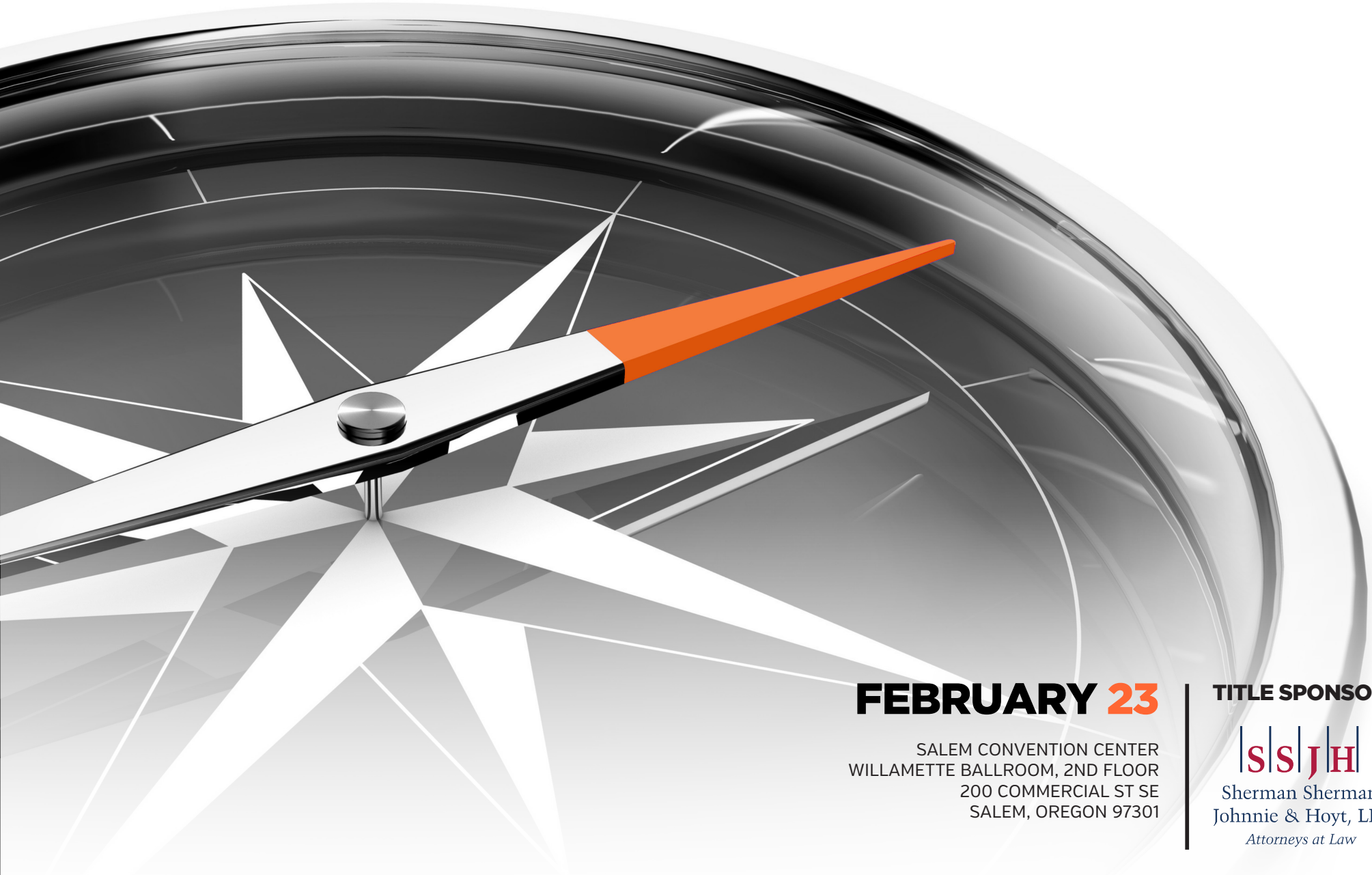




# Charting the Path & *Unlocking Opportunities*



**FEBRUARY 23**

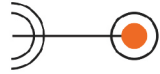
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<b>7:00AM</b>	NETWORKING
<b>7:30AM</b>	BREAKFAST SERVED
<b>7:45AM</b>	PROGRAM BEGINS
<b>9:30AM</b>	CONCLUSION

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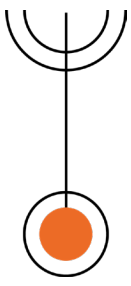
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Since 1949, Sherman Sherman Johnnie & Hoyt, LLP has provided high-quality legal services to individuals and businesses in all aspects of General Business, Litigation Resolution, and Real Estate & Land Use Law, including land development and construction. With locations in Salem, Dallas, and Silverton, Oregon, the firm's attorneys use a collaborative approach to provide efficient and cost-effective solutions to client issues.

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Here, representing the firm is Partner, Mark Hoyt. He is proud to be the Marion County Bar Association - Past President, SEDCOR - Former Board Chair, Member Executive Committee - Oregon State Bar - Member of Construction, Real Estate and Land Use, Litigation, Business Litigation Sections, Marion/Polk CASA - Former President, Abiqua School Foundation Board of Trustees - Former President, Illahe Hills Country Club - Former President, and Salem Chamber of Commerce - Executive Leadership Council Member.



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# FORUM SPEAKERS



## MAYOR CHRIS HOY WELCOME

Salem Mayor Chris Hoy took office November 2, 2022, after serving as Salem City Councilor for Ward 6 since March 2017. He is a 4th generation Oregonian. He grew up on the Oregon coast where his family was one of the earliest Dungeness crab processors. He graduated from Willamette University with a Bachelor of Arts in Political Science with a minor in English before beginning his 30-year career in law enforcement. Chris was the Undersheriff in Clackamas County when he retired in the spring of 2019. During his 30 years of public service, Chris held the ranks of Records/Evidence Technician, Deputy, Sergeant, Lieutenant, Captain, Commander, Chief Deputy, and Undersheriff. Throughout his career, Chris worked to help those individuals in the system have better outcomes and reduce recidivism.

To read more about Mayor Hoy, go to:  
<https://www.cityofsalem.net/government/city-council-mayor/mayor>



## ALAN RASMUSSEN PRESIDENT, SALEM CHAMBER OF COMMERCE

Alan represented the third generation of ownership at Modern Building Systems, which recently sold the company to Willscot Mobile Mini. He runs the commercial modular building factory as VP of Manufacturing. He also has a small private lending and investment firm, LHE Investments. Currently, Alan is representing the Salem Chamber of Commerce as President of the Board of Directors and sits on the Santiam Hospital Foundation board. He holds a degree in Accounting & Finance from Corban University. In his free time, he loves to play golf and spend time with his wife of 20 years and his three children.



## CURT ARTHUR, SIOR OFFICE MARKET | SVN COMMERCIAL ADVISORS LLC

Curt Arthur, SIOR, serves as a Managing Director for SVN Commercial Advisors LLC, in Salem, Oregon. He has over 30 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.



## BLINN CARSTENSEN AGRICULTURAL MARKET | AGWEST FARM CREDIT

Blinn Carstensen is the Senior Vice President for Northwest Farm Credit Services' Western Oregon region. He has spent a total of 17 years with Northwest FCS in various roles throughout Washington and Oregon. During that time Blinn has provided financing to farmers and agribusinesses in several industries including nursery, hazelnuts, grass seed, vineyard/winery, and forest products. He has degrees in accounting and international business from Whitworth University. Blinn grew up on a dryland wheat farm in Eastern Washington and now resides in Silverton with his wife and two children.



## ERIK ANDERSSON INDUSTRIAL MARKET | SEDCOR

Erik Andersson is the president of Strategic Economic Development Corporation, a nonprofit organization of business and community leaders committed to the economic vitality of Marion, Polk and Yamhill counties. With more than 30 years of experience in economic development, Erik's background includes work in the utility industry, serving as economic development manager for Tacoma Public Utilities and Pacific Power. He also was the regional coordinator for Oregon Gov. Ted Kulongoski's Economic Revitalization Team and a Business Development Officer with Business Oregon. His volunteer work in economic development includes serving as a SEDCOR board member; as a president for Oregon Economic Development Association; chair for the Oregon Infrastructure Finance Authority; and a board member of Restore Oregon and Rural Development Initiatives. In 2014, Erik was awarded the Oregon Economic Developer of the Year.



## NICK WILLIAMS RETAIL MARKET | SVN COMMERCIAL ADVISORS LLC

Nick has a background in finance and non profit leadership, most recently as the CEO of the Salem Area Chamber of Commerce. Nick brings his relationships and experience to the SVN Commercial Advisors team with a desire to position Willamette Valley businesses and investors within their highest potential for profitability. Active in the local policy making space, Nick is also a tireless advocate for economically viable policy. Transportation infrastructure and taxation are areas of significance, and these issues are critical in maintaining our regions competitive advantage.



