



The largest industrial transaction in the market since 2010 saw Diamond Foods, Inc., parent company of Salem-based Kettle Chips, lease 242,835 square feet on Oxford St. SE in Salem from Salem Watumull, LLC for their new logistics and distribution warehouse.

This issue

- Industrial Update P.1
- Office Update P.2
- Agriculture P.3
- Salem Office Advisors P.4
- Retail Update - Insert

INDUSTRIAL TRANSACTIONS

Diamond Foods Lease – 242,000 SF

The marquis transaction in the market during 2014 was the distribution warehouse lease to Diamond Foods for their subsidiary Kettle Chips in the former Seneca Cannery building at 1745 Oxford St. SE in Salem. This former cannery building will receive significant upgrades to bring it to current warehouse standards. The improvements are scheduled to be complete in the fall of 2015.

Oregon State Police Build To Suit – 190,000 SF

Located close to Kuebler Blvd. and I-5, this new facility will allow the State Police to locate their headquarters within two miles of their existing training facility and will be less than one minute to Interstate 5.

Former Neilsen Manufacturing Sale – 182,233 SF

Mountain West Investment Corp. acquired the site at 3501 Portland Road for \$3,600,000. The property will become the new CTE (Career Technical Education) Center for the Salem/Keizer School District. The district will expand over the coming years to incorporate programs which presently exist within many of the area high schools.

INDUSTRIAL MARKET

Curt Arthur, SIOR

The industrial market surged in 2014 with more than 200,000 square feet of positive absorption dropping the overall vacancy rate to 6.7%.

The average asking rental rate for industrial and flex properties in Salem as of December, 2014 was \$.62 per square foot modified gross. This represents a 27.2% year-over-year increase in asking rents. The average rental rates in Marion County are 23.7% higher than the same time last year at \$.58 per square foot. Traditional warehouse leasing of 10,000 square feet and larger saw completed lease rates range from \$.25 to \$.42 per square foot, triple net, in 2014.

Negotiations are underway for the single largest vacancy in the valley, the 151,000 square feet at 1745 Oxford, the former Seneca Cannery site. If this lease is completed, it will mean only one warehouse space in excess of 20,000 square feet will remain within a 30 mile radius of Salem. Because of this, the market appears ripe for new construction. Vista Property Investments, LLC recently announced plans to build Cascadia Industrial Park in southeast Salem in 2015. This

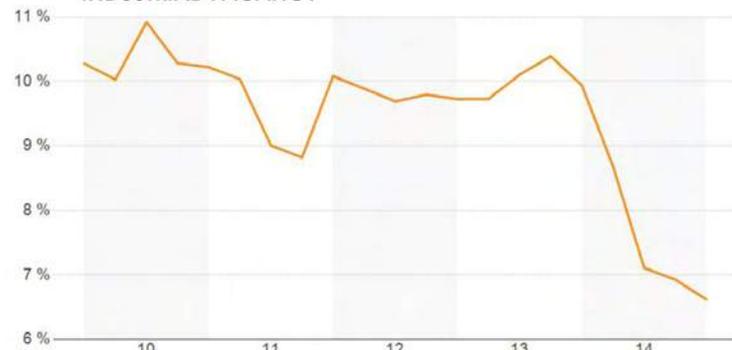
48,000 square foot building has asking rents of \$.58 per square foot modified gross.

Average asking prices for industrial properties for sale rose during the previous 12 months by 7.4% from \$67 to \$72 per square foot. Prices peaked at \$102 per square foot in 2008.

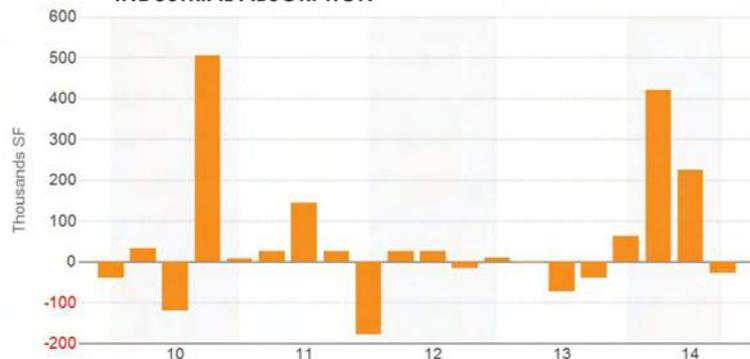
The outlook for 2015 should include positive news at Mill Creek Corporate Center which we hope will include speculative new construction to keep up with demand.

