City of Salem Urban Development Department 350 Commercial Street NE Salem, OR 97301

**RE: Multiple-Unit Housing Tax Incentive Program Application** 

To Whom It May Concern,

Enclosed please find our completed application for the multiple-unit housing tax incentive program for our proposed development at 277 NE High Street, Salem, Oregon.

If during your review of the application any additional information might be helpful, please don't hesitate to reach out. We'd be happy to answer any questions that might come up during this process and are excited about the positive impact the proposed development would have on the Downtown area.

We appreciate the opportunity to work with the City of Salem on this new project and thank you for your consideration.

Sincerely,

Steve Deacon, Manager

Deacon Development, LLC

# Application for Multiple-Unit Housing Tax Incentive Program – SRC 2.790

City of Salem, Urban Development Department 350 Commercial Street NE, Salem, OR 97301

I. Applicant Inform legal documentation of the LLC	<b>ation</b> s formation	(If the applicant is on and list of mem	s an LLC, S-Corps or simila bers, authorized to sign o	nr member n LLC's beh	company, please provide half)
Name: Steve Deacon		Titl	Title: Principal/Manager		
Company: Deacon Developme	nt, LLC	1.			
Street: 901 NE Glisan Street		City	City, State, Zip Code: Portland, OR 97232		
Phone: (503) 297-8791		E-mail: steve.de	eve.deacon@deacon.com FAX:		
II. Applicant 's Representative Information (if different than above)					
Name: lan Lewallen		Titl	Title: President		
Company: Deacon Developme	ent				
Street: 901 NE Glisan Street		City	, State, Zip Code: Por	tland, OR 97	7232
Phone: (503) 297-8791		E-mail: ian.lewa	lewallen@deacon.com FAX:		
III. Property Inform	nation				
Project is located within th	ne desigr	nated program	boundary:	No	
Applicant has site control:	X Yes	No			
Address: 277 NE High Street, Salem, OR 97301					
Map: 07 3W 22DC	Block:		Subdivision: Salem		
Note: If property is only a fraction of a platted lot, indicate this fact and provide a metes and bounds description of the portion of the lot to be used.					
Current use(s) of site:					
Privately owned paid public parking lot					
If existing housing is being	remove	d, please expla	nin why:		
N/A					
Current zoning: CB Assessor's property account number(s): 589140					
Parcel size: ~ 23,164 square feet					
IV. Project Informa	ation				
Anticipated construction start date: August 1, 2024 Anticipated completion date: March 1, 2026					
Desired effective date (tax	( year) f	or the Multi-Un	it Housing Incentive P	rogram:	2026-2027
Number, size, and type of	f dwellin	g units propos	ed:		
42 1 bedroom units	630	Square feet	Median sa	les price	\$1,675. Rental rate
19 2 bedroom units	892	Square feet	Median sa	les price	\$1,995.0 Rental rate
3 bedroom units		Square feet	Median sa	les price	Rental rate
44 Other units	477	Square feet	Median sa	les price	\$1,375.0 Rental rate

Total	building square footage: 77,841	Dimensions of building: L-shaped, see included site plan			
Buildi	ng covers ~53% percentage of the	lot.			
	int of open space to be included:				
		truction over one concrete podium with tuck under parking			
Туре	of materials: Wood framed with concrete podium, ma	etal panel and fiber exterior siding with brick accent			
Is oth	ner public financial assistance being requeste	ed for the project? Ves No			
If so,	please list the amount and type of existing or	r anticipated sources of funds requested:			
We have received a \$749,999 grant from the Urban Renewal Agency to assist in the funding of the construction hard costs which will help make the re-development economically feasible.					
V. P	ublic Benefits (Please check all that apply	y)			
⊠ Ur	nits sales prices or rental rates accessible to a	broad range of mixed incomes			
∝ Re	ecreation facilities				
	pen space				
	ommon meeting rooms				
	aycare facilities				
	cilities supportive of the arts				
☐ Fa	cilities for the handicapped				
□ Sp	ecial architectural features				
☐ Se	rvice/commercial use permitted and needed I	but unavailable for economic reasons			
□ De	edication of land or facilities for public use				
	evelopment or redevelopment of underutilized	or blighted property			
	ovision of pedestrian-oriented design features				
	tra costs associated with infill or redevelopme				
-	evelopment in structures that may include gro				
Development on sites with existing single-story commercial structures					
Development on existing surface parking lots					
Do to to the direction of the direction					
LEED certification of the project  Provision of parking spaces within the structure					
	g - Farming - Fa				
/ III	ovision of uniterlities and/or programs support	are or the ase of mass transit			
Please attach the following and label as Exhibits A-F					
×	Legal Description, labeled as Exhibit A				
×	Evidence of Site Control, labeled as Exhibit B				
×	A description of the project including information regarding the size and type of units, target population, parking and circulation plans, private and public access, and public benefits of the project, labeled as Exhibit C				
X	A site plan, drawn to a minimum scale of $1'' = 20'$ , which shows in detail the development plan of the entire project. Refer to SRC2.810 (3) and (5), labeled as Exhibit D				
X	Letter from the City of Salem Public Works Department stating the proposed use can be served by existing sewer and water service, labeled as Exhibit E				
×	Documents to explain the proposed public benefits, including economic feasibility studies and market studies when appropriate, labeled as Exhibit F				

Office Use Only				
Pre-Application date:	Fee received:			
Date final application received:	Received by:			
Urban Development Contact:	Pre-Application Conference Date:			
Date of correspondence to abutting property owners and appropriate affected	Meeting Summary Letter sent on:			
	a parties, city departments, etc			
Correspondence sent to:				
Council Hearing date:				
☐ Approved? ☐ Denied? ☐ Other:				
Comments:				
I certify that the above statements are true, accurate and belief.	, and complete to the best of my knowledge			
Applicant's Signature:	Date: Wednesday, February 14, 2024			
Applicant's Name (Please print or type here):	on			
Applicant's Title (Please print or type here): Principal/Ma	nager			
Fill out form with Adobe Acrobat or print out and fill-i	n.			
After completing form print, sign, and mail or bring to	clint Dameron, 503.540.2404 350 Commercial Street NE Salem, OR 97301			

# EXHIBIT A – Legal Description

#### **EXHIBIT A**

The Land referred to herein below in situated in the County of Marion, State of Oregon, and is described as follows:

LOT 1, BLOCK 22, CITY OF SALEM, MARION COUNTY, OREGON.