## KATHERINE POWELL BANZ, MAI PRINCIPAL | 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. Katie and her husband (Jon Banz, MAI, AI-GRS) purchased the business in January 2014 and rebranded the company Powell Banz Valuation, LLC. Katie and Jon continue the family legacy. 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. Katie graduated from Linfield College (McMinnville, Oregon) in 1997 with a Bachelor of Arts degree. Following college, she worked as a graphic artist and project manager with the Boeing Company in Seattle until joining Powell Valuation Inc. in 2002.



## MIKE ERDMANN RESIDENTIAL DEVELOPMENT | HOME BUILDERS ASSOCIATION OF MARION & POLK

Mike Erdmann is the CEO of the Home Builders Association of Marion & Polk Counties, a 700-member professional trade association that represents the residential building and development industry throughout the greater Salem region and strives to assist members in becoming more successful and more profitable in their businesses. Prior to joining the Home Builders Association in 1991, Mike worked in the Oregon legislature. He graduated with honors from Oregon State University with a degree in Political Science.



## MARKET OVERVIEW

### SUMMARY


The office market showed both signs of strength, and weakness, in 2023. While fewer than 26% of US households still have someone working remotely at least one day a week, that number is well below the pandemic-induced 60-70% that most markets saw in 2000-2003. As a result, the Salem/Keizer market has witnessed strong demand to lease office space even with the challenging financial times of 2023 with soaring interest rates and inflation.

Year	# of Leases	Total Volume (SF)	Avg. Lease Size (SF)
2022	160	245,750	1,535
2023	142	270,819	1,907

Conversely, those factors had a dramatic impact on the overall sales volume of office buildings.

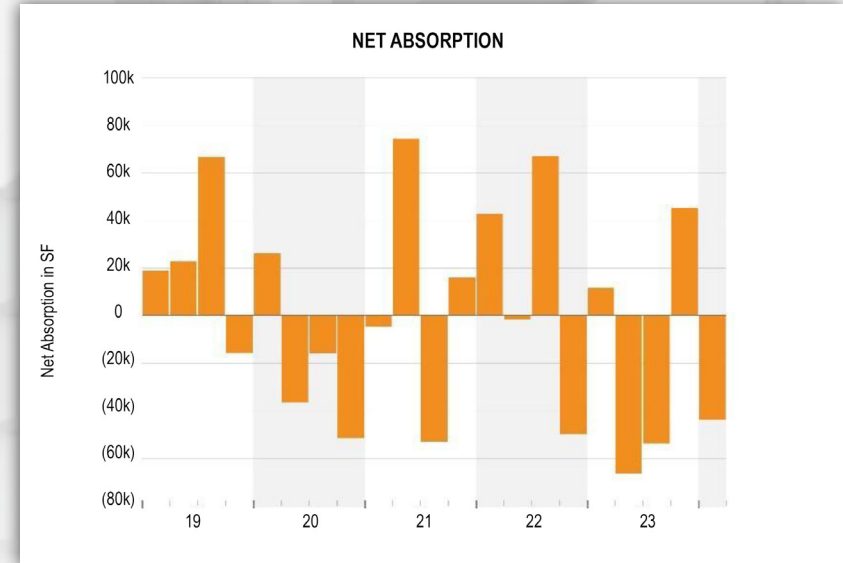
Year	# of Sales	Total Volume	Avg. Price/SF
2022	272	\$552M	\$166
2023	193 (29.7%)	\$385M (30.3%)	\$159

Trailing 12-month absorption in Salem's office market is (-69,700 SF) which compares to the prior five-year average performance of +34,000 SF. With virtually no competition from large-scale speculative deliveries over the past two years, however, vacancies of 5.3%, reflect an annual change of only 0.5%.



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In fact, over the past decade, Salem's office inventory has increased by just 3.6%. National inventory growth on a percentage basis, for reference, equates to 6.0% over the same period. Newer projects to come online reflect mostly smaller build-to-suit assets with single-tenant options, but there are some exceptions. In early 2023, Johnson Family Orthodontics wrapped up a 12,900-SF multi-tenant office in South Salem, located off of Commercial Street near Safeway. The building is occupied by the owner on the second floor, with a range of first-floor spaces for lease.

### LEASING

For the year 142 office/medical leases were finalized, down from 160 in 2022, and the 150 in 2021 - but the total volume of 270,819 SF was strong. In 2022 the pandemic saw downsizing and a flight to quality. In 2023, as remote workers return to the office, we witnessed a 25% increase in the average lease size to 1,907 SF, up from 1,535 SF last year. 2023 saw rents remain relatively flat with the average full-service asking rents for Class A space between \$1.95 and \$2.20 with some of the finer buildings in the market at \$2.50 to \$2.80 per sq. ft. Class B rents dropped slightly to \$1.50 to \$1.73 per sq. ft., and Class C to \$1.25 to \$1.65. Note - \$1.25 per sq. ft. is a net rate of approximately \$.65 - lower than most standard industrial rents.

## TOP TRANSACTIONS

The markets top leases in 2023 were as follows:

<u>Property</u>	<u>Tenant</u>	<u>Size</u>
201 High St SE (Beardsley)	State Public Utility Commission	60,000
660 Hawthorne Ave. SE	Mosaic Management	14,494
4070 27th Ct. SE	BroadPath	10,220

We continue to see a flight to quality which started during the pandemic as companies chose to downsize and improve the quality of their space. Conversely, we are starting to see larger office users back in the market with more 5,000+ SF users in the market than we have seen for years.

The market's top sales (and Sellers) in 2023 were:



1550 -1600 State Street • Hope Orthopedics • 50,204 SF



1124 Cornucopia NW • Gordon Gredvig • 9,192 SF

Medical sales dominated the sales landscape which was down close to 40% YOY. Beyond the sale, and leaseback, of Hope Orthopedics campus on State Street (Hope merged with Salem Health post-closing), several older adult care facilities in the market were a part of two bulk sales of more than 200 properties nationwide. The SEIU (State union) was the buyer of the Pipebend property and Cornucopia was acquired by principles of Financial Freedom Wealth Management.

## PROJECTIONS

2024 will be dictated by the economy overall because, with no new construction on the horizon, the only way our office vacancy factor rises would be because more product was given back to the market than the amount that was leased. Should the economy stall out, we would anticipate companies downsizing, or leaving the market. If the economy sees rate cuts and strong job growth, we could be looking at historic low vacancy factor in 2025.

In her address to the Salem Area Chamber of Commerce in January, Governor Kotek mentioned that the State will be finalizing back to work guidelines for all State employees in early 2024 which will have ripple effects throughout the market.

Sales will continue its decline unless we see multiple cuts in the fed rate in 2024 but as pricing remains intact, there are going to be some outstanding.



3470 Pipebend Place NE • Pipebend Place, LLC • 19,195 SF



## 2023 RECAP

In general yields for most crops were average to slightly down for the 2023 growing year. Dry weather in May and June impacted the quality and yield for some crops, and this once again highlighted the importance of irrigation water availability as a differentiator for growers (which is recognized in crop land values).

The Willamette Valley is the leading producer of grass seed in the United States. Grass seed growers in 2023 experienced average to slightly below average yields, continued high operating costs, and despite continued favorable pricing seed movement was slower in 2023 which has impacted cash flow for many growers. Growers hope for good weather during the spring which would help support demand and bring inventory back in line, which should increase inventory movement.

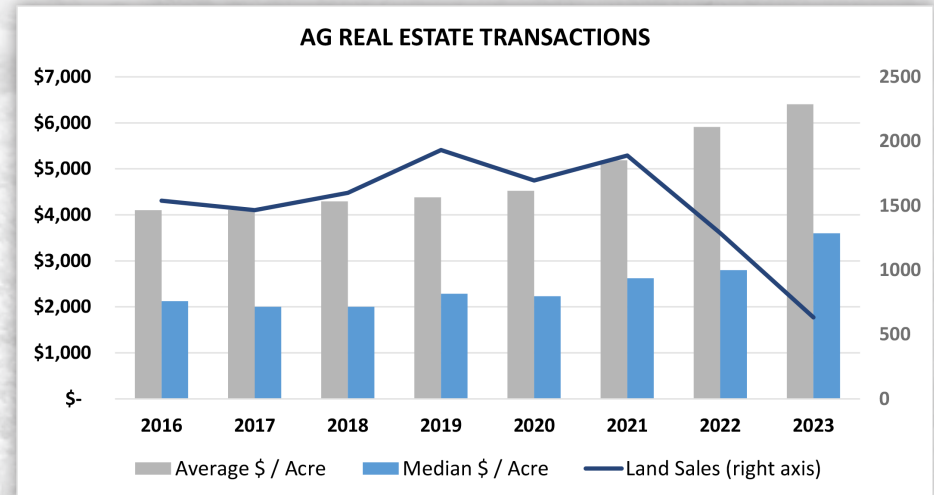
Oregon's blueberry growers enjoyed a profitable year, but profits were negatively impacted by yields and lower prices. Some operations had average yields, but a notable share of farms had poorer production years. Fresh blueberry prices were down compared to 2022, fresh berry prices increased late in the marketing year due to lower production in Peru during that part of the season. Processed prices were down from last year as frozen inventories remain higher.