Expect a big jump in rents in the coming year and vacancy falling to under 6%.

INDUSTRIAL VACANCY



INDUSTRIAL ABSORPTION



FEATURED LISTINGS

For more information about these or any other office properties in the market, call Curt Arthur, SIOR at (503) 588-0400.

340 Vista Avenue



This marquis South Salem office building, located on South Commercial, consists of three floors and a basement with an available 27,276 SF. This building has many recent upgrades including parking lot resurfacing/stripping and installation of new HVAC rooftop units.

Lancaster Mall



Leasing 500 to 13,234 SF, this two-story building has great office and retail space available. Renovated in 2001, Lancaster Mall has grown to become the Mid-Willamette Valley's largest enclosed shopping complex.

Kuebler Gateway



From 3,000 to almost 11,000 square feet available with great parking, this brand new medical facility is located adjacent to Kuebler Boulevard with easy ingress/egress to Interstate 5.

2073-85 Commercial St. NE



Lease/option available for this 3,120 square foot building in North Salem with tremendous signage and parking. Building can be demised to 1,900 or 1,200 square foot suites.

OFFICE MARKET

Curt Arthur, SIOR

After several years of strong post-recession recovery, there was weaker overall leasing volume in the office market with no new construction starts in 2014. Bright spots did emerge, however.

The demand for large blocks of space continues at a strong clip. Office availabilities larger than 20,000 square feet numbered well over a dozen in mid-2012. Currently, only five availabilities remain in the market for tenants to choose from and only two of those have above-average quality.

Total leasing volume for 2014 finished at \$12.56 million compared to \$17.37 million in 2013 according to Willamette Valley Multiple Listing Service. The total number of lease transactions did increase from 46 to 51. The average full-service lease rate is \$1.59 per square foot which held steady from last year.

Sales activity remained strong for the year. The marquis transaction for 2014 was the sale of Park Center South at 201 High St. SE

by Regence to Beardsley Building Development. This seven-story building sold December 26th for \$10,000,000 (\$98/SF). Immediately upon the close of escrow, the seller leased back the 14,534 first floor and three tenants from the State of Oregon completed leases for the remainder of the building.

Mid-Valley IPA, Inc. purchased 14,826 square feet at 2465 Ryan Drive for \$2,300,000 (\$156/SF) from The Doctor's Company.

The vacancy rate declined to 12.2% in our review of close to 7.5 million square feet in the market.

This is down from over 17% in 2013.

One pending lease of more than 59,000 square feet in the first quarter of 2015 will push the vacancy to around 11.4%. While leasing has been strong for spaces of 5,000 square feet or more, activity remains soft for vacancies of 1,500 to 5,000 square feet.

Developers feel too much inventory still remains to justify new construction in 2015.

OFFICE OUTLOOK

With the exception of a strong first quarter, expect 2015 to be a relatively flat year for leasing volume. The State of Oregon is in the market with only one requirement for more than 20,000 square feet, down significantly from past years. The biggest news in the office market may

be the temporary relocation of the Oregon State Capitol pending a vote from the current legislature. If approved, the state has already