ALSO: BEGINNING ON THE EAST LINE OF LOT TWO (2), BLOCK TWENTY-TWO (22) THE ORIGINAL PLAT, CITY OF SALEM, MARION COUNTY, OREGON, AT A POINT WHICH IS 26 FEET 2 INCHES NORTHERLY FROM THE SOUTHEAST CORNER OF SAID LOT AND RUNNING THENCE WESTERLY PARALLEL WITH THE SOUTH LINE OF SAID LOT 165 FEET, MORE OR LESS, TO THE WEST LINE OF SAID LOT; THENCE NORTHERLY ALONG THE WEST LINE OF SAID LOT, 56 FEET 8 INCHES TO THE NORTHWEST CORNER OF SAID LOT;

THENCE EASTERLY ALONG THE NORTH LINE OF SAID LOT 165 FEET, MORE OR LESS, TO THE NORTHEAST CORNER THEREOF;

THENCE SOUTHERLY ALONG THE EAST LINE OF SAID LOT, 56 FEET 8 INCHES TO THE PLACE OF BEGINNING, BEING A PART OF LOT TWO (2), IN BLOCK TWENTY-TWO (22), CITY OF SALEM, MARION COUNTY, OREGON.

THE LEGAL DESCRIPTION WAS CREATED PRIOR TO JANUARY 01, 2008.

## EXHIBIT B – Evidence of Site Control

# REAL ESTATE PURCHASE AND SALE AGREEMENT January 12, 2023

**Deacon Development, LLC** and/or assigns ("**Purchaser**"), an Oregon company, at 901 NE Glisan Street in Portland, OR 97232, hereby agrees to purchase and FT Development, LLC ("**Seller**"), with an office at 277 High Street NE, Salem, OR 97301 agrees to sell, on the following terms and conditions, the real property ("**Property**") located in the city of Salem, State of Oregon, County of Marion, legally described in **Exhibit** "A" attached hereto, and by this reference made a part hereof, commonly known as tax lot(s) APN 5700, consisting of approximately 23,087 ("**Estimated Square Feet**").

Now, for and in consideration of the mutual covenants contained herein, the sufficiency of which is hereby acknowledged, Purchaser and Seller do hereby agree as follows:

#### 1. EARNEST MONEY.

Purchaser hereby deposits **FIFTY THOUSAND DOLLARS AND NO/100 DOLLARS (\$50,000.00)** as an earnest money deposit ("**Deposit**") which sum is in the form of a Promissory Note. Said sum shall be applied toward and deducted from the Purchase Price at the time of Closing (hereinafter defined). The Deposit shall be non-refundable except as provided in Paragraph (3) and subject to the provisions in Paragraphs (10, 11, 13, 15 and 20) herein. The Deposit, together with this Agreement, shall be held by Escrow Agent described in Paragraph 21(e) below for the benefit of the parties hereto.

#### 2. PURCHASE PRICE.

The Total purchase price is **ONE MILLION ONE HUNDRED EIGHTY FOUR THOUSAND SEVEN HUNDRED AND FOURTY AND NO/100 DOLLARS (\$1,184,740) ("Purchase Price").** The amount of the Purchase Price, less the Deposit and any non-refundable Extension Payments as provided for in Paragraph 4(c) herein, if any, paid prior to Closing, shall be payable all cash at Closing.

#### 3. **FEASIBILITY STUDY.**

- Purchaser shall have **One Hundred Twenty (120) days** from the date Purchaser receives the Preliminary Title Commitment, as provided for in Paragraph (11), to perform a feasibility study to determine, in Purchaser's sole and absolute discretion, whether the subject Property is suitable for development of Purchaser's project, and whether Purchaser shall elect to proceed with the purchase of the subject Property under the terms and conditions of this Agreement **("Feasibility Study")**. In the event that said Feasibility Study is satisfactory to Purchaser, then Purchaser shall provide Notice to Seller and Escrow Agent in writing of such satisfaction and the Deposit Promissory Note referred to in Paragraph (1) shall become non-refundable except in the event of any default by Seller, redeemed for cash to be held by Escrow Agent. Concurrently, Purchaser shall provide instruction to Escrow Agent to immediately release the Earnest Money to Seller upon Seller's request. For clarity, notwithstanding any other clause, section or provision in this Agreement, Purchaser's Deposit Earnest Money shall be non-refundable and payable to Seller on the date which is the 121st calendar day following January 17, 2023 unless Purchaser submit notice to Seller that this Agreement is terminated prior to the 121st calendar day following January 17, 2023, whereby this offer shall become null and void and the Escrow Agent shall return the Deposit to Purchaser
- b) During the term of this Agreement, Purchaser may conduct a preliminary analysis to determine whether there is a likelihood that wetlands, protected species, archeologically sensitive items or other environmentally sensitive soils exist on the Property, or any Environmental Hazards, defined herein, exist on the Property or within any structures. In the event that Purchaser's review of said preliminary analysis indicates the possibility that any of these conditions exist, Purchaser shall then have the option of either terminating this Agreement or requesting a further investigation of such determination by Purchaser's agents, consultants or

engineers as to the existence and extent of these conditions and as to the effect of the same on the ability to develop the subject Property. In the event that Purchaser's investigations result in finding that any such conditions exist, then Purchaser shall have the option to either (i) terminate this Agreement, whereby the Escrow Agent shall return the Deposit and all other payments made by Purchaser, if any, to Purchaser; or (ii) reduce the Purchase Price by an amount determined in Section 14 below. In the event the Feasibility Study determines there are Environmentally Hazardous materials on the Property or in the Buildings, Purchaser shall provide Notice to Seller and Seller shall remediate the same at Seller's cost as provided for in Section 15(g) below. In the event that Purchaser is unable to obtain such determination from its agents and/or engineers by the end of the Feasibility Study, then Seller agrees to extend the Feasibility Study until such determination is acquired by Purchaser.

#### 4. **CLOSING OF SALE.**

- a) Except as otherwise provided in Paragraphs 3(b) herein, the sale shall be closed in Escrow on or before Thirty (30) days after the conclusion of the Feasibility Study (Section 3(a)). Closing shall be in the offices of the Escrow Agent.
- b) In the event that Purchaser submits a written request on or before Closing accompanied by a cash payment in the amount of **TEN THOUSAND AND NO/100 DOLLARS (\$10,000.00)** paid to Escrow Agent, Closing may be delayed for a period of one (1) calendar month. ("Extension Payment"). Said Extension Payments shall be applied toward and deducted from the Purchase Price at Closing, shall be non-refundable, excepting the event of any default by Seller, to be held by Escrow Agent. Concurrently, Purchaser shall provide instruction to Escrow Agent to immediately release the Extension Payment to Seller upon Seller's request. Purchaser may elect to extend Closing in the same manner as provided above in this Section 4(b) for up to fourteen (14) total calendar months following which, Purchaser may elect to extend Closing in the same manner as provided for in this Section 4(b) for up to three (3) additional calendar months each of which to be in the amount of **TWELVE THOUSAND FIVE HUNDRED AND NO/100 DOLLARS (\$12,500.00).**
- c) As used in this Agreement, the term "Closing" or "Closing Date" means the date on which all documents have been recorded and the sales proceeds are available to Seller.
- d) During the Feasibility Period, Seller shall provide Notice to Escrow Agent of any note and/or mortgage, deed of trust, or real estate contract, or other claim against the Property which requires consent to the sale of the Property within thirty (30) days after the Effective Date. If any such document so provides and the holder does not agree waive the same during the Feasibility Study and/or unconditionally approve the sale, then Purchaser shall at Purchaser's sole discretion either; (i) extend the Feasibility Period until approval or waiver is granted or; (ii) declare this Agreement null and void at Purchaser's option and the Deposit and any Extension Payments shall be returned to Purchaser.

