

FEBRUARY
23

SALEM
CONVENTION
CENTER

1ST FLOOR
SANTIAM BALLROOM
200 COMMERCIAL STREET SE
SALEM, OREGON

7:00 AM
NETWORKING

7:45 AM
BREAKFAST SERVED
PROGRAM BEGINS

9:00 AM
CONCLUSION

presented by



2016 COMMERCIAL REAL ESTATE
**ECONOMIC
FORUM**



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TODAY'S LINEUP

GUEST SPEAKER
JIM COSTELLO | REAL CAPITAL ANALYTICS

TITLE SPONSOR & EMCEE
RYAN ALLBRITTON | US BANK

INDUSTRIAL
CURT ARTHUR | SVN

MULTI-FAMILY & INVESTMENTS
JENNIFER MARTIN | SVN

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GUEST SPEAKER

JIM COSTELLO
SENIOR VICE PRESIDENT
REAL CAPITAL ANALYTICS



REAL CAPITAL ANALYTICS®

Transactions. Trends. Tools.

Jim Costello has worked in the CRE space on issues of urban economics since 1990, including a 20 year stint at Torto Wheaton Research. Jim expanded the reach of the Torto Wheaton Research team developing forecasts of global market fundamentals. Jim also developed approaches to pair the forecast results with frameworks to answer investor questions on asset values and relative investment opportunities.

Jim provided advice to the Treasury Department and other policy makers in the aftermath of the Global Financial Crisis and helped educate these professionals on commercial real estate performance. Jim has recently been made a member of the Commercial Board of Governors of the Mortgage Bankers Administration and is working there as well to help policy makers understand our industry.

Jim is expanding the capabilities of the Real Capital Analytics team on issues of real estate market dynamics. Jim has a Master's degree in economics and is a member of the Counselors of Real Estate.

Jim Costello
Senior Vice President
Real Capital Analytics
jcostello@rcanalytics.com | www.rcanalytics.com
New York | London | San Jose



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RYAN ALLBRITTON
REGION PRESIDENT
US BANK



Ryan Allbritton is the Region President of U.S. Bank of the Oregon Mid-Valley Region, Community Banking Division. His region is comprised of 25 local branches in the Mid-Willamette Valley and his responsibilities include: Commercial Banking, Consumer Banking, Private Banking, Trust and Wealth Management services.

Allbritton has been with U.S. Bank for 17 years and has served in many different capacities. Presently, Allbritton serves as an Executive Board Member of the Salem Area Chamber of Commerce. He is a Past President (2013-2014) of the Chamber and of the United Way of the Mid-Willamette Valley (2007-2009).

Ryan and his wife, Janna, have two children, Hayden – 18 and Kendall – 14, and they reside in Salem, Oregon.

Ryan Allbritton
Region President
U.S. Bank

james.allbritton@usbank.com | www.usbank.com
302 State Street Salem, OR 97301 | PD-OR-3103

CURT ARTHUR, SIOR
MANAGING DIRECTOR
curt.arthur@svn.com

INDUSTRIAL MARKET UPDATE



2015 RECAP

The industrial sector is as tight as we have seen it over the past two decades. At one point in 2015, there were no industrial vacancies of any quality over 20,000 sq. ft. within a 20 mile radius of downtown Salem. In our survey of 458 non-owner occupied properties, totaling 10.9 million sq. ft., the industrial vacancy factor finished the year at a meager 3.5%, compared to a ten-year average of 10.7%.

2015 VACANCY & RENTAL RATE



2015 MARKET ACTIVITY

2014 and 2015 combined to see more than 1,300,000 sq. ft. of leasing activity according to CoStar – more than the previous five years combined.

The 410,000 sq. ft. former Seneca Cannery at 1745 Oxford St. SE saw the most activity as it was successfully leased to two tenants in 2015. Diamond Foods, the parent company of Salem-based Kettle Chips, leased 63% of the building to combine two local distribution centers under one roof. Kettle took full occupancy in the third quarter. In August, Salem-based Northwest Distribution and Storage, Inc. leased the remainder of the building – also for a storage and distribution center. Salem Watumull, LLC, the Landlord, is investing millions in retrofitting the former cannery building whose origins date back to 1940. SVN represented the Landlord in both transactions.

