



# POWELL BANZ VALUATION, LLC

## SALEM/KEIZER APARTMENT SURVEY <sup>First</sup>Quarter <sup>2016</sup>

### INSIDE THIS SURVEY

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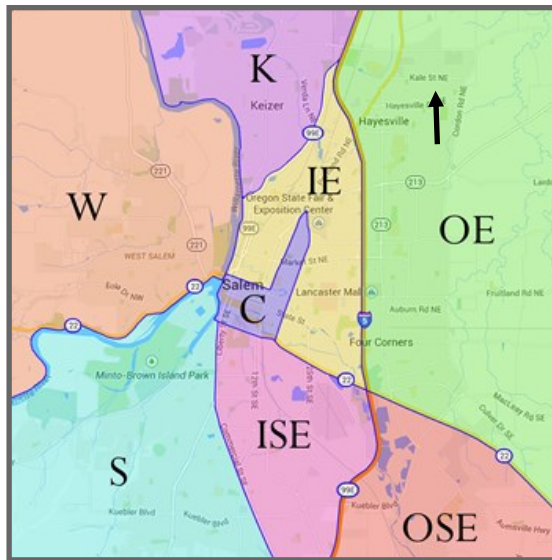
### SUMMARY

|                     |   |
|---------------------|---|
| Apartment Vacancy   | ▼ |
| Apartment Rent      | ▲ |
| Days On The Market* | ▼ |
| Average Sale Price* | ▲ |
| Average OAR*        | ▲ |

\*Indicates that the comparative figures were of mature complexes from 2015 to 2016.

### Introduction

This survey measures the vacancy and rent pertinent to Salem/Keizer apartments to provide meaningful analysis regarding the direction and velocity of change in the apartment market. For the first quarter of 2016, 320 complexes consisting of 17,129 units were surveyed. These units have been divided into two categories: "mature;" those constructed prior to 1990, and "contemporary;" those built after 1990.

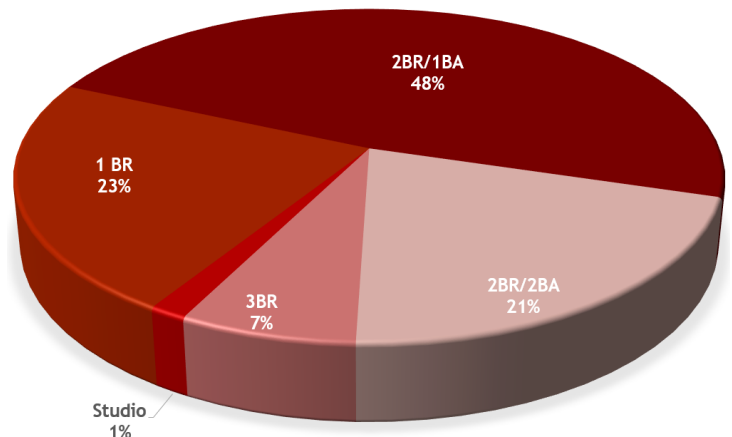


### SURVEY SUBMARKETS

This survey divides the Salem/Keizer area into eight subcategories: Keizer (K), West Salem (W), South Salem (S), Central Salem (C), Inner East Salem (IE), Outer East Salem (OE), Inner Southeast Salem (ISE), and Outer Southeast Salem (OSE). The map to the left depicts the boundaries of these submarkets. It is within these submarkets that the apartment market has been analyzed.

### UNIT TYPES

This survey categorizes apartment units into five conventional apartment configurations: studio, 1 bed/1 bath, 2 bed/1 bath, 2 bed/2 bath, and 3 bed. The chart to the right depicts the market share of each unit type.