#### 5. FOREIGN INVESTMENT IN REAL PROPERTY TAX ACT.

At Closing, Seller agrees to deliver a correctly completed Foreign Investment in Real Property Tax Act Certification in a form acceptable to Purchaser and the Escrow Agent. The parties agree to comply in all respects with Internal Revenue Code, Section 1445 (or any successor section thereto) and the regulations issued thereunder, hereinafter referred to the "Regulations." If Seller is not a "Foreign Person" (as defined in the "Regulations"), Seller shall deliver to Purchaser through the Escrow Agent, a non-foreign certificate, properly executed in form and content as approved by the Internal Revenue Service. If Seller is a "Foreign Person" or fails or refuses to deliver the non-foreign certificate as indicated above, or Purchaser receives notice, or has actual knowledge that such non-foreign certificate is false, an amount equal to TEN PERCENT (10%) of the Purchase Price shall be withheld through escrow and paid by the Escrow Agent to the Internal Revenue Service in the manner prescribed by the Regulations, unless such withholding is reduced or excused in the manner prescribed by the Regulations.

#### 6. TAX DEFERRED EXCHANGE (SECTION 1031).

Seller and Purchaser each reserve the right to enter into a **Section 1031 Tax Deferred Exchange** related to this sale of the subject Property. Both agree to cooperate with the other fully in completing any such exchange, provided that said exchange creates no additional cost or liability for Purchaser other than Purchaser's obligations as specifically outlined herein, and that the costs of entering into said exchange are paid by the exchanging party, and that no delay in the Closing of this transaction is created by said exchange.

#### 7. CLOSING COSTS.

- a) Seller shall pay: The premium for the Owner's standard policies of title insurance in the face amount of the Purchase Price; real estate excise taxes on the conveyance; transfer taxes, if any; one-half of the normal escrow fees; and the real estate brokerage commission.
- b) Purchaser shall pay: The cost of any extended coverages required by Purchaser; the cost of recording the deed; the cost of recording the memorandum; and one-half of the normal escrow fees.

#### 8. PRORATIONS.

Real property taxes for the current tax year, insurance acceptable to Purchaser, rents on any tenancies, accrued interest, and/or mortgage reserves, if any, constituting liens on the subject Property shall be prorated at Closing. Any deposits evidencing prepaid rents or security deposits of tenants held by Seller at Closing will be assigned to Purchaser at Closing. All assessments, both preliminary and final on the Property or respecting the Property, including but not limited to sewer, water, and other utilities, if any, shall be paid by Seller at Closing. Seller shall pay to Purchaser any Taxes, insurance and operating costs collected from tenants in excess of actual which are to become payable upon audit or reconciliation occurring after the Closing. In lieu of a proration of utility charges, Seller shall cause all utility providers to make a final reading as of the Closing Date and transfer the service to Purchaser's name and to forward the final statement to Seller and all future statements to Purchaser. Seller shall promptly pay its final bills. In the event that any utility provider cannot provide final readings as of the Closing Date, then utility charges shall be prorated as of the Closing Date once the final bills are issued. The obligations of this Section (8) shall survive Closing.

#### 9. POSSESSIONS.

Purchaser shall be entitled to possession of the Property on Closing. Any personal property and/or livestock remaining on the Property after the second day following the Closing shall immediately become the property of Purchaser. Seller warrants that all such personal property and/or livestock is under the control or ownership of Seller and Seller shall relinquish all right, title and interest in same. This provision shall act under law as a valid Bill of Sale for all such personal property and/or livestock and this provision shall survive the Closing. In the event any such personal property and/or livestock has any debt secured by, or associated with the same, Seller authorizes Purchaser to surrender any such personal property and/or livestock to the associated debtor.

#### 10. CONDITIONS OF TITLE.

Seller's title to the Property at Closing shall be good, marketable and free and clear of all liens, encumbrances, leaseholds or defects, except as expressly approved by Purchaser in writing as provided for in Paragraph (11) herein. Title shall be conveyed by Statutory Warranty Deed.

#### 11. TITLE INSURANCE.

Seller shall furnish to Purchaser, at Seller's sole cost and expense, which expense shall be due and payable at Closing, a Preliminary Commitment of Title Insurance ("Commitment") from Title Company as soon as

reasonably possible following the opening of escrow. Purchaser's Feasibility Study referred to in Paragraph (3), shall not commence until said commitment is received by Purchaser. Purchaser shall then have Twenty (20) days after receipt of the Commitment within which to notify Seller and Escrow Agent in writing, of Purchaser's disapproval of any exceptions shown in the Commitment; provided, however, that the rights reserved in federal patents or state deeds, building use restrictions general to the district, existing easements not inconsistent with Purchaser's intended use, and/or building or zoning regulations, except as provided for herein, shall not be deemed exceptions which Purchaser may disapprove and together with any exceptions which Purchaser did not disapprove shall be the "Permitted Exceptions". In the event of disapproval of any exceptions by Purchaser pursuant to this Paragraph and as set forth in the Commitment and any extended coverage policies, Seller shall then have Twenty (20) days in which to agree in writing to eliminate or correct any disapproved exceptions from the Policy of Title Insurance by the date of Closing and, if not eliminated or corrected by Closing, Sellers agree to extend Closing for an additional Sixty (60) days from the scheduled Closing Date for Purchaser to determine whether to: (i) accept the title in its present form and mitigate the defects/exceptions; (ii) determine that Seller is in default of this Agreement, whereby Purchaser shall have the remedies as set forth in Paragraph (20) herein; or (iii) to notify the Escrow Agent that the Agreement is to be terminated, whereupon the Escrow Agent shall return the Deposit and all Extension Payments previously paid by Purchaser, and neither party shall have any further right, duty or obligation hereunder.