In spring 2016, the Oregon State Police will relocate from Portland Road to occupy 119,700 sq. ft. in three buildings currently under construction on Trelstad Ave SE for its headquarters, State Fire Marshall, ID and fleet services. The buildings are being developed by Lake Oswego-based Cobalt Development and are owned by Premier Protection, LLC.

Other industrial news included Ingredion's acquisition of Salem-based Kerr Concentrates for a reported \$100 million. The sale included the company's 42,000 sq. ft. manufacturing facility in NE Salem. In May, Stayton manufacturer Mastercraft Furniture, Inc. announced it was ceasing operations and later filed bankruptcy while vacating their 170,000 square foot facility at 1620 Wilco Road. In July, the facility was purchased by WVL Holdings, LLC for \$4,250,000 (\$25.00/SF). The 137,150 sq. ft. former Clayton Homes site at 1200 Wilco Road in Stayton sold in March to Littau Harvester, Inc. for \$2,500,000 (\$18.23/SF).

With recreational marijuana use legalized in 2015, the hurdles surrounding the allowance of that use in buildings financed by federally chartered banks and credit unions have surprisingly kept that industry from flourishing in the local market. At present, only a few commercial cannabis operations have successfully located operations in the mid-valley but we are confident more will follow as the supply allows.

\$5.18

Asking rents have risen 23% since the second quarter of 2012 to finish the year at \$5.18 per sq. ft., per year, triple net. New construction projects are leasing up at rates close to \$6.50 per sq. ft. for spaces between 10,000 to 25,000 square feet due to the lack of inventory. Class B and C asking rents are ranging from \$4.50 to \$5.20 per sq. ft. with very little shelf life when opportunities hit the market. Recent industrial listings were under contract to lease within thirty days of coming to market.

2016 INDUSTRIAL FORECAST

Probably the most notable news affecting industrial development and growth in the greater Salem area didn't even come from Salem. On December 14, 2015, the City of Woodburn and Marion County approved a remanded version of the Woodburn Urban Growth Boundary (UGB) which includes 190 acres of industrially-zoned land to be developed adjacent to Winco Foods at the SW Corner of the Woodburn interchange. The land is to be developed by Specht Properties of Portland and is estimated to be able to accommodate up to two million square feet of industrial space.

This news may have a dramatic and far-reaching effect on viability of Salem's Mill Creek Corporate Center, the 488 acre development site owned by the State of Oregon in SE Salem, once the Woodburn site comes online in 2017. It is widely believed within the brokerage and development industries that most corporate and development buyers will likely prefer the Woodburn property over Mill Creek due to its proximity to Portland. Mill Creek is considered Salem's best chance to lure companies paying family-wage jobs to the area. Officials say they are close to a deal on 56 acres for a food-processing company and are hoping to be on the short list for a distribution center user looking at 90 acres. The coming eighteen months are vital to the success of this park to secure users before Woodburn comes on line.

Local developers are in the planning stages for up to 90,000 sq. ft. of new industrial buildings south of Fairview Industrial Drive off Marietta and 32nd Ave. The space is in pre-leasing stage with asking rents approaching \$6.50 per sq. ft., triple net.

NOTEWORTHY PROJECTS



Former Pepsi Distribution Center
•3011 Silverton Rd. NE, Salem OR
•Sold To Ray's Produce, Inc.
•43,350 sq. ft. | \$1,450,000



Former Mastercraft Furniture
•1200 Wilco Road, Stayton OR
•Sold to Willamette Lumber
•170,000 sq. ft.



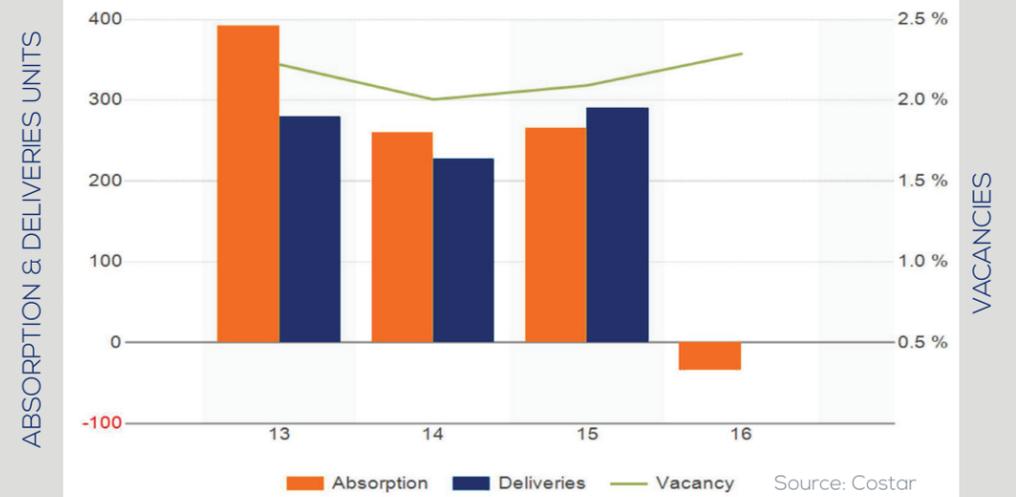
New Power Equipment Facility
•1351 Tandem Ave NE, Salem OR
•Sold to Madras Holdings, LLC
•116,000 sq. ft. | Price Not Disclosed