Nursery producers experienced continued profitability. Sales for the industry were at or above record levels during 2023. Growers were able to raise pricing on material anywhere from 5-20%, and price increases were met with little resistance from buyers. Pricing to the final consumer has remained even to increasing. Nursery demand going into 2024 remains strong, however, growers do share some uncertainty about general economic conditions and weather during the critical spring season is always a key factor driving demand.

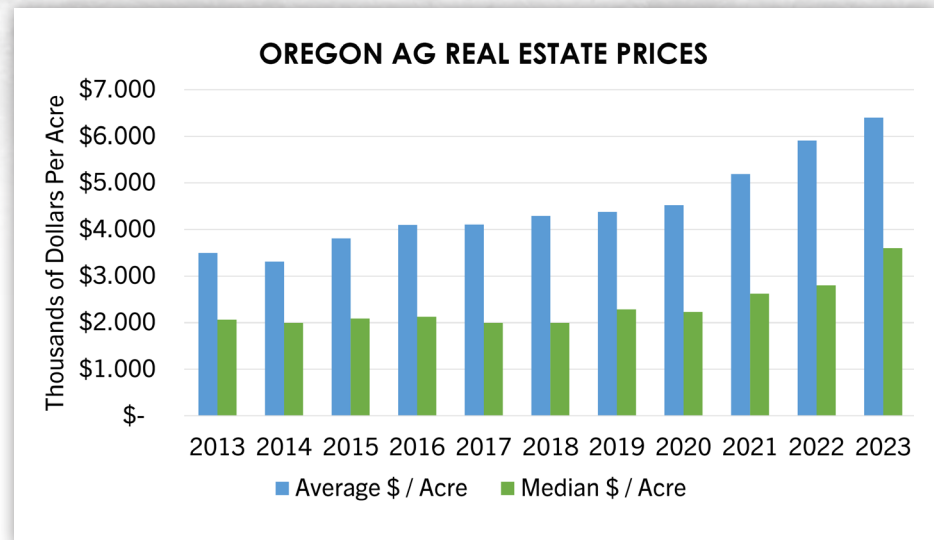
In the Wine and Vineyard industry growers enjoyed a good growing year, and while some vineyard acres were negatively impacted by sunburn issues, the overall crop for Oregon will likely be up year-over-year. The quality of the 2023 vintage should be good. Most wine grape growers should be profitable in 2023 as pricing for most varieties in Oregon remains at or above the prior year's average.

## AG REAL ESTATE VALUES

Strong demand and low inventory have been the overarching drivers holding up Pacific Northwest ag land values during 2023. AgWest appraisers across the Northwest report agricultural land values that are stable to slightly increasing. Persistently high interest rates have decreased affordability and the pace of transactions has slowed with the number of land sales transactions in 2023 expected to be down by 40-50% compared to 2022. Higher interest rates is leading to increased use of creative financing options, such as owner-carry contracts. Interest from outside investors for Pacific Northwest ag real estate remains strong, and investors continue to compete with area operators when land becomes available.



The volume of agricultural land sales in the Northwest continues to fall year over year, largely due to limited supply. The relatively limited volume of verified land sales indicates stable to increasing values. Land values in Oregon are flattening due to a greater share of low-quality properties available than high-quality properties. In 2023 the average \$/acre in Oregon for Ag Real estate sales will be up approximately 1% when compared to 2022.





### KEY FACTORS THAT IMPACTED OREGON AG REAL ESTATE VALUES INCLUDE:

- **Interest Rates** - Higher interest rates are one of the most frequently reported deterrents to land acquisition coupled with low inventory. The Federal Reserve has hinted at rate decreases during 2024, which may impact land affordability among market participants.
- **Availability** - Inventories of agricultural land are low throughout the region, which continues to hold land values up despite elevated interest rates.
- **Farm Income/Commodity Prices** - As of the end of November 2023, the USDA indicated that farm sector income decreased by 17.4 percent from the highs seen in 2022. While this may disincentivize prospective buyers, the correlation between land values and commodity prices in recent years has been weak as many perceive land as a stable, long-term investment. The 2024 outlook for commodities in Oregon is mixed, but no negative impact on land values has been seen.

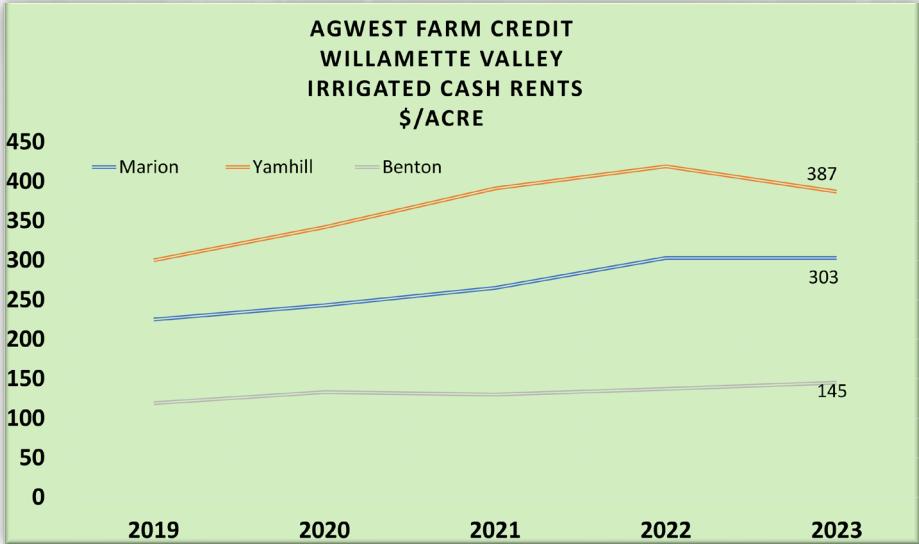
For 2023 the average cash rents in the Willamette Valley were mostly stable. The average cash rent in Marion County was \$303/acre as reported by the USDA, this was flat year-over-year but is an increase of 35% compared to average rent in 2019. This compares to average rents of \$145/acre in Benton County which is up about 22% since 2019 when rents were in the \$120/acre range. The trend for rentals in Yamhill County reflects the impact of the availability of highly desired vineyard sites. In 2023 average cash rent in Yamhill County was \$387/acre, this was down from \$419/acre in 2022 but is still up nearly 30% from 2019.

These three counties were selected to highlight variability in land rents reflecting different soil types and suitability for varying crops. Sales price data for these areas show a similar relationship. Premium vineyard sites command strong prices, while Marion County values reflect high-quality soils and sites that support higher-value crops such as nurseries, hazelnuts, or blueberries. Benton County values reflect lower quality growing conditions more likely to grow grass seed, hay, or row crops.

### GOING FORWARD

During 2022 and 2023 The Fed undertook its most aggressive rate-rising cycle as it attempted to moderate inflation levels that were at 40-year highs. As of Q4 2023, it appears inflation levels are easing and unemployment has not increased significantly. This means the Fed looks like it may achieve its so-called "soft-landing", which would bode well for consumer-driven ag products like grass seed and nurseries.

Farmland in the Willamette Valley will remain attractive given high-quality soils, favorable climate, and proximity to transportation and shipping. Additionally, farmers already in the area enjoy strong balance sheet positions, and they will continue to look for opportunities to expand their operations strategically. Ongoing interest from both local producers and investors outside the area suggests that ag land values in the area should continue to see support at current levels.





# ERIK ANDERSSON

INDUSTRIAL MARKET | SEDCOR



## 2023 SUMMARY

At the beginning of 2023, inflation was driving up the cost of construction (and everything else), unemployment rates were at record lows and economists were warning of an oncoming recession. Yet at year's end, the data shows a relatively stable industrial market, especially when considering the economists' fears. High-interest rates put a bit of a damper on industrial expansions as companies postponed projects until markets stabilized. With demand for space less than the supply, the vacancy rate increased, and absorption in industrial real estate markets went slightly into negative numbers during the last quarter. However, these changes are relatively insignificant given the volatility the Salem market has experienced over the past decade.