At Closing, and at Seller's sole cost and expense, Seller shall cause an extended **ALTA Form 1987** title insurance policy with boundary area and encroachment exceptions deleted ("**Title Policy**") to be furnished to Purchaser. The Title Policy shall be issued by the Title Company in the amount of the Purchase Price, shall insure fee simple, marketable title to the Property to Purchaser, with general warranties as to ownership, and shall include the standard owner's inflation protection endorsement. The Title Policy may contain the Permitted Exceptions, but shall contain no additional exceptions to title to the Property other than those exceptions specifically approved in writing by Purchaser.

#### 12. SURVEY.

During the term of the Feasibility Study, Purchaser, at Purchaser's sole cost and expense, shall cause to be delivered to Purchaser, Seller and to the Title Company, an updated and current plat or survey of the Property and improvements thereon, which shall be prepared by a duly licensed land surveyor. Said survey shall be acceptable to Purchaser and the Title Company for the purposes of the issuance of the Title Policy and shall show the location of all buildings, improvements and easements, and any encroachments.

#### 13. <u>CONTINGENCIES OF SALE.</u>

The purchase of the Property shall be contingent upon the following (together or individually "Contingencies"):

#### a) Condition of Title.

Title of Seller to the Property, is merchantable title, free and clear of all liens, encumbrances, restrictions, leaseholds, easements or defects, except those specifically approved by Purchaser in writing and pursuant to the terms of Paragraphs (10 and 11) herein.

#### b) Approvals.

The obtaining and continuation of any and/all approvals or any federal, state, county, municipal government, or any other public authority having jurisdiction over the subject Property, required for the acquisition of the Property and the development and construction of Purchaser's project ("Project" or "Purchaser's Project") thereon, including but not limited to any annexation, zoning, site plan approvals, plat approvals, utility and soils engineering, environmental and/or any other license or permits required to construct a

Project satisfactory to Purchaser upon the Property. Purchaser shall use all due diligence and dispatch to obtain said approvals.

#### c) Warranties.

The warranties of Seller under Paragraph (15) were true as of the date of this Agreement, and shall be true as of the date of Closing.

#### d) Risk of Loss.

If, prior to the Closing Date, any part of the Property is destroyed or suffers material damage affecting Buyer's intended use and which constitutes a material loss, Purchaser shall have the right, exercisable by giving Notice of such decision to Seller within five (5) business days after receiving written notice of such damage or destruction or condemnation threat, to terminate this Agreement, in which event the Deposit and any Extension Payments and any interest accrued thereon, shall be returned to Purchaser and all rights and obligations of the parties hereunder shall cease. If Purchaser does not timely elect to terminate this Agreement, all insurance proceeds payable to Seller shall be paid or assigned to Purchaser.

#### 14. SQUARE FOOTAGE OF THE PROPERTY.

Seller and Purchaser understand and agree that the Purchase Price is based on the assumption that the Property contains the amount of land in the Estimated Square Feet and that such land is usable for development. If the actual usable square feet of the Property, as determined by the certified survey pursuant to Paragraph (12) sensitive areas, steep slopes and/or wetlands found, or Purchaser is to be required to dedicate more than three percent (3%) of the Property for the public and in any case, for which an official determination made by survey accepted by a governmental agency of jurisdiction including any required buffer areas ("Actual Square Feet"), is less than the Estimated Square Feet, then a reduction in the Purchase Price shall be allowed. If the total is greater than Estimated Square Feet, then an increase in the Purchase Price shall be allowed. The total Purchase Price divided by the Actual Square Feet, shall result in a price per square foot ("Price Per Square Foot"). The Purchase Price shall then be reduced at Closing by an amount equal to the Estimated Square Feet minus the Actual Square Feet times the Price Per Square Foot.

#### 15. <u>SELLER'S REPRESENTATIONS AND WARRANTIES.</u>

All representations and warranties shall survive the Closing and shall not merge into the deed or recordation of it in the Official Records. Seller makes the following representations and warranties, and Seller warrants and covenants to and with Purchaser, which representations, warranties and covenants shall be deemed material to the transaction and have been relied upon by Purchaser in connection herewith:

#### a) Title.

Seller owns the Property in fee simple without encumbrances or liens, except those which may be, and shall be removed at Closing. Seller warrants that the amount of all encumbrances against the Property do not exceed the Purchase Price. Seller shall not permit any encumbrances, or right of any third party, to attach to the Property during the continuance of this Agreement without the prior written consent of Purchaser. To the best of Seller's actual knowledge there is no pending or threatened judicial, federal, municipal or administrative proceeding with respect to, or in any manner affecting the Property or any portion thereof or in which Seller is or will be a party by reason of Seller's ownership or operation of the Property or any portion thereof. No bankruptcy, insolvency, rearrangement or similar action involving the Property or the Seller is pending, threatened or being contemplated.

To the best of Seller's knowledge, no federal, state or local taxing authority has asserted any tax deficiency, lien or assessment against the Property which has not been paid or the payment for which adequate provision had not been made, to Purchaser's satisfaction. To the best of Seller's actual knowledge, there are no impositions which currently encumber the Property or any portion thereof or any interest therein, other than impositions disclosed in writing to Purchaser which are not yet due or payable. There are no commitments to or agreements with any federal, state or local governmental authority or agency affecting the Property which have not been disclosed by Seller to Purchaser in writing.

#### b) Authority.

Seller has the right, authority and power to enter into this Agreement and to sell the Property. If Seller is a corporation, partnership, trust, estate or other entity, the person executing this Agreement on its behalf warrants his or her authority to do so and to bind Seller. Seller warrants that there is not any agreement, contract, mortgage or other commitment, or any claim, demand, litigation, proceeding or governmental investigation or action, pending or threatened, against the Property or Seller, which could prevent or delay the sale and conveyance of the Property to Purchaser, or which would prevent, delay or impair Seller's right, authority, or power to sell the Property, or which would prevent, delay, impair, or cause extraordinary expenditures in the development of Purchaser's Project. Furthermore, Seller will not during the term of this Agreement default or permit a default to exist in any of its obligations under any real estate contract, mortgage, deed of trust, or other agreement affecting any portion of the Property. In the event of default by Seller of any of Seller's obligations under any contract, mortgage, deed of trust, or other agreement affecting any portion of the Property, Purchaser, in Purchaser's sole and absolute discretion, may cure such default on behalf of Seller. Any such moneys paid by Purchaser to cure any default on behalf of Seller shall be applied towards and deducted from the Purchase Price at Closing. In no event shall the payment of any moneys by Purchaser to cure such default by Seller, constitute a waiver by Purchaser of Seller's obligations under this Agreement. Seller's authority shall be evidenced by documentation reasonably satisfactory to the Title Company.