### Number of Units Surveyed Per Submarket

| Central | Inner E | Inner SE | Keizer | Outer E | Outer SE | South | West  |
|---------|---------|----------|--------|---------|----------|-------|-------|
| 834     | 1,552   | 1,899    | 2,650  | 5,107   | 402      | 3,168 | 1,517 |

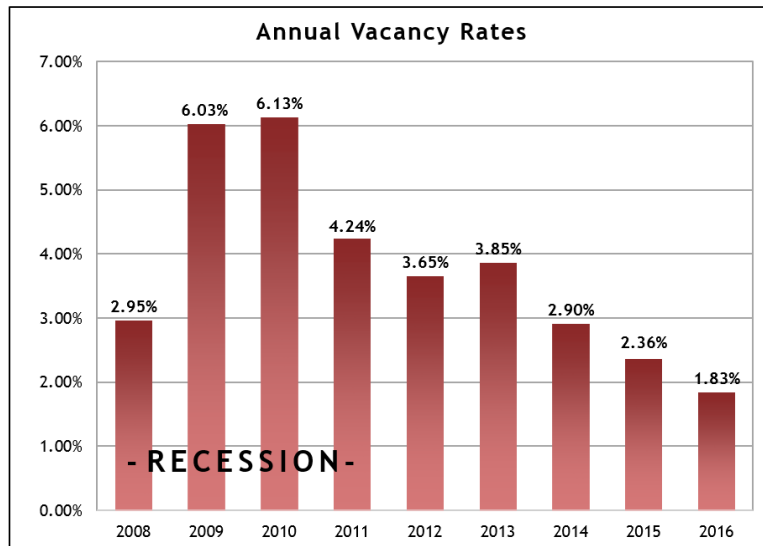
## Apartment Vacancy

### HISTORIC

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

### IN 2016

The **current vacancy rate is 1.83%** for Salem and Keizer; 22.46% lower than the vacancy rate one year ago. The **downward trend in vacancy rates** reflects an **imbalance of supply and demand** for apartments in the Salem/Keizer area. In addition, the demand for apartments and other rentable units is likely growing due to a **shift of consumer preferences** from homeownership to tenantry potentially caused by increased rigidity in the market for mortgage loans promulgated by the 2008 recession.



### HIGHLIGHTS

#### MARKET VACANCY

2016 1.83%

2015 2.36%

% CHANGE SINCE 2015 -22.46%

#### PER UNIT

STUDIO 1.56%

1BR/1BA 1.78%

2BR/1BA 1.98%

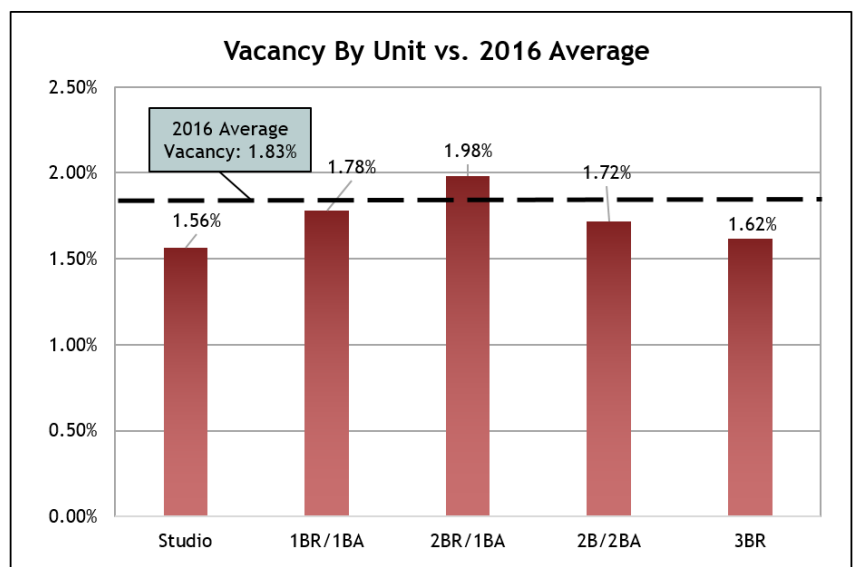
2BR/2BA 1.72%

3BR 1.62%

It is also important to note that the Salem MSA population growth of 0.87% per year (over the last five years) also positively impacts demand.