CURRENT QUARTER - SALEM <i>Data from CoStar (12/23)</i>	Logistics	Specialized Industrial	Flex	Market
Rentable Buildable Area	18,987,671	11,560,144	1,624,747	32,172,562
Vacancy Rate	7.8%	4.8%	2.4%	6.5%
Market Rent	\$9.24	\$9.36	\$14.82	\$9.53
Availability Rate	8.2%	5.9%	4.5%	7.3%
Net Absorption (SF)	(6,536)	(3,800)	(3,002)	(13,338)

Moreover, there are highly visible projects currently under construction which send a positive signal that the Salem region's industrial sector continues to diversify and grow.

## 2023 ACTIVE PROJECTS

Construction activity at the 600-acre Mill Creek Corporate Center in Salem increased dramatically in 2023, with exciting projects by Scannell Properties and PacTrust. After several years in development, the 900,000 SF Dollar General Distribution Center broke ground in March at the Scannell Logistics Center Salem site in Mill Creek. The \$168 million project will be the company's first distribution center in the Pacific Northwest and is among its first "dual" centers, supporting Dollar General's growth in its fresh and frozen product lines in addition to its traditional dry goods offerings. Construction is expected to be complete in June 2025 and the company expects to create 400 jobs.

Scannell Properties also broke ground on its second build-to-suit project in the Mill Creek Corporate Center. Gensco, Inc., a family-owned manufacturer and distributor of Heating, Ventilation, and Air Conditioning (HVAC) equipment and supplies, will move into a 479,000 SF building to be completed in spring 2025. The facility will operate as a regional distribution center but will also include 93,000 square feet of manufacturing space and 12,000 square feet of office space. The project is expected to create 100 jobs to start, growing to 200, and 40% will be union metal fabrication jobs.

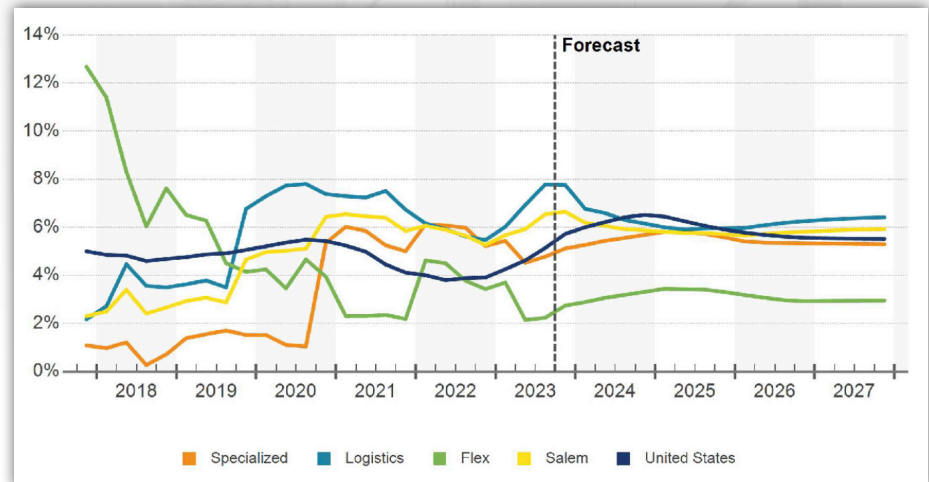
Woodburn is also seeing increased investment in warehouse and distribution facilities. The most visible, a 3.8-million-square-foot Amazon distribution center, is set to open in 2024. In the spring of 2023, Do It Best broke ground on a major expansion of its Woodburn distribution center. The expansion will increase its space by about 50% and also involves investment in state-of-the-art inventory systems and equipment.

While the warehouse and distribution sector continues to be a major economic driver, technology companies are also investing in the Salem market. In the fall of 2023, Agility Robotics announced Salem as the location for the world's first factory for humanoid robots. The company will be opening its 70,000 square foot "RoboFab™" robot manufacturing facility in a PacTrust building in the Mill Creek Corporate Center. The Salem facility is set to open in 2024 with the capability to produce more than 10,000 robots per year. Agility Robotics has locations in Palo Alto, CA, and Pittsburgh, PA, but wanted to locate its first production facility near the company's research hub in Tangent, Oregon. At full capacity, the company is expecting to employ more than 500 people in Salem.

The Polk County portion of the Salem Metropolitan Statistical Area also saw industrial development continue in 2023. Locally grown logistics company OpenRoad expanded its headquarters building with an additional 12,600 square feet. The company recently moved into a new headquarters facility in 2019 but its growth far outpaced its projections. When complete, OpenRoad expects to add more than 50 jobs with this \$5 million capital investment.

## VACANCY RATE

The Salem region ends the year with an average industrial vacancy rate of 6.5%, up a percentage point from this time last year. That rate of 6.5% is close to the historic average for the region. The Portland market also saw its vacancy rate increase by a percentage point, to 4.5%. Leasing in the region remains steady, which has net absorption over the past twelve months up to 387,000 SF, nearly double the historical average of 200,000 SF.



[SALEM MARKET INDUSTRIAL VACANCY RATE - INDUSTRIAL, COURTESY OF COSTAR]

The CoStar forecast indicates that vacancy rates will be relatively stable over the next few years, mostly attributed to a limited expansion of speculative inventory over the past decade. While most of the larger developments in recent years have been built for end users like Amazon and Dollar General, recent speculative inventory investments coming online in 2023 and 2024 could impact the absorption rate in the coming years. PacTrust has continued to invest in its Mill Creek Logistics Center Phase II, which includes spec space in addition to facilities for companies like Agility Robotics. Cobalt Development also announced a new spec project in 2023, with plans for up to 350,000 square feet of industrial space on 17 acres in Woodburn.

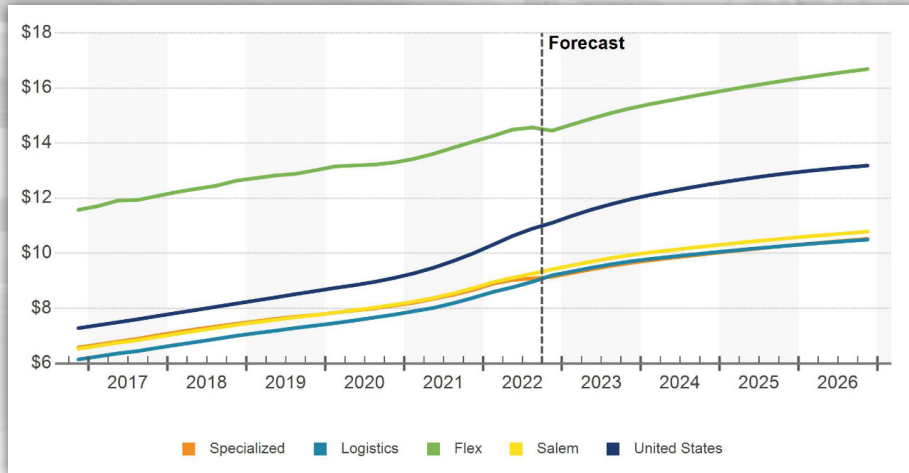
## ON THE HORIZON

The return of commercial service to the Salem Airport was big news in 2023, and Avelo Airlines' service to Greater Los Angeles and Las Vegas should help draw additional economic activity in the coming years. Aviation companies like Metal Innovations have already announced investments in their Salem Airport facilities. The Salem area is also set to benefit from significant transmission system upgrades by Portland General Electric in conjunction with the Confederated Tribes of the Warm Springs. This significant investment will enable enhancements to the Bethel-Round Butte transmission line connecting resources east of the Cascades to customers in the Willamette Valley.

The visible new investments by PacTrust and Scannell Development highlight that greenfield industrial sites are becoming very limited in the Salem market. Industrial land supply continues to be a top priority for economic development organizations like SEDCOR, but bringing new, project-ready sites to market requires a long-term approach.

The Salem market continues its recent trend of attracting exciting, innovative projects in a variety of industries – tech, logistics, food and beverage, aviation, agriculture, and wood products. We need to ensure the region has a variety of greenfield sites and buildings to meet the needs of these industries in the future.

## RENT OVERVIEW



[SALEM MARKET RENT PER SQUARE FOOT - INDUSTRIAL, COURTESY OF COSTAR]

CoStar reports that Salem Market industrial rents have maintained positive growth over the past year, but the pace of growth has slowed down significantly in that time period. At the close of 2023, Salem industrial rents were growing at a rate of 2.8%; compare that figure with the peak annual growth rate of 8% in mid-2022. Salem's average asking rate of \$9.50/SF for industrial is about 25% lower than the National Index of \$11.80/SF. In the Portland market just to the north, the average industrial rate is \$11.63, comparable to the National Index. Rent growth in the Portland market has also slowed down to 3.2% from a recent peak of over 8%. CoStar forecasts both markets' annual growth rate for industrial rents will remain steady in the 2-3% range.