#### c) Third Party Rights.

- (i) Upon mutual acceptance of this Agreement, Seller shall provide Purchaser with evidence of any written or unwritten agreements and/or copies of any agreements between Seller and any third parties with rights to possession to any part of the Property.
- (ii) In the event that Purchaser shall be delayed, hindered in or prevented from its performance of any act required hereunder by reason of third party possession or other reason of a like nature not the fault of the Purchaser, then performance of such act shall be excused for the period of such delay. Purchaser, at its sole discretion may; (i) elect to mitigate any such claim and reduce the Purchase Price by an amount equal to the total cost to do so or; (ii) terminate this Agreement if such mitigation, delay or hindrance is deemed unsatisfactory in Purchaser's opinion, whereupon the Escrow Agent shall return to Purchaser, the Deposit and all Extension or any other payments previously paid by Purchaser to Seller and neither party shall have any further right, duty or obligation hereunder.
- (iii) Seller has not entered into any other options or other agreements of sale for the Property or any part thereof that remain in effect.
- (iv) Seller has not entered into any agreement which entitle any third party any concessions, rebates, allowance or free rent for any period after the Closing Date.
- (v) That Seller has not received any notice and is not otherwise aware of any unsafe or other condition which presents risk of injury to persons or loss of or damage to property affecting or concerning the Property.

(vi) Seller has not received any notice of a failure of Seller to supply any service to any party, nor has Seller received any notice of a failure by Seller to complete any item of work to be completed.

#### d) Disclosure.

Seller shall provide to Purchaser within **Thirty (30) days** of mutual acceptance of this Agreement all material information relevant to this Agreement and Purchaser's intended purpose of acquiring the Property and the development and construction of Purchaser's Project thereon, including specifically, without limitation, any knowledge of special or supplemental assessments, proposed or existing, whether or not such constitute liens on the subject Property, or any mapped or future public or private streets adjoining or upon the Property, or of any potential or actual eminent domain taking or other condemnation of the subject Property. Seller shall furnish Purchaser with copies of any and all written notices of intended taking or condemnation of any portion of the Property by eminent domain, or any encumbrances or liens arising after the date of this Agreement, within **Ten (10) days** following receipt thereof.

#### e) Seller's Cooperation.

While this Agreement is in effect, Seller shall cooperate with Purchaser in its efforts to secure any and all governmental decisions, approvals, and/or permits which Purchaser deems necessary or appropriate for Purchaser's intended Project on terms and conditions satisfactory to Purchaser in its sole and absolute discretion. Such decisions and approvals shall include, but are not limited to, those related to favorable annexation, zoning, master plans, subdivisions, plats, planned unit developments, binding site plans, roads, streets, utilities, open spaces, dedications, easements, restrictions, and covenants. Seller's cooperation shall include but not be limited to, promptly at Purchaser's request from time to time, as the case may be, the signing and delivering to Purchaser all applications for such decisions and approvals, and if Purchaser gives written notice to Seller of Purchaser's intent to purchase the Property ("Notice of Determination"), the signing of all documents and agreements necessary to implement or evidence such decisions and approvals as final plats and binding site plans, and all deeds, dedications, easements, restrictions and covenants required as condition to such approvals and decisions. In no event shall Seller be required to become liable for payment of any costs or expenses in connection with the foregoing. Notwithstanding the foregoing, Purchaser shall obtain Seller's approval, which approval shall not be unreasonably withheld, conditioned or delayed, prior to Purchaser taking any action to: (a) enter into discussions and negotiations regarding the Property with any governmental authorities having jurisdiction; and (b) apply for, prosecute, participate in and/or cause to be issued and finally approved any plat, permit, rezoning, change in comprehensive plan designation, development agreement, variance or conditional use request, local improvement district, or other third-party approval which may be required incident to Purchaser's planned development of the Property. If Seller provides its approval to the action, then Seller (at no cost to Seller) shall reasonably cooperate with Purchaser in all respects in connection with obtaining governmental approvals, which cooperation may include the execution and delivery of any applications, agreements, approvals, licenses, plans, permits and other instruments and assurances as may be required by Purchaser.

#### f) Utilities.

Appropriate public and private utilities, including but not limited to sanitary sewers, storm water, garbage, electricity, natural gas, cable and telephone services are available to the Property, subject only to the payment of hookup charges. To the best of Seller's knowledge, all utilities required for the normal operation of any existing building on the Property are installed, are connected with valid permits, are adequate to service the such building, and are in full compliance with the requirements of all laws and regulations.

#### g) Hazardous Substances.

Seller represents and warrants that to the best of Seller's knowledge, Seller knows of no prior existence of, has not caused or, permitted the Property to be used to generate, manufacture, refine, transport, treat, store,

handle, dispose, transfer, produce or process Hazardous Substances, as hereinafter defined, except insubstantial compliance with all applicable federal, state and local laws or regulations, and has not caused or permitted and has no actual knowledge of the release of any Hazardous Substances on Seller's Property. For purposes of this Agreement, the term "Hazardous Substances" means any radioactive materials radon or radon gas, polychlorinated biphenyls, petroleum products, asbestos or asbestos-containing building materials, hazardous wastes, hazardous or toxic substances defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S. C. Sections 9601, et seq.) and in the regulations adopted and publications promulgated pursuant thereto. or any other federal, state or local governmental law, ordinance, rule or regulation ("Environmental Law"), except for small quantities of petroleum and chemical products in proper storage containers, as are necessary for the construction, operation, heating or cooling of the businesses at the Property, and the usual waste products therefrom. Seller further represents that to the best of its actual knowledge, (1) Seller, as the owner of the Property, has complied with all existing environmental laws, regulations and ordinances, regarding Hazardous Substances, (2) that any Hazardous Substances that have been found on the Property have been handled in accordance with all Environmental Laws and do not exceed acceptable levels, (3) neither Seller nor any of the Property is now the subject of any environmental enforcement actions by any governmental authorities whatsoever, (4) that Seller has received no written or oral inquiry or notice of any such investigation, and (5) except as disclosed to Purchaser, that no governmental agency has expended any money whatsoever in environmental clean-up activities related to or on this Property.

If, any Hazardous Substances, toxic materials or landfill are(is) discovered on the subject Property which would require remedial action or removal, or which would adversely affect the development and construction of Purchaser's project on the Property, Seller warrants to take any and all remedial action required to mitigate, including removal of, the effects of the toxic and/or Hazardous Substances and/or landfill which are(is) deemed necessary to proceed with the development of the Property at Seller's sole cost and expense. Seller agrees to hold Purchaser harmless from any and all costs and expenses required to mitigate the effects of any toxic or Hazardous Substances or landfill found on the subject Property. In the event of any remedial work required to mitigate any Hazardous Substances, Seller shall be further required to assure that the Property is returned to it original state, including but not limited to replacing any soils removed with clean engineered and compacted soils up to the original grade level.