JENNIFER MARTIN, CCIM
 SENIOR ADVISOR
 jennifer.martin@svn.com

INVESTMENT & MULTIFAMILY MARKET UPDATE



3 YEAR ABSORPTION DELIVERY VACANCIES 2013-2015

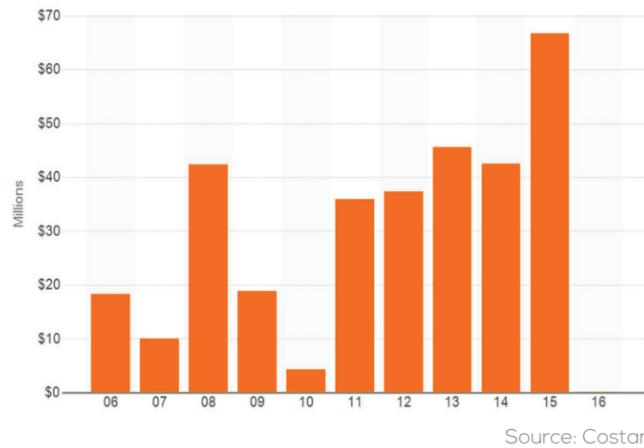


2015 RECAP

The multi-family sector was firing on all cylinders in 2015. Rents are up, vacancy is low, construction starts are plentiful, and there is still demand in the market. The typical renter profile is changing in our market-it is no longer starter housing for the young and/or lower income demographic. Retirees looking for simpler management of their living expenses and young professionals looking for urban living are diversifying the rental market. Demand for multi-family product remained strong in 2015, with an average time from list to close of just short of four months. Attractive financing packages kept prices up and capitalization rates low.

There are over 900 units under construction or in planning stages for delivery in the next two years. Total deliveries to market in 2012-15 was 973 units (243/year). We've absorbed all the deliveries over the past four years, and with vacancy continuing to be below 2.5%, there is still demand in the market. Our market has been absorbing an average of 14 units/month, above the industry standard of 12 units/month.

MULTIFAMILY SALES



Transaction volume was robust in 2015 with almost \$70M in transactional volume in 25 notable sales. The average price per unit in the 18 properties older than 1990 was \$75,500 and for the seven sales of properties newer than 1990, the average price per unit was \$75,605. Removing outlier Eola Heights (built in 1985) which sold for \$110,000/unit, the average price per unit for older properties was \$63,000/unit.

INVESTMENT OVERVIEW

The Salem-Keizer investment sales market (non multi-family) in 2015 was dominated by retail assets. Nine high-quality retail assets traded hands last year in the market, totaling over \$42.5 million in transaction volume. Performing, non-performing, newer, older, Salem, Keizer, downtown and suburbs. Great financing rates drove capitalization rates down and kept transaction volume brisk. With the uptick in rates, to be followed by an uptick in capitalization rates, values should stabilize and even come down in the foreseeable future.

2016 PREDICTION

From a sales volume standpoint, most experts are predicting a slowdown in the investment market, partially because of the significant market activity over the past four years and partially because of the interest rate tide shifting. Most investors are banking on increased rent to keep values up, but as capitalization rates shift with rising interest rates, it remains to be seen if rent growth will be enough to keep values where they are now. Nationally, as large REIT investors deal with a rising interest rate environment in their portfolios, net operating income may erode and cause cash flow issues, which could cause the market to shift radically.