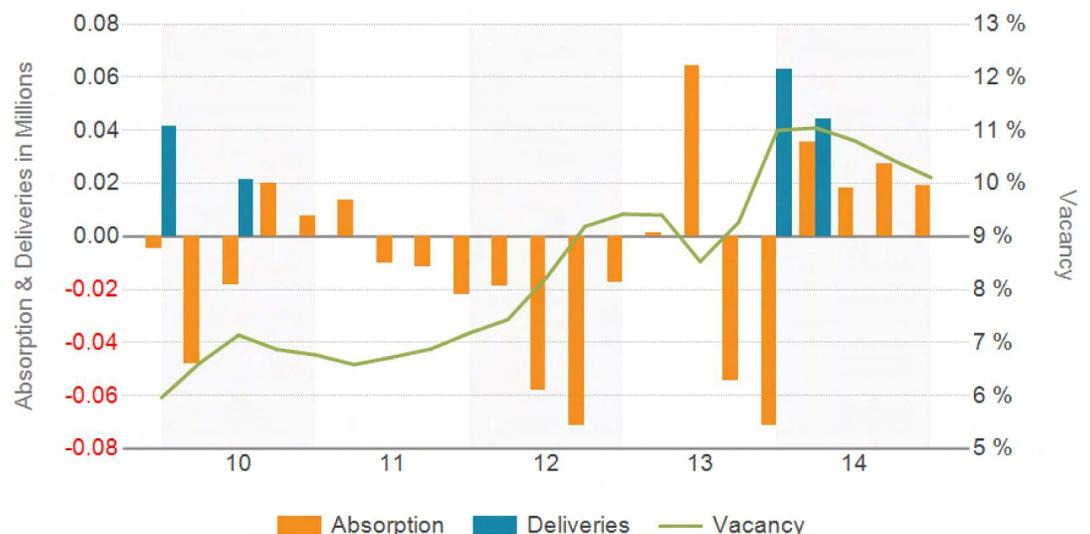
former Public Utility Commission building at Capitol and Marion as the replacement.

We should see modest positive absorption of space in the coming year which should spur enough additional rent growth for developers to consider new construction that could come on line by 2016/17.

\$1.59
Average Asking
Rent Per Sq. Ft.

12.2%
Vacancy Rate

OFFICE ABSORPTION, DELIVERIES & VACANCY



NOTEWORTHY PROJECTS

The following retail projects were recently completed or are underway in the market.

Firehouse Crossing



Firehouse Crossing, the three-building project in South Salem, will house Verizon, MOD Pizza, Qdoba, and Jersey Mike's Subs. Lease up of the remaining spaces continues.

Gustav's Bier Stube



Gustav's, best known for their German food and fantastic Happy Hour will open its first Willamette Valley location at Keizer Station later this year.

South Salem New Construction



CD Redding successfully completed construction of a new 4,105 square foot building in 2014 to house Salem's first Panera Bread and Parklane Mattress.

Roth & McGilchrist Redevelopment



Doug Doty and Gayle Caldarazzo-Doty completed their legacy project in 2014 with the successful renovation of the Roth & McGilchrist buildings in downtown Salem, with newcomers Archive, Ricky's Bubbles and Sweets Shoppe and Gayle's Italian Market.

RETAIL MARKET

Jennifer Martin, CCIM

South Salem

In South Salem, there was significant change in the vacancy last year, from 11.4% to 8.5% this year, but the entire 30,000SF of positive absorption can be attributed to the former Safeway sale that completed in October. Last year, the former Weathers Music site was redeveloped and is now the home of Salem's first Panera Bread and Parklane Mattress. 2015 will bring the completion of the redevelopment of the Power Auto lots at Commercial and Hilfiker. This new 15,000SF+ project will be the new home for Qdoba, MOD Pizza and Jersey Mike's Subs...all Salem firsts. There continues to be high demand in this area, with relatively little inventory meeting today's tenant expectations. Rents continue to rise in this trade area, which is the only subsector seeing significant rent growth.

East Salem

The Lancaster Drive corridor (East Salem trade area) saw almost no change in 2014, from last year's 10.9% vacancy to this year's 10.6%. Very few significant transactions have occurred in this trade area in the last year. Red Robin's announcement to relocate to the former Old Navy space at Lancaster Mall is likely the most significant news, and because that is a relocation versus an expansion, there is no positive effect on the vacancy numbers. The pad building at Oak Park Plaza (Safeway at Silverton Road) with Jimmy Johns and Papa Murphy's is a great addition to that center. The anomaly in the marketplace continues to be the excess vacancy at Academy Square. That property's proximity to Lancaster Mall, and attractive leasing rates should be generating more activity than it has in the last three years.