**We Show Up. We Listen. We Transform Opportunities Into Reality.**

When local businesses expand, when they hire new staff, when they become more productive and efficient, we celebrate.

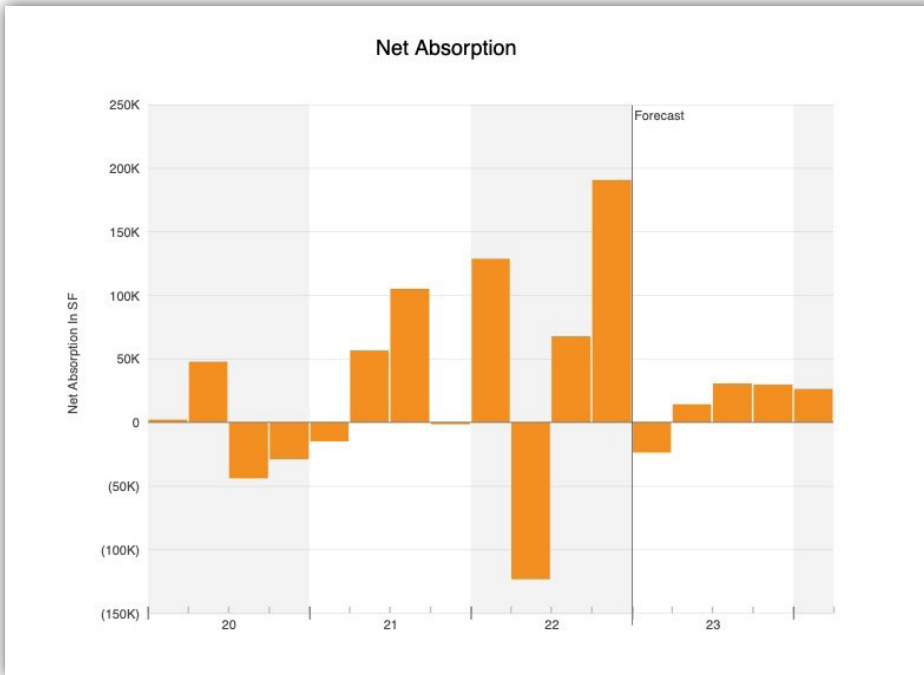
When cities thrive and communities prosper, we celebrate.

When optimism grows for the future of our whole region, we celebrate.

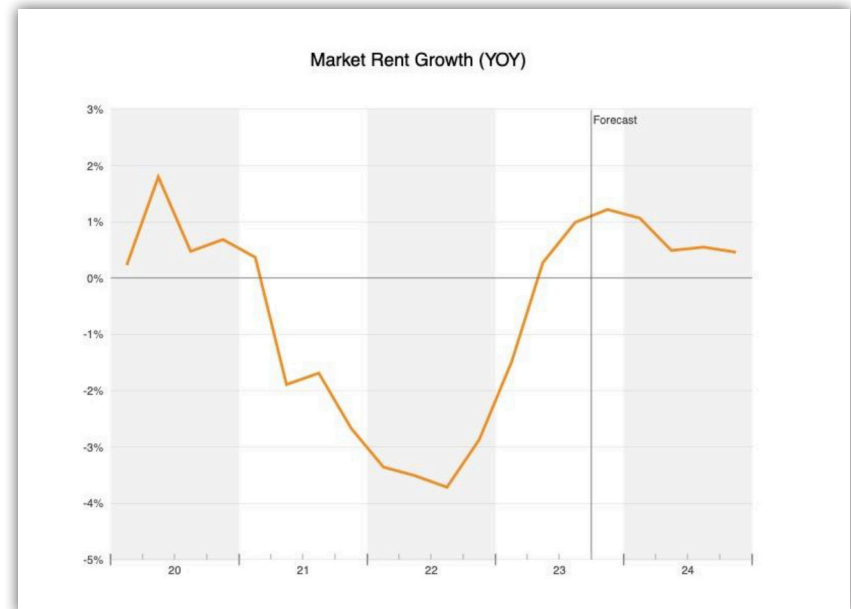
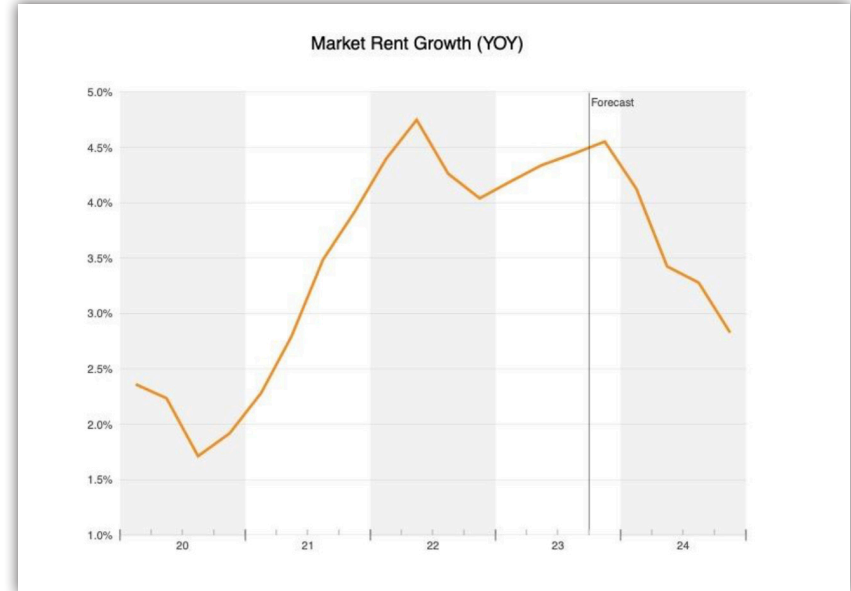


## SUMMARY

Salem's lease market in 2023 can be defined as stable. 64 leases were executed during the calendar year with an average deal size of 2,461 SF. Comparing these statistics to 2022 which saw 92 leases executed with an average deal size of 2,844 SF, one might surmise that we saw a cooling of the market. Given the state of national economics, 2023's activity indicates resilience in Salem-area consumerism.



As it relates to rent, lessors kept a close watch over inflation beginning in Q1 of 2022. Average rent growth peaked at that time and remained in the 4% realm for the balance of last year, although projections are that we will see that growth diminish due to less demand for space through the balance of 2024. The following are two graphs: the first shows static rent growth and the second shows adjusting rents for inflation.



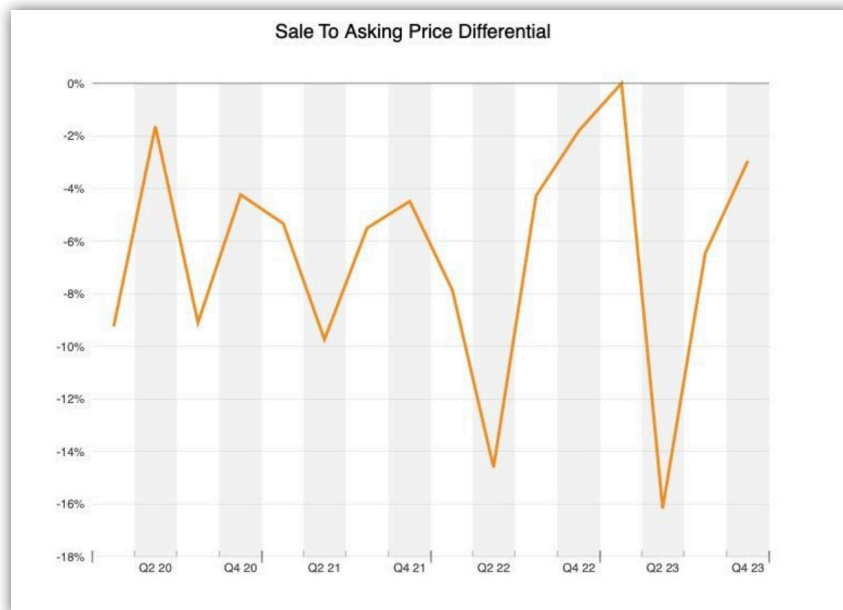
## NOTABLE LEASE TRANSACTIONS

All of the most notable leases of 2023 were food-centric. First, Brix Tavern leased the space formerly occupied by Gustav's Bargarten. This is a Class-A freestanding sit-down restaurant with a full bar and outdoor dining located in Keizer Station. This is a market test by Brix, who executed a 24-month lease of the 5,504 SF space. Year one rents were reported at \$42.24/SF. This is a triple net lease. Chicken Shanty took on 3,510 SF on Mission Street in the space formerly occupied by Sandwich Express. The multi-tenant complex is home to Momiji, Habanero, and Dede's Deli. Year one rents were at \$24/SF and, and the lease is a 60-month term. The landlord did concede 4 months of rent.