#### h.) Third Party Notices.

That Seller has received no written notice from any governmental authority that the Property is now in violation of any governmental orders, regulations, statutes or ordinances dealing with the construction, operation, health, safety and/or maintenance of same, except ordinary construction notices delivered by applicable governmental authority to Seller, during construction or approval of an improvement. Seller has received no notice of and has no other knowledge or information of any pending or contemplated condemnation actions with respect to the Property or any part thereof or that the Property is located within any conservation or historic district or any zone recognized as having special earthquake or flood hazards. The Seller has not received any notice of any litigation, action or proceeding or any present or contemplated plan or study by any governmental authority or agency, which in any way challenges or affects or would challenge or affect the proposed use and operation of the Property or the present use, size, alignment, or location of any street, highway, sewer, or other utility facility serving or adjacent to the Property or the taxes or assessments relating thereto. In the event any such notice from any governmental authority is received by Seller between the date hereof and the Closing Date and Seller does not reasonably contest the violation contained in such notice, Purchaser may elect to terminate this Agreement and receive a full refund of the Deposit any Extension Payments and accrued interest thereon. Promptly within three (3) business days of receipt by Seller, Seller shall furnish Purchaser with a copy of all notices of violation of laws or municipal authority having jurisdiction against or affecting the Property or the use or operation thereof.

#### i.) Materialmen's Liens

Seller has not contracted for the furnishing of labor or materials to the Property which will not be paid in full by Seller ninety (90) days prior to Closing. Seller shall indemnify Purchaser from all loss, claims and costs (including attorney fees) which Purchaser may incur from the imposition of construction liens, if any, arising from the acts or omissions of Seller. Purchaser shall indemnify Seller from all loss, claims and costs (including attorney fees) which Seller may incur from the imposition of construction liens, if any, arising from the acts or omissions of Purchaser. Any such liens remaining at Closing may be paid from Seller's proceeds at Closing if not paid prior, at Purchaser's sole discretion.

#### j.) Easements:

As a mutual condition precedent to the Parties obligations under this Agreement, they shall evaluate and agree upon the need, scope, dimensions, and terms for a utility easement pursuant to this Section, described and depicted for discussion purposes in Exhibit "B" (the "Easement"). Specifically, the proposed Easement consist of the following: a proposed perpetual nonexclusive easement for utilities (the "Utility Easement") burdening a portion of the Property commonly known as Tax Lot 5700 of Marion County's Assessor's Map 073W22DC, and which is legally described on Exhibit A as Parcel 1 and depicted on Exhibit "A1", which is attached hereto and incorporated herein (the "Utility Easement Property").

The Parties agreement as to the need, scope, dimensions, and terms of the Easements (herein collectively the "Easement Agreement") shall be deemed a mutual condition precedent of their obligations purchase and sell the Property, respectively, that shall be either waived or satisfied by the Parties on or before the end of the Feasibility Study, as that term is defined in Section 3 below in each Party's sole and absolute discretion.

In the event both Parties do not deem this condition satisfied or waived in writing on or before the Feasibility Studyperiod, this Agreement shall be deemed terminated, and the Earnest Money shall be returned to Buyer.

#### 16. STUDIES.

Seller shall deliver to Purchaser within Fifteen (15) days of mutual acceptance of this Agreement, one copy each of any and all soils, engineering, development and other related studies, reports and surveys, including any appraisal in Seller's possession or control, if any, relating to the subject Property.

#### 17. ASSIGNMENT.

Purchaser reserves the right to assign this Agreement and all of its rights, duties and obligations hereunder, and to be unconditionally relieved of any future liability under this Agreement, provided the assignee shall assume all of the obligations of Purchaser hereunder. Purchaser may exercise its right to assign this Agreement without the approval or consent of Seller if such assignee is an affiliate of Seller.

#### 18. PURCHASER'S RIGHT OF INSPECTION.

Following the execution of this Agreement and through the Closing Date, Purchaser and/or its agents shall have the right to enter upon the Property to conduct surveys, hydrological, topographical, traffic, wetland, feasibility and engineering studies and reports, to conduct tests, borings and analyses of the soils and water, to investigate the availability and quality of access, utilities, water and sewage to the Property, and to otherwise inspect the general condition of the Property including any structures, the costs of which shall be borne exclusively by Purchaser. Purchaser's activities shall not interfere with the operation of the subject Property or cause any damage other than would normally be incidental with such activities. Purchaser shall immediately upon written request of Seller, repair any damage and restore the subject Property to its original condition within the limitations of reasonableness based upon the extent of any of the approved studies and approvals referred to herein.

#### 19. <u>EXECUTION AND RECORDING OF MEMORANDUM.</u>

Purchaser shall have the right to record a memorandum of this Agreement at any time after Purchaser's written acceptance of the Feasibility Study as referred to in Paragraph (3) herein. Recording shall be in the office for recording such public records in the county where the Property is located. At Purchaser's request, Seller agrees to execute a memorandum of this Agreement subsequent to the execution of this Agreement, which memorandum shall be held by Title Company, for recording after Purchaser has accepted the Feasibility Study referred to herein. No lease, mortgage, or other encumbrances arising after the recording of the memorandum of this Agreement and prior to Closing shall be valid against Purchaser if the sale is consummated.

#### 20. <u>DEFAULT AND REMEDIES.</u>

- a) If Purchaser defaults hereunder, Seller's sole remedy shall be limited to forfeiture and retention of the Deposit and any and all Extension Payments previously paid by Purchaser to Escrow Agent and Seller as liquidated damages, whereupon this Agreement shall become null and void, and neither party shall have any further rights at law or in equity, duties or obligations hereunder.
- b) If Seller defaults hereunder, Purchaser shall have the right, at Purchaser's option, to enforce any or all of the following remedies: (i) the return of any and all Deposits and Extension Payments previously paid by Purchaser, together with reasonable costs incurred by Purchaser in connection with the feasibility study and third party preparations for the Project, if any, performed by Purchaser or Purchaser's consultants; (ii) commence suit for specific performance; or (iii) commence suit for damages.
- c) In the event of any dispute arising out of this Agreement, then the prevailing party, as that phrase is interpreted under the laws of the state in which the Property is located, shall be entitled to an award of its reasonable attorney's fees, costs and expenses incurred or paid in protecting or enforcing its rights under the terms of this Agreement, whether or not a lawsuit is commenced. Attorney's fees shall include services rendered at both the trial and appellate levels, as well as services rendered subsequent to judgment and obtaining execution thereon. The award of such fees, costs, expenses and/or other award or compensation, shall bear interest at the highest lawful rate until paid in full.