Central Business District

The Central Business District was the surprising hot spot in 2014. The survey size of approximately 400,000SF of ground floor retail space (not including Salem Center or national-type properties) has always lagged the overall market. In 2013, there was almost 50,000SF vacant, for a vacancy rate of 12.5%. At the end of 2014, on the heels of positive absorption at Liberty Plaza, the former French Unicorn, Pete's Place, and Clockworks, the vacancy rate plummeted to 5.2%. Add to that the return of the Roth & McGilchrist buildings to the market following a multi-million dollar renovation by the Dotys, and downtown is becoming the shining star in the market. The apartments at Pringle Square South and the additional 250 people it will bring who are residing on the fringe will definitely alter the face of downtown.

	VACANCY	RENTS	CONSTRUCTION	ABSORPTION
2014	↓	↕	↕	↑
2015	↕	↑	↑	↑

West Salem

In West Salem, absorption of a portion of the former Blockbuster, as well as some of the remaining vacancy at Westgate Shopping Center and Edgewater Crossing helped lower the vacancy to 5.1% from last year's 6.9%. There is a new project planned for just over three acres at the intersection of Edgewater and Wallace, which, if it proceeds, will bring a new 23,000SF retailer to West Salem with planned pad buildings of approximately 9,500SF. The property is under contract by a buyer at this time and is scheduled to close late spring. The largest remaining vacancy in the market is 4,282SF at Edgewater Crossing.

North Salem/Keizer

In the North Salem/Keizer subsector, vacancy lowered to 11.5% from last year's 12.68%, primarily on the heels of leasing at Keizer Station and at 2500 Liberty (Starbucks anchored). There is a growing discrepancy between the rents at Keizer Station and along River Road, as Landlords on River Road continue to fight for the tenants who remain in that area. The vacancy at Keizer Schoolhouse Square (over 65,000SF), accounts for over 50% of all the vacant space in this area. Newcomers to the market in 2014 and announced for 2015 at Keizer Station include Taco Bell, Chipotle, Gustav's, REI, Maurices and Carhartt.

RETAIL MARKET

Jennifer Martin, CCIM

2014 RECAP

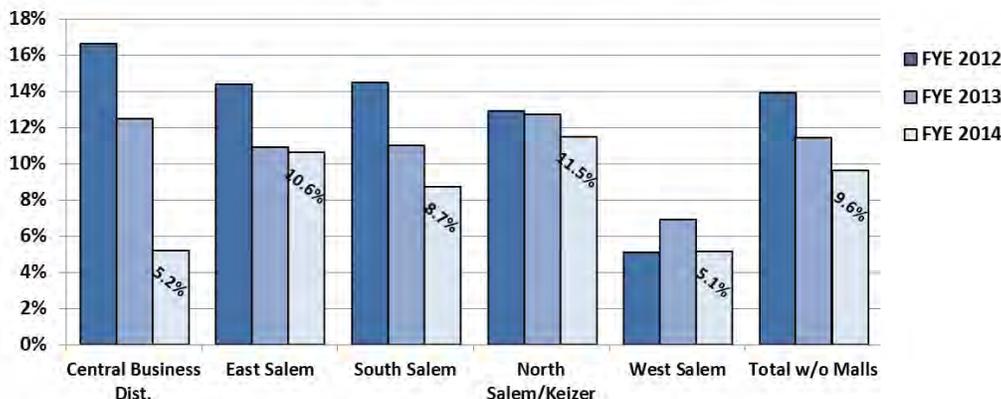
Overall, 2014 was a good year in the retail sector. After starting the year at 11.4% vacancy, the market absorbed almost 80,000SF of vacant retail space to end the year at an overall vacancy (not including the malls or owner-occupied box stores) at 9.6%. Every subsector showed positive absorption. Just four years ago, the vacancy was more than double that amount, and in the last five years, we have absorbed almost 450,000SF of space—an amazing number for a market of our size. Even more amazing is the absorption of large box stores over the past three years. Today—if a box user said, “I want to open a store in Salem next month. Please show me all your options of 25,000SF of space or more.”—the answer would be—there are none. This is a double-edged sword...bad because there are no spaces to accommodate newcomers to the market—but good because we are going to finally see some upward rent pressure as spaces turnover, which will finally make new construction feasible. This will also put some upward pressure on land values for undeveloped or underdeveloped parcels of land that are large enough to accommodate such users. Additionally, in reviewing the past five years of data, there are some spaces and/or buildings that have always been vacant. What that means is that there either is a lack of proper amenity (visibility, signage, parking, retail synergy) to make the option viable for tenants in the market, implying functional obsolescence, or the ownership may have unreasonable expectations for rent.