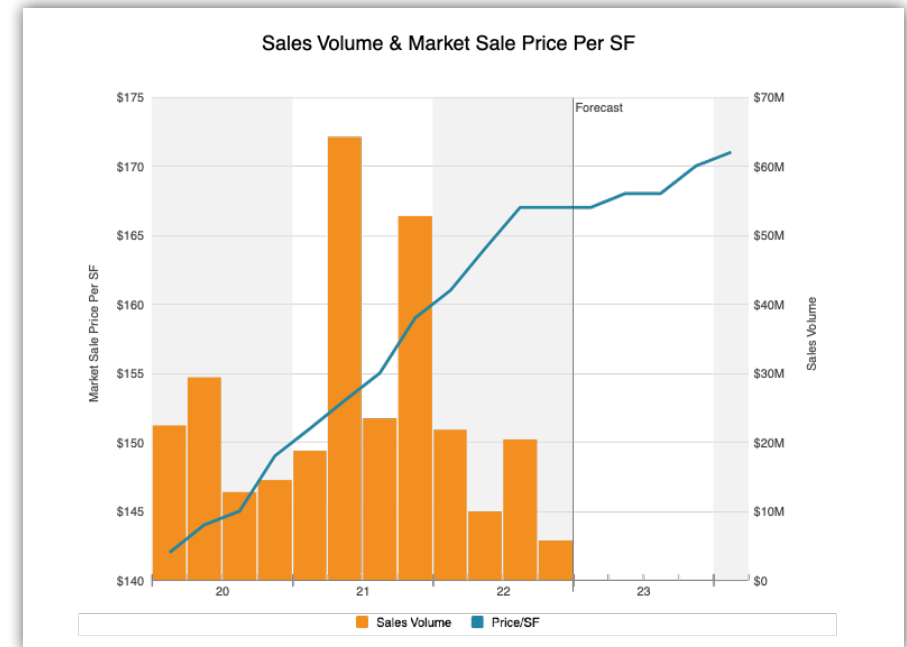
Finally, our office favorite was Bo & Vine Burger Bar leasing 5,579 SF at 3969 Commercial St SE. The regional chain will be opening up their second Salem location, and banking on the population density and demographics of the 97302 zip code. This was a restaurant originally. The tenant agreed to a more favorable year-one rent of \$18/SF and four months of abated rent in exchange for financially absorbing improvements to the building. This was an 88-month lease across the street from the SVN office.

## SALES TRENDS

In the sales market, we saw Q2 of 2023 with the most significant disparity between asking price and transaction value. That delta improved significantly as the year proceeded and seller expectations adjusted to new norms of the market, including interest rates.



Market cap rates trended upward, albeit not as quickly as the Federal Reserve's tightening of the capital market. Current projections by the economics team at CoStar are projecting more of a buyer's market in the retail investment market as 2024 progresses. Retail investors, keep your powder dry as sellers come into the realization that taller interest rates are to remain in place well into the foreseeable future.



## NOTABLE SALES

Shari's on the corner of Kuebler and Commercial St SE sold for \$3,100,000 reflecting a cap rate of 5.87% which translated to \$718/SF. The asset was listed at \$3,466,000, and the seller accepted a 10.56% discount to move the asset. What's unique about this property is that the improvements rest on a long-term lease of 20 years, of which 15 years are remaining.

The Ferrar Building, known as the long-time home of our friends at AC+Co Architects, was sold to owner/user HMK Properties for \$1,031,529 or \$84/SF. The buyer is occupying 4,175 SF of the 12,230 SF building.

Rounding out our notable retail sales is the 7,050 SF 1717 Freeway Ct NE, transaction the former home of Newport Seafood Grill and new home for 'Credit Yes Auto' and 'Bag O' Crab Restaurant. The property closed in August of 2023 for \$2,800,000 or \$397/SF. The sale included all furniture, fixtures, and equipment and was an owner-carry transaction.



# KATHERINE POWELL BANZ, MAI

PRINCIPAL | POWELL BANZ VALUATION LLC



## SALEM/KEIZER MSA MULTIFAMILY APARTMENTS WITH 5 OR MORE UNITS

UNDER CONSTRUCTION	12 MO ABSORPTION	VACANCY RATE	MARKET RENT/UNIT
<b>1,290</b> <span style="color: green;">+31%</span>	<b>308</b> <span style="color: green;">+22.2%</span>	<b>6.42%</b> <span style="color: red;">+1.1% pt</span>	<b>\$1,371</b> <span style="color: green;">+1.8%</span>
Prior Year 984	Prior Year 252	Prior Year 5.3%	Prior Year \$1,347

RENT GROWTH	MARKET SALE PRICE/UNIT	MARKET CAP RATE	SALES VOLUME
<b>1.78%</b> <span style="color: red;">-3.8% pt</span>	<b>\$166K</b> <span style="color: red;">-1.2%</span>	<b>5.70%</b> <span style="color: red;">+0.4% pt</span>	<b>\$95.8M</b> <span style="color: red;">-36.2%</span>
Prior Year 5.56%	Prior Year \$168K	Prior Year 5.3%	Prior Year \$150M

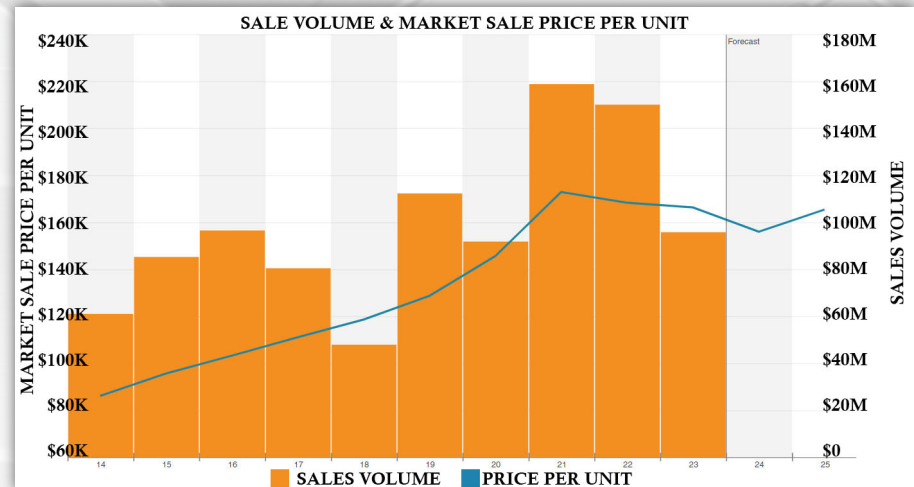
### 2023 MULTIFAMILY APARTMENT MARKET - A YEAR IN REVIEW

Increased Interest rates had a measurable impact on the multifamily market in 2023, with 36% lower sales volume and slightly lower average sale price per unit in the Salem/Keizer MSA as compared to 2022. Multifamily sales throughout the MSA (Marion and Polk Counties) totaled nearly \$96 million in 2023, which is just above the sales volume in pandemic-laden 2020, but far below 2021 and 2022, which each saw sales totaling over \$150 million. As the cost of borrowing capital increases, some buyers are left on the sidelines, no longer able to afford the required down payment necessary to keep mortgage payments feasible. Noting the Salem/Keizer MSA typically reflects smaller transactions with local or regional buyers, as opposed to larger investment grade sales, the market is more susceptible to the swings in buying power. However, when able, some sellers are offering creative seller-financed lending solutions in order to facilitate a transaction.

With the increased cost of capital, market capitalization rates for multifamily properties have also increased. The average capitalization rate for an apartment property in the MSA increased to 5.7% in 2023; up from 4.9% in 2021. Additional upside pressure is anticipated through 2024, as asking prices erode and the differential between list and sale price grows wider. While overall rates in the Northwest are elevated over prior years, the region still reflects lower rates as compared to much of the nation.

The average sale price per unit declined for the second year in a row, averaging just over \$166,000 per unit in 2023. This reflects all segments of the market. The luxury market (categorized as 4-5 star in CoStar) remained stable over the past year, with an average price point in 2022 and 2023 of just over \$231,000

per unit. Mid-level properties also remained relatively stable over the past year, at roughly \$172,000 per unit. Mature complexes bore the brunt of the decline in pricing, dropping 3.7% from 2022, with an average price per unit of \$127,455 in 2023.