### VACANCY BY UNIT TYPE

The chart to the right compares the overall vacancy of 1.83% with the individual vacancy rate for each unit type. Vacancy for 2BR/1BA units is above the market average while the vacancy in the other units types is below the market average. This is expected and can be attributed to the fact that **2BR/1BA units account for 48.33% of all units surveyed**. Another possibility is a shift in demand away from 2BR/1BA toward 2BR/2BA as tenants expect a second bathroom.



## Apartment Rent

Below are two tables that illustrate the average rents and vacancy rates for various submarkets in Salem and Keizer. Divided by pre and post 1990 construction dates, a comparison between the tables illustrates the difference in rents that may be attributed to age of complexes. In looking at these tables there are several things to consider:

- ♦ Units are categorized as “with amenities” if they have at least one of the following:
  - ♦ Washer/dryer hookups or washer/dryer in unit
  - ♦ Covered parking or garages
  - ♦ Recreational amenities such as pool, club house, etc.
- ♦ Units are categorized as “no amenities” if they have none of the above.
- ♦ It is important to consider the market share of each unit type.
- ♦ All averages are weighted.
- ♦ N/A denotes that there were no units of that type surveyed in that specific submarket.
- ♦ Disparities and irregularities between average rents may be indicative of varying management goals or small sample sizes.
- ♦ Average rents for contemporary apartments in Central Salem are significantly higher than other submarkets and have notable irregularities. This is due to the sample size and inclusion of The Meridian and South Block.

### Contemporary Complexes (Constructed After 1990)

| Apartment Type           | Keizer  | Central | Inner E | Outer E | Inner SE | Outer SE | South   | West    | Average |
|--------------------------|---------|---------|---------|---------|----------|----------|---------|---------|---------|
| Studio - no amenities    | N/A     | N/A     | N/A     | N/A     | N/A      | N/A      | N/A     | N/A     | N/A     |
| Studio - with amenities  | N/A     | N/A     | N/A     | \$700   | \$725    | \$700    | N/A     | N/A     | \$708   |
| 1BR - no amenities       | N/A     | N/A     | NA      | \$654   | N/A      | N/A      | N/A     | N/A     | \$654   |
| 1BR - with amenities     | \$807   | \$1,252 | \$671   | \$775   | \$826    | \$850    | \$757   | \$919   | \$857   |
| 2BR/1BA - no amenities   | N/A     | N/A     | \$713   | \$698   | N/A      | N/A      | N/A     | N/A     | \$705   |
| 2BR/1BA - with amenities | \$819   | \$825   | \$859   | \$777   | \$928    | \$925    | \$781   | \$801   | \$839   |
| 2BR/2BA - no amenities   | N/A     | N/A     | N/A     | \$775   | N/A      | N/A      | N/A     | N/A     | \$775   |
| 2BR/2BA - with amenities | \$897   | \$1,633 | \$1,291 | \$933   | \$1,016  | \$921    | \$962   | \$1,033 | \$1,086 |
| 3BR - no amenities       | N/A     | N/A     | N/A     | N/A     | N/A      | N/A      | N/A     | N/A     | N/A     |
| 3BR - with amenities     | \$1,105 | \$2,191 | N/A     | \$1,083 | \$1,124  | \$1,073  | \$1,198 | \$1,132 | \$1,272 |
| Average Rent             | \$907   | \$1,475 | \$883   | \$799   | \$924    | \$894    | \$925   | \$971   |         |
| Vacancy Rate             | 1.89%   | 0.43%   | 2.42%   | 1.82%   | 1.69%    | 2.74%    | 1.56%   | 1.22%   |         |
| Total Vacancy            | 1.62%   |         |         |         |          |          |         |         |         |