Drilling down to some significant subsector news, downtown was the surprising sector for 2014, with newfound single digit vacancy for their ground floor, non-owner occupied retail spaces. The delivery of the Roth & McGilchrist buildings to the marketplace has created a catalytic buzz in downtown—one that has been needed for a long time. Those new tenants, in addition to some absorption at Liberty Plaza and the former Clockworks helped with the vacancy. In south Salem, the former Safeway has finally sold and we all hope that Wilco will begin their remodel of that property soon to add to the renewed vibrancy of the Vista area of Commercial Street SE. A number of new tenants are on the docket for 2015 openings at Keizer Station which keeps construction vibrant at that center. A few pads and mid-box opportunities remain.

2015 PREDICTION

In 2015, I expect that leasing volume will actually decrease and that absorption will slow. Most landlords have adjusted pricing to appropriate levels and at this point in time, I am beginning to see a lack of demand for space in the areas of town where there are vacancies. South Salem will continue to be hot, but there is dwindling product. I expect to see construction of at least one mid-box store in south Salem in 2015, and potentially some additional announcements of new construction to begin in 2016 with preleasing later this year. The Lancaster Drive area has a number of viable options for small to mid-sized retailers, all priced appropriately, and landlords will continue to fight in this area for the limited number of qualified tenants looking to locate in that area. In downtown, I hope that the project slated for the former McMahan’s site will finally break ground, and the redevelopment of the Shire (Delon auto) properties should begin to take shape.

Vacancy Comparison FYE2012-FYE2014



RETAIL LISTINGS

Please contact Jennifer Martin for information on these listings, or to learn about other tenant opportunities in the market.

Lancaster Promenade



- 931 – 2,520 SF
- \$1,250 – 3,400/Month NNN

Cherry City Center



- 2,738 - 3,981 SF
- \$13 – 17/SF NNN

Edgewater Crossing



- 1,126 – 4,282 SF
- \$16 – 20/SF NNN

Market Square



- 1,298 – 3,508 SF
- \$14/SF NNN

Triangle Square



- 3,492 SF
- \$14/SF NNN

AGRICULTURE

George Grabenhorst

There is a new surge in demand for agricultural land in the Willamette Valley. With limited access to water, and water rights becoming very scarce in California, agricultural ground is drawing not just farmers but investors into the market as well. Blueberries, filberts and hops are the targeted crops.

Land with water rights and good soils are increasing and pushing asking prices up toward the \$15,000 per acre with most sales closing in the \$10,000 to \$15,000 per acre range. The one limiting

factor however, is the lack of available land coming to the market. The farm community is a very close knit group and many farms never come to the market, but are sold within that community.

However, with the values increasing and many farm families aging and the lack of interest from the younger generation, we may see more land coming to market in the years to come. In any case, the market will continue to be tight for the new buyer or investor

and being in a position to move quickly will be paramount to doing deals. In 2014, 120 acres sold in Stayton for \$12,000 per acre and a 226 acre site just outside Salem sold for \$9,000 per acre.

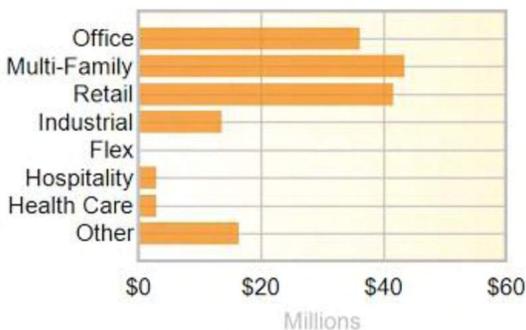
Land values for non-irrigated farmland has been holding their own in the \$4,000 to \$7,000 per acre range with a notable number of small parcels' coming to market. Larger parcels of over 50 acres are difficult to find.