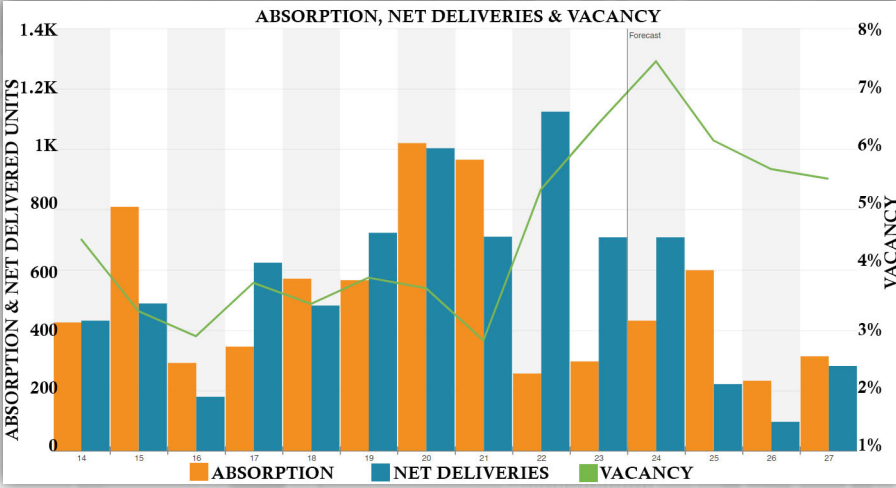


The average asking rent for an apartment unit in the Salem/Keizer MSA was \$1,370 per month in 2023. Two-bedroom units continue to comprise the majority of units in the MSA, with 55% of the total; followed by 1BR units (23%), studios (12%), and 3BR units (9%). The average rent for a 2BR unit is \$1,395, with 3BR units reaping \$1,652 per month. Subsequent to the pandemic, which welcomed a remote work lifestyle, renters still prefer an additional bedroom and/or office.

Despite lackluster sale trends, the average asking rent has steadily increased; albeit, at a slower pace as compared to prior years. 2023 Year-over-Year (YoY) rent growth registered 1.78%, a measurable slowing compared to the 2022 YoY growth of 5.56%. Cumulative growth over the past five years totaled over 22%. The primary contributors to lagging rent appreciation over the past year are continued economic uncertainty and a steady delivery of new product. Many households continue to cut extraneous spending and/or are delaying a move until fears of a recession subside.

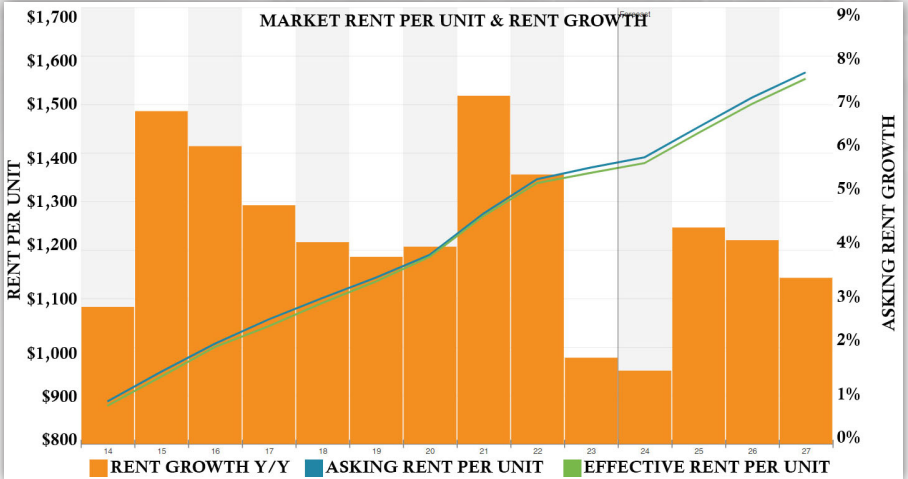
Meanwhile, additional inventory has resulted in an uptick in apartment vacancy; with 2023 vacancy averaging 6.42%, a measurable increase over the average in 2021 (2.83%) and 2020 (3.70%). Landlords are offering concessions in order to increase absorption and fill vacant units. This has given tenants a bit of breathing room after years of rent growth surpassing wage increases. Significant rent growth is not anticipated in 2024, as additional new deliveries are planned over the next two to three years.

2023 welcomed 708 new units to the MSA, of which 378 units were delivered in Salem/Keizer. New inventory over the prior five years totals 4,268 units or approximately 12.5% of all units in the MSA. As of year-end 2023, there were 1,290 units under construction throughout the MSA, with 704 of those in Salem/Keizer. The largest new development is Allison Way Apartments in Woodburn (586 units), slated for completion by year-end 2024. In Salem, the largest project currently under construction (anticipated to enter the market in late 2024/early 2025) is Riverbend Apartments Phase 2 (189 units) in West Salem. Several other projects are planned and under construction; however, most are infill projects with less than 50 units.



On an annual basis, absorption has remained positive despite the increased availability of new units. However, the number of units absorbed is generally less than what was experienced in 2020 and 2021. Rolling absorption during construction remains commonplace, and savvy marketing efforts continue to result in positive net absorption; however, the timeline from construction through stabilization remains lengthy at two or more years, depending on the number of units to be absorbed.

Looking forward, all eyes are on the Federal Reserve, which continues to combat elevated inflation with tight monetary policy. With three rate cuts anticipated throughout 2024, significant further price erosion should be mitigated. However, inflation remains higher than the target rate of 2%, which may temper some of the positive energy going into 2024. In addition, according to PwC, investors view the market as overpriced, with further declines anticipated throughout the year. With limited rent growth anticipated, and additional new inventory entering the market that will test the vacancy threshold, capitalization rates will likely inch upward throughout 2024. Creative solutions to tight lending parameters and proactive marketing will be key in the multifamily market this year.





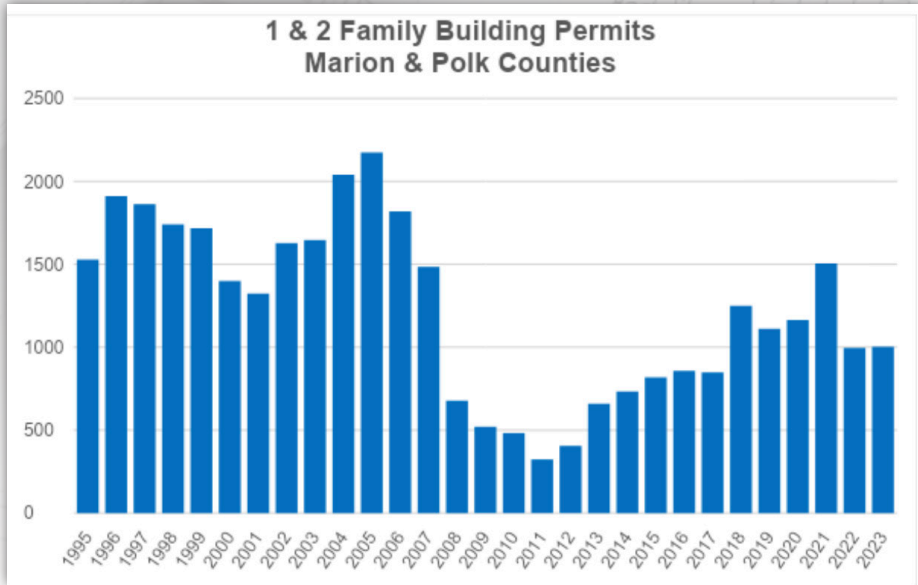
# MIKE ERDMANN

RESIDENTIAL CONSTRUCTION | HOME BUILDERS ASSOCIATION OF MARION & POLK



## NEW HOME STARTS

The Salem MSA (Marion and Polk counties) saw 1002 new starts of single-family homes, duplexes, triplexes and ADUs in 2023, the same level of production as the prior year. While the number of starts remained constant, the market saw a shift in the type of product being constructed, with a 9% decline in single-family building and an increase in the construction of ADUs and duplexes. ADUs represented 16% of Salem's housing starts, and 8% of the starts across Marion & Polk counties. For comparison, ADUs represented less than 4% of Salem's starts in 2022. 2023 saw a doubling in the number of duplex units built vs. the prior year, though most duplex construction was outside of Salem in surrounding communities where lots are more affordable.