### Mature Complexes (Constructed Before 1990)

| Apartment Type           | Keizer | Central | Inner E | Outer E | Inner SE | Outer SE | South   | West    | Average |
|--------------------------|--------|---------|---------|---------|----------|----------|---------|---------|---------|
| Studio - no amenities    | N/A    | \$606   | \$550   | \$495   | \$540    | N/A      | \$547   | \$525   | \$544   |
| Studio - with amenities  | N/A    | N/A     | N/A     | N/A     | \$575    | N/A      | NA      | N/A     | \$575   |
| 1BR - no amenities       | \$589  | \$649   | \$605   | \$584   | \$624    | N/A      | \$580   | \$652   | \$612   |
| 1BR - with amenities     | \$655  | \$732   | \$625   | \$641   | \$703    | N/A      | \$665   | \$732   | \$679   |
| 2BR/1BA - no amenities   | \$730  | \$728   | \$710   | \$694   | \$698    | N/A      | \$746   | \$741   | \$721   |
| 2BR/1BA - with amenities | \$793  | \$821   | \$753   | \$777   | \$788    | N/A      | \$792   | \$782   | \$786   |
| 2BR/2BA - no amenities   | \$875  | \$921   | \$850   | \$812   | \$790    | N/A      | \$775   | N/A     | \$837   |
| 2BR/2BA - with amenities | \$926  | \$844   | \$829   | \$837   | \$1,073  | N/A      | \$830   | \$810   | \$878   |
| 3BR - no amenities       | \$906  | N/A     | \$900   | \$793   | N/A      | N/A      | \$1,085 | N/A     | \$921   |
| 3BR - with amenities     | \$979  | N/A     | \$870   | \$1,000 | \$1,033  | N/A      | \$1,028 | \$1,100 | \$1,001 |
| Average Rent             | \$807  | \$757   | \$743   | \$737   | \$758    | N/A      | \$783   | \$763   |         |
| Vacancy Rate             | 2.65%  | 1.66%   | 2.78%   | 1.68%   | 1.59%    | N/A      | 1.84%   | 2.05%   |         |
| Total Vacancy            | 2.05%  |         |         |         |          |          |         |         |         |

### HIGHLIGHTS

#### Studio

|            |       |
|------------|-------|
| Avg. Rent: | \$612 |
| Avg. Vac:  | 1.56% |

#### 1 Bed/1 Bath

|            |       |
|------------|-------|
| Avg. Rent: | \$719 |
| Avg. Vac:  | 1.78% |

#### 2 Bed/1 Bath

|            |       |
|------------|-------|
| Avg. Rent: | \$776 |
| Avg. Vac:  | 1.98% |

#### 2 Bed/2 Bath

|            |       |
|------------|-------|
| Avg. Rent: | \$938 |
| Avg. Vac:  | 1.72% |

#### 3 Bed

|            |        |
|------------|--------|
| Avg. Rent: | \$1089 |
| Avg. Vac:  | 1.62%  |

|                      |              |
|----------------------|--------------|
| <b>Total Vacancy</b> | <b>1.83%</b> |
|----------------------|--------------|

## Financial Indicators

This study puts forth aggregated apartment financial indicators in Salem and Keizer. Please note there have not been any sale transactions for Contemporary Complexes in the first quarter of 2016. Any irregular fluctuation from 2016 may be due to the location and age of various apartment complexes within the sample.

### DAYS ON MARKET

The marketing period for mature complexes, on average, has **increased by 167 days** in comparison to 2015. The average marketing period increased significantly from high outliers, which could be rooted in the higher maintenance costs associated with older properties which lead to lower OARs, or unfavorable complex characteristics within the 2016 sample.

### PRICE PER UNIT

The average price per unit **decreased from 2015 by \$12,356** alluding once again to the idea that the sampled complexes are below average market quality for Mature Complexes, which may skew the data low.