INVESTMENTS

Jennifer Martin, CCIM

The investment sales market for the Salem/Keizer area was robust in 2014. According to CoStar, 135 transactions were completed for a total sales volume of \$157 million, an average transaction size of approximately \$1.16 million. Multi-family led the way with \$42 million in sales, trailed closely by retail at \$40 million and office at \$35 million. Just over 2.5 million square feet traded hands in 2014. The top transaction in the market was the sale of the Village East Shopping Center in East Salem (Ross, Salem Book Bin and Big Five Sporting Goods) for \$17.5 million, sold by RP Realty Partners and acquired by market newcomer Tourmaline Capital. The property was acquired by RP at the height of the market in 2006 for just short of \$20 million. Another top transaction was the sale of the former Regence building in downtown Salem for \$10 million, the buyer of which is also market newcomer Beardsley Building Development. Because the cost of capital remains so low, there is excess cash in the market right now chasing the modicum of high-quality inventory that exists in the market. Well-priced assets in a good location with a solid rent roll and remaining term are often sold within 20-30 days of listing. Capitalization rates are trending in the pre-recession range, but most experts are predicting a rise in interest rates, which will put upward pressure on capitalization rates. Multi-family capitalization rates are trending in the 5.5%-6.5% range. Single-tenant net leased assets are trading in the same aggressive capitalization rate range due to their low perceived investment risk. Multi-tenant retail sales are trending in the 7%-7.5% range followed by office in the 7.5%-9% range. Expect this market to stay active until interest rates begin to rise, at which time we may see a flurry of activity as investors reposition and hunker down for the foreseeable future.

SALES VOLUME BY PROPERTY TYPE



SALE COMP SUMMARY

Sales Volume	Survey
Transactions	135
Sales Volume (Mil.)	\$157
SF Sold (Mil.)	2.28
Months on Market	14
Sales	Survey
Sale Price/SF	\$73
Avg Sale Price (Mil.)	\$1.6
Cap Rate	7.8%

RECENT CLOSINGS

Below are examples of marquee transactions Sperry Van Ness Advisors were proud to have worked on in 2014.

2908 Market St



- Relocation of Siamaks
- Lease/Option
- Represented Landlord

2965 Ryan Drive SE



- 14,876 SF Class "A" office building
- Multiple offers
- 50 day closing

2945 Liberty St SE



- 45 days offer to close
- Represented local buyer
- 7.5% cap on actual income

Vilberie Center



- Represented Landlord & Tenant
- Under six months list to lease
- Dollar Tree backfill of former ACE



Curt Arthur, SIOR, Managing Director

Curt.Arthur@svn.com

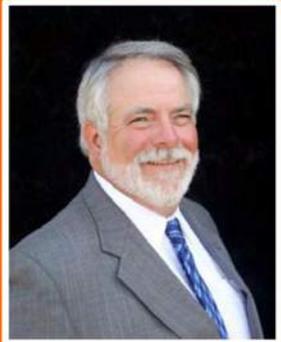
Curt specializes in Office and Industrial properties in the Mid-Willamette Valley. He is the only SIOR member (Society of Office and Industrial Realtors) in the area. Curt handles not only Landlord and Tenant representation assignments, but also works with owner-users and investors. Curt is actively involved with the Salem area Chamber of Commerce and is a member of the Sperry Van Ness International Advisory Board.



Jennifer Martin, CCIM, Senior Advisor

Jennifer.Martin@svn.com

Jennifer works on retail and investment properties at SVN. Because she is a CCIM (Certified Commercial Investment Member), and she has a banking background, Jennifer is qualified to assist in analysis from all perspectives, whether Landlord, Tenant or Investor. Jennifer also serves on the City of Salem's Downtown Advisory Board and just finished a four-year term on the Oregon/SW Washington CCIM Chapter Board of Directors.



George Grabenhorst, Advisor

George.Grabenhorst@svn.com

George leverages an almost 40 year real estate background to specialize in agricultural and land property as well as being a "go to" in the bankruptcy and receivership sector. He is qualified to assist attorneys and trustees with disposition strategies. George is also actively involved with the Salem Association of Realtors as well as the Oregon Association of Realtors, serving on many land use and government affairs subcommittees.

THE ADVISOR Q1, 2015



Commercial Advisors, LLC

1665 Liberty St. SE, Suite 200
Salem, OR 97302
503-588-0400 ph
503-588-7312 fax
www.svncommercialadvisors.com