaling 652 units, and six multi-family projects totaling 657 units in the planning phase with construction anticipated for 2017 (82 units in 2018)

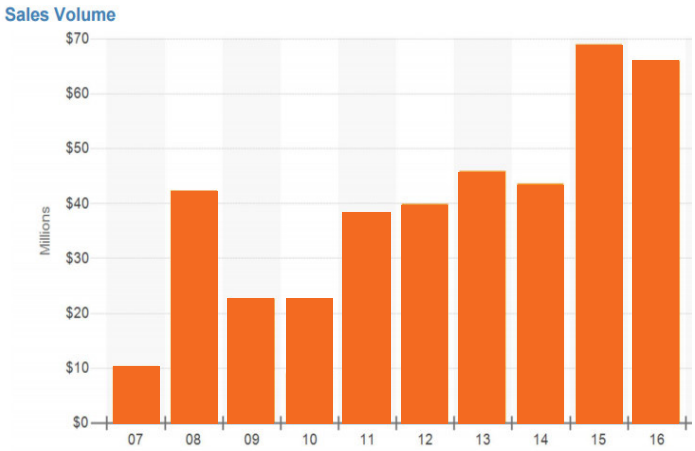
Salem/Keizer continues to be in catch-up mode. Rent appreciation averaged 19% over the past year, with 2BR/1BTH units capturing the highest increase of 27%. 3BR units followed suit at 23%.

The disparity between median family income and rent appreciation is increasing and will likely prove to be unsustainable over the long term. With rents increasing year over year, renters are beginning to pursue other living arrangements such as moving back home or doubling up.



Nearly 70% of newer projects (post 1990) are also benefiting from utility reimbursements in the form of third party billing or flat fees, which generally range from $20 to $50+ per unit per month. Mature complexes are slower to implement this additional revenue source, noting roughly 75% continue to bear the burden of utility expenses.

Sales volume decreased slightly in 2016, registering $66 million, versus $69 million in 2015; however, the most recent period remains significantly higher than prior years.



The average sale price was $70,040 per unit in 2016, comprised of 42 transactions totaling 931 units. This reflects a slight decrease when compared to the prior year. 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.

Marketing periods remain less than six months, on average. The average Salem/Keizer multi-family capitalization rate was 6.39% in 2016. Source: Powell Banz Valuation, LLC

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-2017 due to the upcoming deliveries such as Keizer Station Apartments (Keizer), Hyacinth Street Apartments (NE Salem), and River Valley Terrace (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.

NOTEWORTHY PROJECTS

ELIZABETH ST. APTS, KEIZER

- Highest Price/Unit Apt Sale in 2016
- October 2016
- $1,650,000 / 12 Units
- $137,500/Unit
- 6.83% Capitalization Rate

CHURCH ST. COTTAGES, SALEM

- September 2016
- $720,000 / 6 Units
- $120,000/Unit
- 6.4% Capitalization Rate
- Resale after 2015 purchase and significant upgrades

FAIRMOUNT PARK APTS, SALEM

- September 2016
- $4,950,000 / 44 Units
- $112,500/Unit
- 6.18% Capitalization Rate
- Full price less credit for repairs for slippage in uphill units

SOUTH VISTA APTS, SALEM

- August 2016
- $3,350,000 / 30 Units
- $111,667/Unit
- 6.32% Capitalization Rate
- Prior sale in 2013 equates to price appreciation of 16.60% per year

SVN COMMERCIAL ADVISORS, LLC

CURT ARTHUR, SIOR
MANAGING DIRECTOR

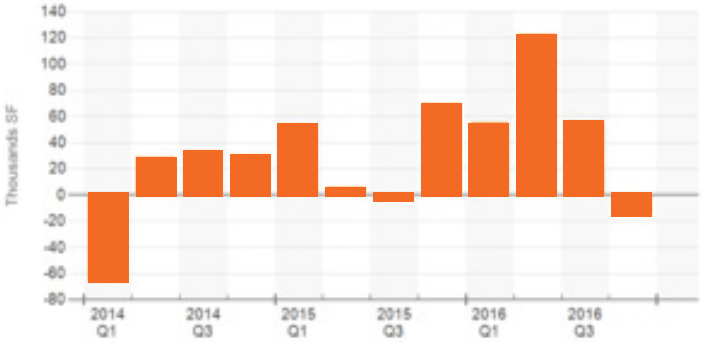
OFFICE MARKET UPDATE

2016 RECAP

In our survey of close to 540 non-owner occupied office buildings of 3,000 square feet and larger the vacancy factor finished the year at just 7.5%. This is down from 9.1% in 2015.

The Salem/Keizer market showed positive absorption of space in the amount of 169,287 square feet in the last 12 months.

NET ABSORPTION

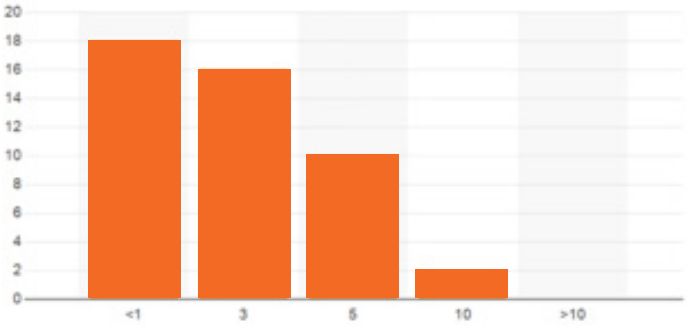


RENT OVERVIEW

Rents continue to surge forward with the lack of new product hitting the market and little construction on the horizon. Class "C" asking rents continue to struggle at $1.36 per square feet, per month, full service but Class "A" asking rents downtown are strong with full service lease rates ranging from $1.75 to $2.45 per square foot.