2.5% MULTIFAMILY

According to Co-Star, the current multi-family vacancy continues to be below 2.5% in its survey of over 22,500 units. Asking rents continue to rise, and continued new construction should continue to put upward pressure on rents. Per square foot rental rates for new construction are reaching \$1.25 per sq. ft. in high-demand areas of town for one-bedroom units. It is not expected that absorption of these newer projects will negatively impact the occupancy of older, lower-priced units, as most renting in older projects won't be able to afford to trade to a newer property.

NOTEWORTHY PROJECTS



Eola Heights, Salem OR
 •\$16,750,000 - 152 Units
 •\$110,200/Unit
 •Highest price/unit sale in 2015



Overlook Pointe, Salem OR
 •\$9,150,000 - 98 Units
 •6.25% capitalization rate
 •\$93,367/Unit



Creekside Townhomes, Salem, OR
 •\$7,500,000 - 92 Units
 •Lowest confirmed cap rate 5.5%
 •\$62,500/Unit



Keizer Schoolhouse Square, Keizer OR
 •\$4,750,000 - \$51.47 per sq. ft.
 •92,292 sq. ft. on 7.23 Acres
 •Closed December 2015



Candalaria Crossing, Salem OR
 •\$5,740,000 - \$260.62 per sq. ft.
 •6.75% cap rate on actual income
 •Closed June 2015



Rite Aid/TJ Maxx, Salem OR
 •\$8,100,000 - \$131.79 per sq. ft.
 •61,461 sq. ft. on 2.65 acres
 •Closed February 2015

CURT ARTHUR, SIOR
MANAGING DIRECTOR
curt.arthur@svn.com

OFFICE MARKET UPDATE



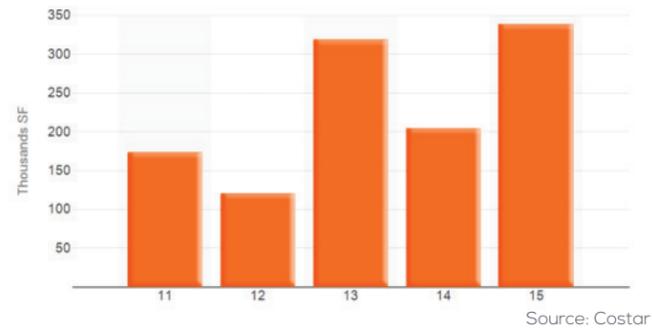
2015 RECAP

The market for office buildings continues its rebound from the depths of post-recession markets that saw vacancy rates close to 20% and quality properties selling for 50%, or less, of construction costs. In our survey of 538 non-owner occupied buildings totaling 7.22 million sq. ft. the vacancy factor finished the year at just 9.1%. This is down from more than 17% in 2012. Rent growth averaged 3.8% in all property classes. Lease concessions (free rent, etc.) are minimal as the market continues to improve.

CBD Mountain West Investments completion of the Pringle Square - South Block project brought 15,000 sq. ft. of commercial space to the market for lease, which is now anchored by Ticor Title, in addition to 115 condominium style units for rent.

MEDICAL Salem Health's development of the two-story Building "M" highlights the medical development in 2015. Located on the former Oregon School for the Blind campus, the center will house their new Outpatient Rehabilitation Center and Hospitality House. The planned Deepwood Medical Arts Building at Mission & 12th Streets, anchored by Mission Medical Imaging, has stalled and negotiations are underway with new partners in hopes of materializing in 2017.

LEASING VOLUME



2015 leasing activity was greater than any year in the past decade with more than 335,000 square feet leased in 67 transactions for an average lease size of 5,000 sq. ft., the largest on record. Conversely, sales volume plunged to its lowest level in years with \$7.5M in transactions.



STATE OF OREGON In early 2015, the State fully occupied the 76,000 sq. ft. Park Center South building downtown, former home to Regence Blue Cross, with four different agencies after the building was sold in 2014. SAIF Corporation has leased 103,887 sq. ft. at 2850 Broadway for two years as they remodel their headquarters in 2016-17 and the Department of Justice combined two field offices into the 54,000 sq. ft. Spinnaker Pointe building at 2250 McGilchrist.

\$1.50

Average monthly rents for downtown Class "A" space measured on a full service basis. The rates range from \$1.50 to \$2.65 per sq. ft. and the sub-sector saw rent growth of 5%. Class B and C buildings rents have remained stable with little rent growth.