#### 21. NOTICES.

All notices required or permitted to be given hereunder shall be in writing and shall be personally delivered or sent by U.S. Certified Mail, Return Receipt Requested, or electronically transmitted by email and addressed as set forth below ("Notice or Notices"). All payments shall be made to the Escrow Agent in the form required by the Escrow Agent to allow the funds to be made available with immediacy.

a) To Purchaser as follows:

Deacon Development, LLC

901 NE Glisan Street #100 Portland, OR 97232

Telephone No.: (503-297-8791)

Email: steve.deacon@deacon.com

Attn: Pete Snook, Development Director

b) To Purchaser's Agent as follows:

Marcus & Millichap 111 SW Fifth Avenue #1950 Portland, OR 97204

Real Estate Purchase and Sale Agreement -10 of 18
FT Development, LLC to Deacon Development, LLC

Telephone No.: 503-200-2025

Email: will.stone@marcusmillichap.com

Attn:

c) To Seller as follows:

# FT Development, LLC 277 High Street NE Salem, OR 97301 Telephone No.: Email: Attn:

d) To Seller's Agent as follows:

#### Canterbury Commercial, LLC

PO Box 25487 Portland, OR 97298

Telephone No.: 503-522-1234 Email: mwakefieldmack@gmail.com

Attn: Wake Mack, Broker

e) To Escrow Agent and Title Company as follows:

#### First American Title Company ("Escrow Agent" and "Title Company")

200 Market Street - Suite 250

Portland, OR 97201

Telephone No.: (503) 795-7611 Telecopier No.: (503) 636-0871 Email: rmoody@firstam.com

Attn: Rene' Moody, Commercial Closing Officer

Any party may specify a different address for the giving of Notices by providing Notice to all other parties of the new address. All Notices shall be deemed given on the day such notice is personally served or when acknowledged in writing through a third party delivery agent, or on the **Third (3rd) business day** for the US Post Office following the day such notice is placed in regular mail in accordance with this paragraph. Notices may also be given electronically via telecopier/facsimile, pdf, jpeg, TIF, TIFF or similar electronic format shall be deemed an original signature and fully effective for all purposes between the hours of **8:00 a.m. and 5:00 p.m.**Pacific Time on any business day to the telecopier/facsimile numbers, or to the email address specified above with a read receipt required or to any properly changed substitute number or email address and shall be deemed served at the date and time shown in the electronic read receipt.

#### 22. EQUAL BARGAINING.

This Agreement has been drafted by the mutual efforts of the parties. Seller and Purchaser acknowledge and represent that each of them is fully competent to negotiate and to enter into this Agreement with the other and that they have freely entered into it with adequate opportunity for prior consultation with independent legal counsel of their choosing. All terms and provisions shall be given their fair and reasonable interpretation without reference to which party, or its counsel, drafted any particular term or provision in question.

#### 23. GENERAL CONSIDERATIONS.

The headings in this Agreement are for the purpose of reference only and shall not limit or define the meaning thereof. This Agreement shall be construed in accordance with and governed by the laws of the state in which the Property is located.

#### 24. <u>INTERLINEATIONS AND DELETIONS.</u>

All interlineations and deletions initialed by Seller on this Agreement are a part of this Agreement and must be accepted and initialed by Purchaser in order for this Agreement to be mutually accepted.

#### 25. SEVERABILITY AND BREACH.

If one paragraph of this Agreement shall be deemed to be null and void or unenforceable by the action of a court of law, such paragraph shall be severable and shall not affect the balance of this Agreement which shall remain in full force and effect. No waiver of a paragraph or section by any party hereunder shall be deemed a waiver of any other paragraph of this Agreement. Similarly, no breach hereunder shall be deemed a breach of any other paragraph hereunder.

#### 26. NO VERBAL AGREEMENTS.

There are no verbal or other agreements which modify of affect this Agreement. This Agreement constitutes the full understanding between Seller and Purchaser. This Agreement cannot be altered, amended, changed, waived, terminated or modified in any respect or particular unless the same shall be in writing and signed by all parties. This Agreement contains all of the terms agreed upon between the parties with respect to the subject matter hereof.

#### 27. NON MERGER.

The provisions of this Agreement shall not be deemed merged into the deed but shall survive Closing and continue in full force and effect.

#### 28. BURDEN AND BENEFIT.

This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of the parties hereto.

#### 29. REAL ESTATE COMMISSION.

Both Seller and Purchaser attest that they have used no real estate broker in this transaction other than the Brokers defined in Paragraph 21(b) and Paragraph 21(d) above ("Broker" or "Brokers") and agree that the commission between Broker and the Seller shall be an amount determined under separate agreement with Seller and shall be payable in cash, from Seller's proceeds at the time of Closing and divided equally between the Brokers. If suit is brought to collect the commission and Broker prevails, or if Broker successfully defend any action brought against Broker by Seller relating to this authorization or under any sales agreement relating to said Property, Seller agrees to pay all costs incurred by Broker in connection with such action, including a reasonable attorney's fee. Seller and Broker agree to hold Purchaser harmless from any costs incurred by such action, including reasonable attorney's fees.

#### 30. STATUTORY LAND USE DISCLAIMER FOR LAND IN OREGON.

Only in the event the Property is resident in the State of Oregon, the following shall apply: THE PROPERTY DESCRIBED IN THIS INSTRUMENT MAY NOT BE WITHIN A FIRE PROTECTION DISTRICT PROTECTING STRUCTURES. THE PROPERTY IS SUBJECT TO LAND USE LAWS AND

REGULATIONS THAT, IN FARM OR FOREST ZONES, MAY NOT AUTHORIZE CONSTRUCTION OR SITING OF A RESIDENCE AND THAT LIMIT LAWSUITS AGAINST FARMING OR FOREST PRACTICES, AS DEFINED IN ORS 30.930, IN ALL ZONES. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON TRANSFERRING FEE TITLE SHOULD INQUIRE ABOUT THE PERSON'S RIGHTS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007, SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009, AND SECTIONS 2 TO 7, CHAPTER 8, OREGON LAWS 2010. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY THAT THE UNIT OF LAND BEING TRANSFERRED IS A LAWFULLY ESTABLISHED LOT OR PARCEL. AS DEFINED IN ORS 92.010 OR 215.010, TO VERIFY THE APPROVED USES OF THE LOT OR PARCEL, TO VERIFY THE EXISTENCE OF FIRE PROTECTION FOR STRUCTURES AND TO INQUIRE ABOUT THE RIGHTS OF NEIGHBORING PROPERTY OWNERS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007, SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009, AND SECTIONS 2 TO 7, CHAPTER 8, OREGON LAWS 2010.