With the improving market, concessions have been virtually eliminated in all but the hardest to lease locations in the market. New leases in second generation, or older, spaces is averaging $6 to $20 per square foot. New buildings, what few of them we have, seem to be giving up to $5 per square foot, per year of term. This encourages Tenants to seek longer term leases to secure the improvements they need.

LEASES BY TERM LENGTH *(IN YEARS)*



This graph from CoStar shows all reported office leases by length of term in 2016.

SALES VOLUME

Leasing activity for 2016 was the highest on record with 137 office and medical building leases completed for a total of 289,674 square feet. The highest concentration of leasing was done in the Central Business District and in South Salem. Highlighting the year was the 14,760 sq. ft. lease to move the Statesman Journal headquarters from its downtown home it sold late in the year to the top two floors of the Vista340 building in South Salem.

The sales volume for office building last year saw 46 properties change hands for $22 million which is far above last year's mark of just $7.5 million and above the 5-year average of $19 million per year per year. The average sales price for the year was $110 per square foot compared to $132 per square foot in 2015.

CENTRAL BUSINESS DISTRICT:

Park Front LLC and Marquis Companies both are launching developments on the North Block in downtown Salem in 2017. Park Front a 4-story 27,000 sq. ft. office building anchored by Huggins Insurance and Marquis a 52-bed skilled nursing facility. Both developments are estimated at a combined $22 million and will bring 100 jobs to downtown Salem. The Statesman Journal's building sold and is planned for 88,000 sq. ft. of office space.

MEDICAL

Currently under construction is the two-story 42,000 sq. ft. Boulder Creek South building on 12th Street SE to be anchored by Northbank Surgical Center, affiliated with Surgical Care Affiliates.

STATE OF OREGON

2016 was a very quiet year on the leasing front from the State of Oregon. The State leases approximately 1.2 million sq. ft. of privately held office space in the market. The biggest activity was SAIF Corporations (quasi-private State workers compensation) temporary move into more than 100,000 sq. ft. on the Salem Parkway, from a lease executed late in 2015, as they complete a massive retrofit of their headquarters on High Street SE.

The State is currently in the first phase of looking for more than 60,000 sq. ft. for the Department of Justice from an announcement dated December 8, 2016.

MARKET STATISTICS

The office market is very close to being paralyzed by lack of space and Landlords are set to reap the benefits until the development world responds with strategic new development to satisfy the demand. No new construction correlates into higher market rents for existing properties and fewer, if any, concessions being granted in current lease negotiations.

Capitalization rates for office buildings, used to calculate investment returns on leased investment properties, have seen a slight uptick with interest rates slowly rising. The current average is 7.75% but is dependent on location, strength of tenant and of the cash flow stream with some sales pending at sub-7% rates.

2016 FULL SERVICE OFFICE RENTS BY CLASS

- *Class "A" Downtown Average Rent - $1.96 (+1%)*
- *Class "A" Suburban Average Rent - $1.84 (Unchanged)*
- *New Medical - $2.30 to $2.80 (+3%)*
- *Class "B" - $1.54 (+4%)*
- *Class "C" - $1.38 (+2%)*

Source: SVN Commercial Advisors, LLC

2017 PREDICTIONS

Our prediction of vacancy rates likely to plummet to sub-5% one year ago did not exactly come to fruition but vacancies declined by 17.1% in the last year. Very strong performance indeed! Asking rents will continue to climb as little new product will hit the market in the coming months. Projects like the rehabilitation of Vista340 – a complete renovation of the 4-story, 27,000 sq. ft. office building at Commercial and Vista, and the Park Front development should see strong success.

At present there are only two (2) office vacancies of any quality in excess of 20,000 square feet in the market. This will make it difficult for larger companies to locate or expand within the market in the coming year.

NOTEWORTHY PROJECTS

FRANKLIN BUILDING
495 STATE STREET, SALEM - SALE
Size: 33,830 SF
Price: $4,500,000 ($133.02/SF)
Date: April 15, 2016
Seller: ECO Franklin, LLC (Sides)
Buyer: Gwynn Family Trust

BEFORE AFTER

340 VISTA AVE SE - SALE & LEASE
Size: 25,861 SF | Size: 14,760 SF
Price: $1,600,000 ($61.87/SF)
March 30, 2016
Seller: Machugh et al
Buyer: Vista 340 LLC
Tenant: Statesman Journal

THANK YOU FOR ATTENDING

We are proud to bring you today's event and appreciate your attendance. As the leading provider of commercial real estate services in the Mid-Willamette Valley, our firm is committed to providing our clients and community with the best professional representation and market information. We strongly feel that an educated community makes better economic decisions and hope today's event has armed you with the market knowledge you need for success in 2017.

We sincerely appreciate the support from our community partners who have helped make this event possible. We encourage you to patronize their businesses whenever possible. ***Please watch our website for a link to download today's program that you may share with your clients.***

THANK YOU

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SSJH — Sherman Sherman Johnnie & Hoyt, LLP — Attorneys at Law

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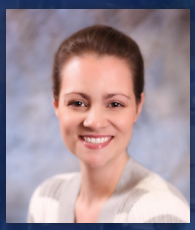

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