### OVERALL RATE (OAR)

As expected with generally older complexes, the operating costs trend upward in correspondence with age, leading to a lower OAR. In 2015, the average mature apartment complex had lower operating expenses, yet the OARs are virtually the same in 2015 and 2016. Interestingly, the research shows there is a higher vacancy rate for mature apartments in contrast to contemporary apartments, suggesting there is a higher demand by tenants for contemporary apartments.

### NOTES

Please take the following into consideration when reviewing the chart below:

- ♦ The 2016 indicators reflect only the first quarter of 2016 while the indicators for other years reflect all four quarters of that year.
- ♦ Since the indicators for 2016 only reflect the first quarter, there was limited data available for calculations, which may lead to anomalies in the average reporting.
- ♦ “Recession” is to be used as a general marker, not as exact start and end dates for the most recent recession.
- ♦ One sale in 2012 for contemporary complexes had a marketing time that included construction.

## HIGHLIGHTS

### Avg. Price (per unit)

Mature: \$52,201

### Avg. Operating Expense (per unit)

Mature: \$3,251

### Avg. Days on Market

Mature: 260

### Avg. OAR

Mature: 6.53%

| Typical Salem/Keizer Apartment Financial Indicators |          |          |          |          |          |          |          |          |          |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Mature Complexes                                    | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     |
| Avg. Units/ Transaction                             | 47       | 47       | 18       | 35       | 57       | 21       | 73       | 29       | 34       |
| Price/Unit  | \$50,794 | \$47,841 | \$49,697 | \$37,815 | \$46,362 | \$50,630 | \$46,739 | \$64,557 | \$52,201 |
| Price/SF  | \$66     | \$65     | \$71     | \$56     | \$60     | \$75     | \$60     | \$82     | \$77     |
| GPIIM   | 8.23     | 8.95     | 8.07     | 6.19     | 6.71     | 7.35     | 6.77     | 8.45     | 7.5      |
| Operating Expenses (% EGI)                          | 43.51%   | 40.50%   | 37.94%   | 44.15%   | 43.77%   | 40.58%   | 47.33%   | 42.83%   | 49.29%   |
| Operating Expenses (per Unit)                       | \$2,651  | \$2,233  | \$2,518  | \$2,793  | \$2,841  | \$2,653  | \$3,068  | \$2,963  | \$3,251  |
| OAR   | 6.60%    | 6.17%    | 6.89%    | 8.23%    | 8.06%    | 7.79%    | 7.47%    | 6.51%    | 6.53%    |
| Days On Market                                      | 79       | 129      | 243      | 161      | 165      | 172      | 145      | 93       | 260      |
| Contemporary Complexes                              | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     |
| Avg. Units/ Transaction                             | 81       | 17       | NONE     | 44       | 23       | 60       | 43       | 66       | NONE     |
| Price/Unit  | \$68,158 | \$65,158 | N/A      | \$72,020 | \$86,957 | \$73,454 | \$62,177 | \$82,057 | N/A      |
| Price/SF  | \$74     | \$77     | N/A      | \$72     | \$111    | \$80     | \$70     | \$79     | N/A      |
| GPIIM   | 8.88     | 8.77     | N/A      | 8.15     | 9.63     | 8.28     | 7.97     | 8.42     | N/A      |
| Operating Expenses (% EGI)                          | 38.22%   | 34.9%    | N/A      | 39.89%   | 33.50%   | 43.06%   | 45.73%   | 38.26%   | N/A      |
| Operating Expenses (per Unit)                       | \$2,850  | \$2,571  | N/A      | \$3,514  | \$3,351  | \$3,480  | \$3,392  | \$3,557  | N/A      |
| OAR   | 6.49%    | 6.80%    | N/A      | 6.65%    | 6.56%    | 6.54%    | 6.49%    | 6.99%    | N/A      |
| Days On Market                                      | 117      | 299      | N/A      | 216      | 548      | 59       | 64       | 101      | N/A      |