## NEW HOME SALES

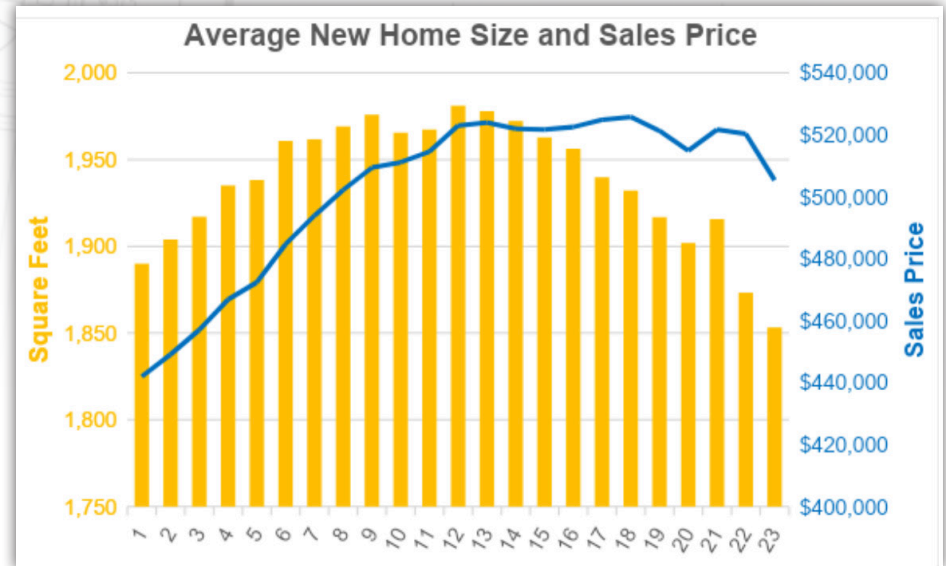
Sales of newly built homes were down 8% in 2023, mirroring the decline in single-family housing starts. This represents a 34% drop from just three years ago, and is less than half the number of sales during the housing boom in the mid-2000s. As with the existing resale market, rising mortgage interest rates that pushed as high as 8% in October dampened sales of new homes.

## INVENTORY

The inventory of newly constructed homes currently listed for-sale remains at low levels. Currently, only 3.5 months of new construction inventory is listed with Willamette Valley Multiple Listing. With 6 months of inventory generally considered a balanced market between buyers and sellers, our low inventory levels are a strong indicator that the industry is not overbuilding, and in fact could likely build and sell additional homes if land was more readily available. While the inventory of existing homes for resale has been held back by home owners reluctant to give up record low mortgage rates, the new construction market is largely held back by the unavailability of building lots.

## PRICING

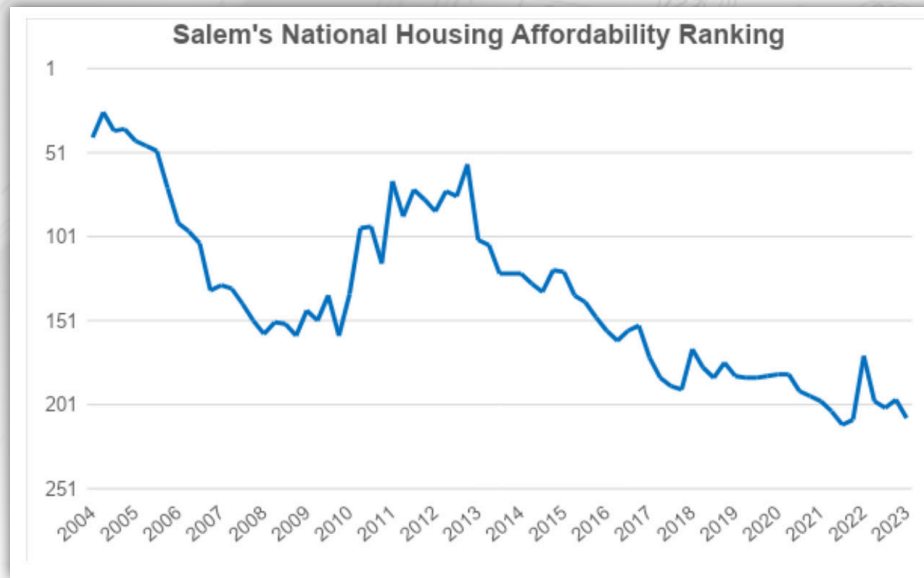
While the average sales price for new construction has declined to \$504,000 in 2023 from \$521,000 in 2022, this is the result of newly constructed homes being significantly smaller than the prior year. Faced with prospective buyer's declining buying power caused by higher mortgage interest rates, builders are constructing smaller homes to help combat declining affordability. Homes selling at the end of last year were a full 130 square feet smaller than those sold at the start of the year. While sales prices were down, prices per square foot actually rose to an average of \$276 per square foot in 2023, an increase from 2022's \$264 per foot.





## AFFORDABILITY

The region's housing affordability continues to worsen, as the cost of producing housing is plagued by ever-increasing regulatory costs, challenges and delays which significantly drive up development costs and serve to discourage future land development. As of the third quarter of 2023, Salem's housing affordability ranked 221st out of 241 housing markets nationally, with only 12% of homes affordable for a family earning the region's median income. This is a dramatic decline, as Salem has gone from one of the most affordable markets in the country to one of the least affordable in the past twenty years.



## MULTI-FAMILY

Construction of new multifamily housing was down significantly in 2023 as multifamily developers ran up against higher borrowing costs and difficulties in obtaining financing. Salem saw 330 new multifamily units permitted, with Woodburn permitting 414 units and another 220 units elsewhere in Marion & Polk counties. These combined 964 units were half the number of multifamily units built in 2022, but still higher than any other year since 1996. Multifamily development is expected to further weaken in 2024 due to the aforementioned financing challenges.

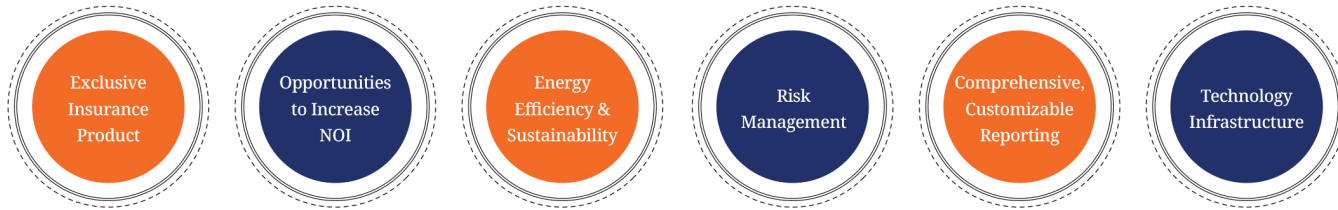
## LAND DEVELOPMENT

Very little subdivision development activity took place in 2023, with Salem seeing only two applications for new subdivisions. Devon Heights, a 6.6 acre, 48 lot subdivision on the hill just south of Creekside Golf Club was applied for by Sam Lapray. As with Lapray's other recent projects, these will be rental units with two attached units on each lot.

The other Salem subdivision application was for the Morgan Meadows subdivision in East Salem at the SW corner of Cordon Rd and Hayesville Dr. This 11 acre project includes 38 single-family lots and 54 townhome lots.

Residential land development activity is expected to remain slow throughout 2024 with high borrowing costs and the challenges associated with delivering lots at a price point that can be absorbed by a housing market clearly weighted towards smaller, less expensive homes.

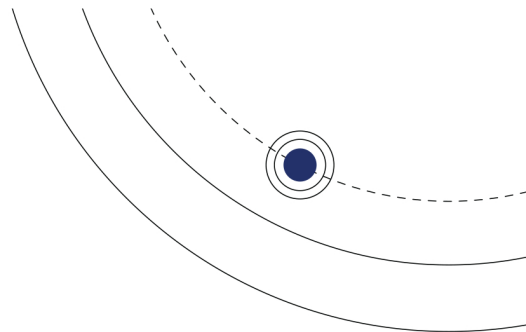




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# SVN core covenants

A company's core values provide clarity on what is truly important for organizational success, personal and professional conduct and what to expect from each other. At SVN® our Core Covenants personify our values and culture, and differentiate us from the competition.

**AS MEMBERS OF THE SVN® SHARED VALUE NETWORK®, WE EACH COMMIT TO DO THE FOLLOWING:**

- 1** Create amazing value with my clients, colleagues and communities.
- 2** Cooperate proactively and place my clients' best interests above my own.
- 3** Include, respect and support all members of the commercial real estate industry.
- 4** Honor my commitments.
- 5** Personify and uphold the SVN® brand.
- 6** Resolve conflicts quickly, positively and effectively.
- 7** Take personal responsibility for achieving my own potential.
- 8** Excel in my market area and specialty.
- 9** Focus on the positive and the possible.
- 10** Nurture my career while valuing the importance of family, health and community.

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