2016 PREDICTION

While the market continues to show considerable improvement, it lags behind the growth we have seen in the retail and industrial markets largely because of no new construction. Rents will continue to climb, and vacancy rates drop, until this is addressed. Absorption will remain positive and demand for quality space will continue even though we are now facing a shortage of quality availabilities.

At present there is only one office vacancy of any quality in excess of 20,000 sq. ft. in the market and just eight between 10,000 and 20,000 sq. ft. This will make it difficult for larger companies to locate or expand within the market in the coming year.

Look for the State of Oregon to relocate the Department of Energy (DOE) into the former Public Utility Commission building at Capitol and Marion in 2016 and the current DOE building downtown to be back filled by a consortium of non-profits.

MARKET STATISTICS

2015 brought the third consecutive year of positive absorption of office space and our largest year of leasing activity in the past decade, lowering the vacancy rate. 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, fell from an average of 9.4% in 2013 to sub-7% in late 2014. The slight rise in interest rates pulled the current average rate to 7.75%.

\$132 PSF

The average sales price, per sq. ft., has risen from a low of \$78 per sq. ft. in 2011-12 to \$132 per sq. ft. at year end.

New construction continues to be medical related with only a few new office projects on the drawing board for 2016-17.



NOTEWORTHY PROJECTS



SAIF Corporation temporary location
•2850 Broadway | Salem, OR
•Size: 103,997 sq. ft.
•Two-year lease for HQ remodel



State of Oregon
•2250 McGilchrist St SE | Salem OR
•Size: 54,000 sq. ft. | Dept. of Justice
•Notes: Combined two field offices

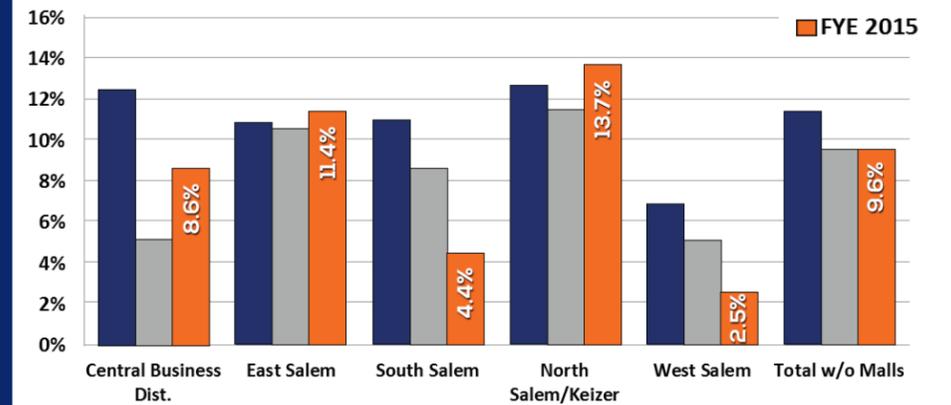


New Oregon State Police Headquarters
•Kuebler and 32nd Ave SE
•119,000 sq. ft. in three buildings
•Delivery summer 2016

4 BUILDINGS

Currently, there are four existing opportunities for retailers looking for over 20,000 sq. ft. Three of them are in Keizer (former Office Depot, Roths and Haggen) and one on Lancaster (former St. Vincent de Paul). There are no existing opportunities for retailers looking for more than 45,000 sq. ft., forcing newcomers to the market to look to new development to support expansion.

VACANCY COMPARISON



Source: SVN

2015 RECAP

In 2015, there was virtually no change in the vacancy rate, currently at 9.6%. However, the amount of vacant square footage increased from 419,000 sq. ft. at the end of 2014 to 433,000 sq. ft. at the end of 2015. This can be attributed to the modifications to the survey and the addition of new construction to the survey. In spite of a level vacancy rate, the overall market absorption was a positive 44,000 SF because the market added almost 55,000 sq. ft. in the form of new construction in 2015. This absorption continues to be well below the normal range of 75,000-90,000 sq. ft. each of the past ten years.

2016 PREDICTION

Last year's prediction of slowed absorption was realized. Areas of town with the highest vacancies have the least amount of demand. For 2016, I am a bit stumped. There is not a lot of high-quality space to backfill. There will be continued redevelopment in South Salem, and with the ownership change at Keizer Schoolhouse Square, hopefully the Keizer market will see some positive absorption in 2016. There are a number of projects on the drawing board for South Salem as that area continues to be in high demand. There is a continued lack of existing mid-large box spaces in Salem which will impact growth in the market for the time being.