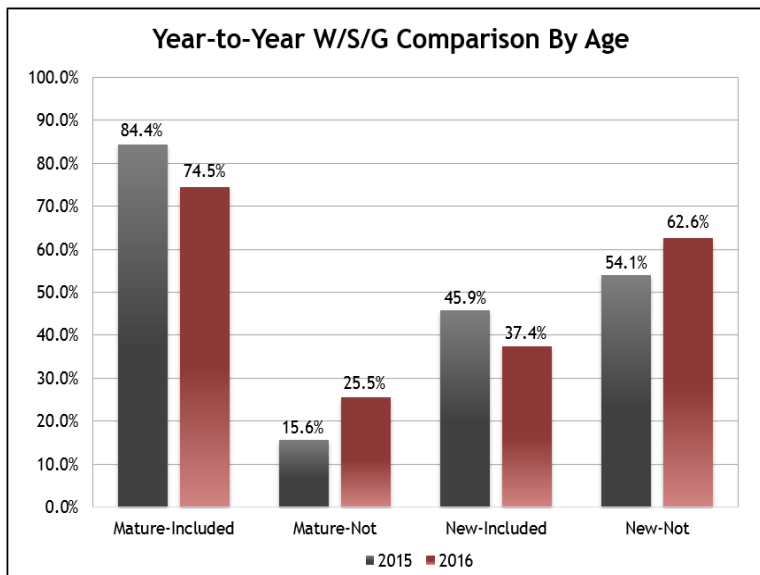
← RECESSION →

## Utility Study

The charts below depict the percentages of apartment units in Salem/Keizer that include or do not include water, sewer, and garbage (W/S/G) in the rent.

### 2015-2016 COMPARISON BY AGE

For mature apartments constructed prior to 1990, it is more common to include W/S/G in the rent than to pass on those charges to the tenant. Approximately **75% of mature units include W/S/G in the rent**, leaving just 25% that do not. However, for contemporary apartments, built after 1990, it is becoming more common to pass on the utility charges to the tenant. Approximately **63% of contemporary units do not include W/S/G in the rent while 37% do include these utilities. Overall, however, projects are passing these costs onto tenants more in 2016 than one year ago by an average of 9.2%.**



### HIGHLIGHTS

#### Mature Complexes

Included: 74.5%

% change since 2015:  
-11.73%

Not: 25.5%

% change since 2015:  
11.73%

#### Contemporary Complexes

Included: 37.4%

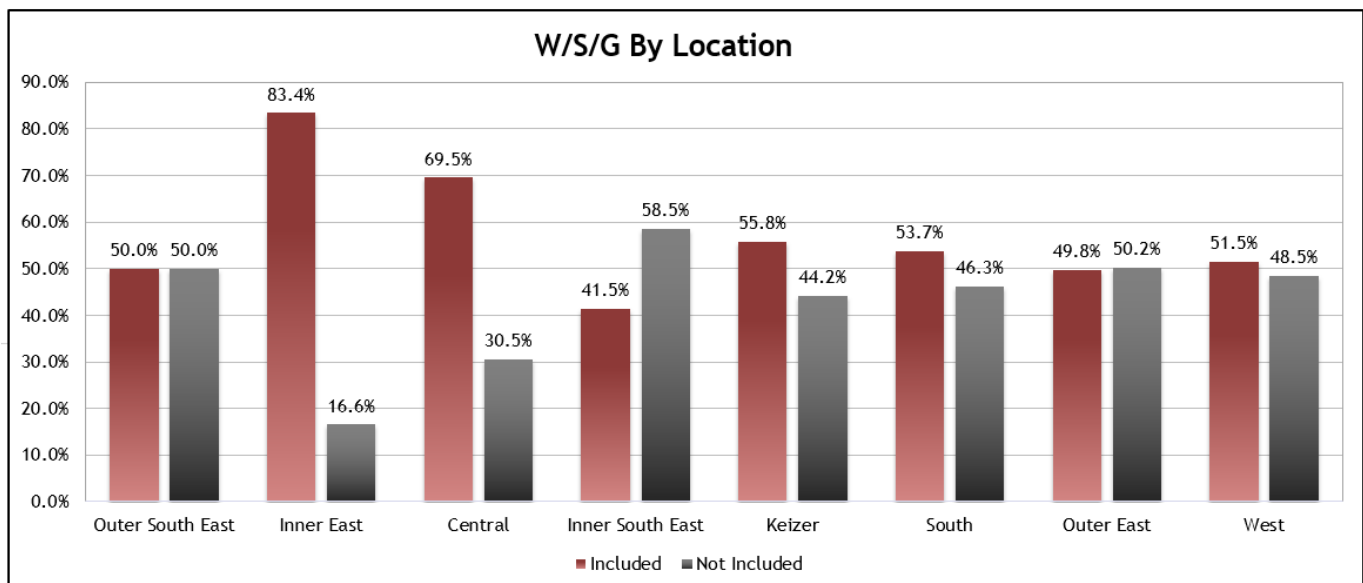
% change since 2015:  
-18.52%

Not: 62.6%

% change since 2015:  
18.52%

### BY LOCATION

As depicted in the chart below, **utility charges vary widely by location.** The submarkets that tend to have a larger portion of higher income earning tenants, such as West Salem (W) and South Salem (S), also have a high percentage of units that **do not include W/S/G in the rent.** With the exception of the Inner East (IE) and Central (C) submarkets, all regions seemingly have relatively similar percentages of units that include and do not include W/S/G service.





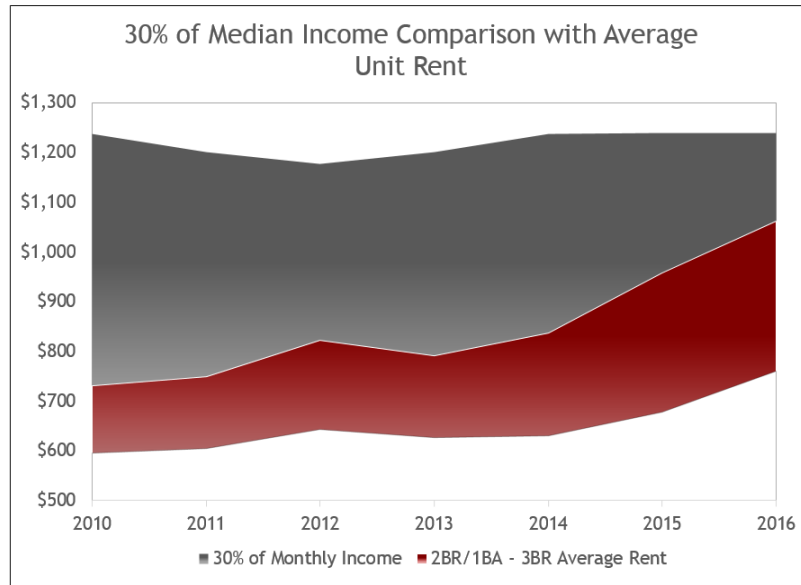
## Relative Affordability

The following graphs seek to illustrate the relationship between income and rent in Salem/Keizer. Data was gathered from the U.S. Census.

### INCOME TO RENT COMPARISON

The graph to the right illustrates trends in annual median family income in Salem (adjusted for inflation), calculated for 30% of a monthly average (State of Oregon Employment Department). It also shows trends in average 2BR/1BA and 3BR monthly rent, as these unit types account for

the apartments families are eligible for and most likely rent. To show change in affordability, this graph utilizes the 30% rule, the idea that monthly rent should not exceed 30% of a household's monthly income else they become cost burdened (U.S Department of Housing and