NEW DEVELOPMENT

There are currently seven projects in South Salem, ALL along Kuebler or south of Kuebler, in various stages of feasibility, preleasing, or development. This would bring over 500,000 sq. ft. of new product to the market, which is similar in size to all of Keizer Station. It remains to be seen what sort of pre-leasing will happen during this market cycle that will allow these projects to take shape and deliver to market.

54,450 SF

The amount of square feet constructed in 2015 for retail use. This is great news and a testament to the feasibility of new construction in the market. However, please remember that ALL except about 4,000 sq. ft. was leased prior to the start of construction. Speculative development has not yet returned to this market.

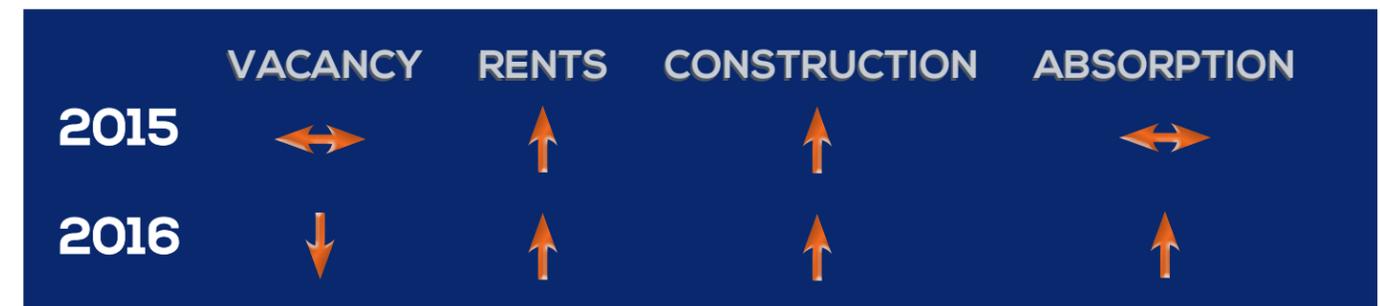
SOUTH South Salem continues to be the market darling, with over 80,000 sq. ft. of positive absorption, about half through new construction and half through existing space. Current vacancy is 4.4%. Expect some infill development in 2016 and pressure to develop south of Kuebler following adequate preleasing.

CBD In 2015, the vacancy downtown increased to 8.6% as it really couldn't better last year's 5.2%. 8,000 sq. ft. was added to the market with South Block and 440 State, which was not marketed last year. The new vacancies at Ferry/Liberty and Church/Marion make up the bulk of the remaining increase in vacancy.

WEST Increased leasing the former Blockbuster and at Edgewater Crossing positively affected this submarket, with its current vacancy of 2.5%. Goodwill should be constructed in 2016 and there are plans in the works for development at SW corner of Glen Creek and Wallace Road.

EAST The Lancaster Drive corridor continues to languish. For there to only be a change of 11,000 sq. ft. to the vacancy in a market of over 1.6 million sq. ft. is remarkable. All positive absorption in small shop leasing has been erased with vacancy of Kelly's Design Center and the former pet supply store on Market Street.

NORTH KEIZER With the closing of Haggen Foods, the vacancy in this area increased to 13.7%. If the Keizer Schoolhouse Square and the Haggen vacancies were filled, the market vacancy would be 4.2%, so the bulk of the "problem" in the market is targeted in these two properties.



Source: SVN

NOTEWORTHY PROJECTS



BeFit | Salem & Keizer, OR
• Southgate & Keizer Schoolhouse Square
• Southgate rent starts at \$15 sq. ft. NNN
• 7-year initial term



St. Vincent de Paul | Salem, OR
• 15,780 sq. ft. | Former Tin Tin Buffet
• Effective rent: \$10.23 sq. ft.
• 10-year initial term



Cash & Carry | Salem, OR
• 23,250 sq. ft. | Build to Suit
• Leased July 2015
• 10-year initial term

An aerial photograph of a city, likely Salem, Oregon, showing a large bridge spanning a river, industrial buildings, and residential areas. The image is used as a background for the entire page.

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 2016.

We sincerely appreciate the support from our sponsors who have helped make this event possible. We encourage you to patronize their businesses whenever possible.

SVN | Commercial Advisors, LLC
1665 Liberty Street SE | Suite 200
Salem, Oregon 97302
Office 503.588.0400 Fax 503.588.7312
svncommercialadvisors.com