### HIGHLIGHTS

#### 2016

Median Monthly Family Income: \$4,128

30% of Median: \$1,238

Average 2BR/1BA Rent: \$761

Percent of Income: 18.43%

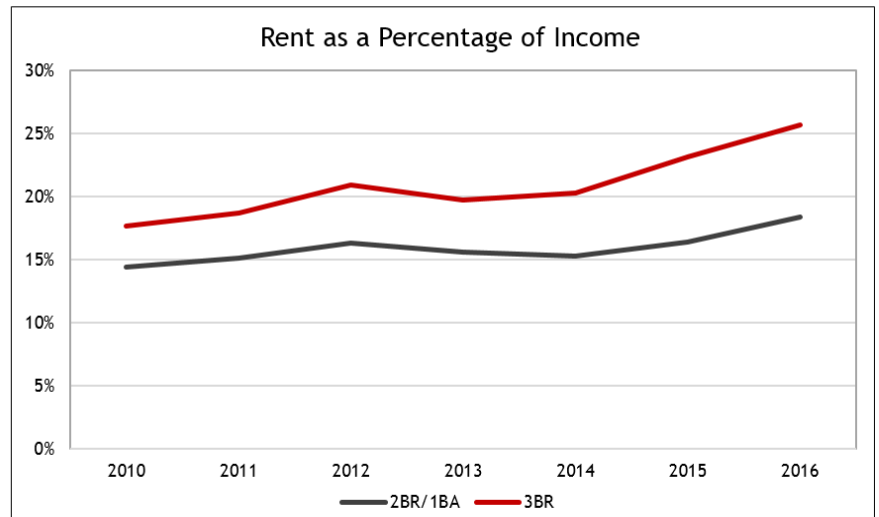
Average 3BR Rent: \$1,061

Percent of Income: 25.7%

Urban Development), and establishes the relationship between monthly income and rent. The red area represents the range in average rents for 2BR/1BA and 3BR units, while the gray area gives a visual representation of the difference of 30% of the median income and average rent.

### RENT AS A PERCENTAGE OF INCOME

The graph to the right seeks to show year to year change in the percentage of monthly income contributed to rent. Since 2010, the median family income has risen and fallen, but is relatively stable overall. Meanwhile, the growth rate of the average rent for both 2BR/1BA and 3BR apartments has been positive, with the exception of 2013. In the past two years, the annual rental growth rate was the highest since 2010. With slowly increasing rent and stable income levels, the 30% rule is closer to being broken in 2016 than in any other year since 2010. Consequently, we might see more apartment construction activity and a demand for mature units, which tend to be cheaper. There can be a decline in purchasing power of tenants in Salem and Keizer as families might



use a higher percentage of their incomes on rent and become more cost burdened. However, it is important to note that rents are not yet at the 30% benchmark, and rents in Salem/Keizer are not growing as fast as in the larger, Portland Metro market.

## Conclusion

### VACANCY & RENT

Overall apartment vacancy decreased from 2.36% in the first quarter of 2015 to 1.83% in the first quarter of 2016. Vacancy is highest for 2 bedroom, 1 bathroom units due to the greater market share and lower demand for this unit type. **Since last year, apartment rents have increased** for every unit type by as little as 9% (for 2BR/2BA units) and as much as 15% (for studio units).

### FINANCIAL INDICATORS

The marketing period has increased for mature complexes, suggesting a hesitation of buyers. The average sale price per unit slightly decreased since 2015 caused by sampled complexes that might be below market quality. The average overall rate has decreased for mature complexes and increased for contemporary complexes.

### UTILITIES

Currently, mature complexes tend to include W/S/G in the rent while contemporary complexes are more likely to pass on these charges to the tenant. With the addition of contemporary apartment complexes in the Salem/Keizer area, the market's utility standards are shifting; a benefit to owners.

| SUMMARY   |   |
|---|---|
| Apartment Vacancy   | ▼ |
| Apartment Rent  | ▲ |
| Days On The Market*   | ▼ |
| Average Sale Price*   | ▲ |
| Average OAR*  | ▲ |
| *Indicates that the comparative figures were of mature complexes from 2015 to 2016. |   |

## Brought To You By:



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