#### 31. EXPIRATION.

Purchaser's offer to purchase contained herein expires at 5:00 p.m., Pacific Time on the date **Ten (10) business days** from the date appearing at the top of the first page of this Agreement. If such offer to purchase is not accepted in writing and a copy hereof duly and validly executed by Seller is not received by Purchaser within said time, then such offer shall be null and void, at Purchaser's option, and Purchaser shall have no further obligation here.

#### 32. **SIGNATURES.**

This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become a binding agreement when one or more counterparts have been signed by each of the parties and delivered to the other party. Signatures to this Agreement, delivered electronically via facsimile, .pdf, .jpeg, .TIF, .TIFF or similar electronic format shall be deemed an original signature and fully effective as such for all purposes.

#### 33. Mutual Sale Contingency

The Parties Agree that this Agreement and the Sale of the Property shall be contingent on the sale of the property commonly known as APN Tax Lots 7100 and 7000, which is documented in a Purchase and Sale Agreement signed the same date as this Agreement by and between Buyer and Seller. For the sake of clarity, Buyer must purchase all of the following property tax lots known as APN 7000, 7100, and 5700, unless waived by Seller in writing.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates set forth below, the last of which shall be the "Effective Date":

Date

SELLER(S):	PURCHASER:
By FT Development, LLC  Date \( \lambda	ByPete Snook, Manager  Date January 12, 2023
By FT Development, LLC  Date	SELLERS REAL ESTATE BROKER:  DocuSigned by: Brandt Bernards  DB8E22E22CCF411  1/20/2023   14:18:25 PST
PURCHASER'S REAL ESTATE BROKER:  Docusigned by:  Will Stone	
Date 1/20/2023   14:15:36 PST	

#### **EXHIBIT "A"**

Purchaser and Seller agree that Title Company may insert legal description prior to Closing.

# EXHIBIT "A1" TAX MAP FOR PROPERTY



# EXHIBIT "B" EASEMENT MAP AND DESCRIPTION

#### **PROMISSORY NOTE**

\$50,000.00	Portland, Oregon
Dated:	
Deacon Development, LLC does hereby promise to pay to the sum of FIFTY THOUSAND DOLLARS Dollars and	• •
The sums owed under the terms of this note, both principal ar of Purchaser's Conditions to Purchase under that certain Publications and between the conditions of this note, both principal are of Purchaser's Conditions to Purchase under that certain Publications are selected as a faller of the conditions of this note, both principal are of the principal are of the conditions are of the principal a	archase & Sale Agreement with an Effective Date of
Development, LLC, as Seller.  In the event a suit or an action is filed, the amount of such re or courts in which the suit or action, including any appeal the	·
Deacon Development, LLC Original Note To Be Delivered To Escrow	
By: Pete Snook, Manager	

# EXHIBIT C – Project Description

**Project Description:** The proposed project represents a redevelopment of the paid public parking lot located at 277 High Street NE. The subject site was originally the Old Salem City Hall until it was demolished in 1972. Following demolition, the site served as a parking lot and drive-thru for the adjacent First National Bank Building until it was demolished in 2016 and the subject site was converted to a paid public parking lot.

The current redevelopment plan is to convert the existing parking lot into a new 6-story urban mixed-use building. The building will consist of 105 apartment units with a unit mix of 44 studio units ranging from 406 square feet to 508 square feet, 42 one-bedroom units ranging from 515 square feet to 656 square feet, and 19 two-bedroom units averaging 900 square feet. Included in the aforementioned unit breakdown are 7 ground floor commercial live/work units with street-front access for business owner residents, which will be a mix of studio and one-bedroom units. The current site plan provides for 29 on-site parking spaces for residents.

The project will also bring affordable living units to downtown Salem, by setting aside and designating 15% of the units as affordable living units at the 80% median family income level, something the city is in great need of.

**Apartment Building**: The project will be a six-story "L" shaped building with one concrete podium and five floors of wood framed construction above the podium. The exterior building materials will consist primarily of profiled metal paneling with brick and fiber cement accents. There will be a notable emphasis on maximizing windows and glazing on both street fronts. The apartment units themselves will include stainless-steel kitchen appliances, in-unit washers and dryers, luxury vinyl plank flooring, quartz countertops and quality hardware, fixtures, and finishes. Many of the living units will have access to outdoor open air with the addition of exterior balconies. There will be a well-balanced mix of studios, one-bedroom, and two-bedroom units with intentionally different layouts within each unit type.

**Common Areas:** The common areas will consist of a welcoming lobby with a mix of lounge seating and conversation areas as well as informal laptop work seating. The 6<sup>th</sup> floor will have a community lounge and attached outdoor community deck for outdoor gatherings and cooking. Additional amenities and services include a pet area waste station, parcel delivery and storage system, bike storage, a bike repair station, and a bike/dog wash. A fitness center for residents and guests is also being planned adjacent to the lobby.

Resident Community Room: The community room will offer residents and their guests an indoor space for gatherings and events. It will also provide the property manager with a space to hold monthly resident events with the goal of getting acquainted with neighbors and building a thriving community within the building. The room will be equipped with WiFi access, a large-screen television, a sound system, and kitchen appliances to support community gatherings and events.

- Community Deck: The top floor community deck gives residents and their guests access to outdoor community gathering space with spectacular views of downtown Salem. Amenities include an outdoor grill, fire pit, and comfortable lounge seating. Amongst our ideas for additional deck amenities include a community garden for residents.
- Alternative Modes of Transportation: To accommodate bicyclists, the building will be equipped with ample bike storage, a bike repair station, and a bike wash.
- In addition, to encourage and to make it easy for residents to use alternative modes of transportation, the lobby will be equipped with a large screen monitor for the purpose of displaying TransitScreen (<a href="https://actionfigure.ai/">https://actionfigure.ai/</a>) TransitScreen displays 24/7 real-time arrival information for nearby trains (Amtrak), buses (Chariots), bicycle and electric scooter sharing systems (Lime, Bolt and Spin), ridesharing systems (Uber, Lyft) and carsharing companies (Zipcar). TransitScreen also promotes community engagement through its display of nearby neighborhood businesses (coffee shops, post office, etc.) with helpful walking statistics for the surrounding area.

**Target Population:** This project is best positioned to serve price sensitive renters while still offering attractive opportunities for middle-income residents. The aim is to provide a range of unit types and pricing options that include an affordable price point but still offer access to higher end finishes and amenities, providing a best of both worlds experience for tenants. The project also offers seven live/work units with street front access for entrepreneurial residents looking to take advantage of the excellent location. We're hopeful this unique layout being introduced to Salem will be well received by residents and the Salem business community alike.

Parking and Circulation: The project will have 29 on-site parking spaces for residents that can be accessed via Wexford Alley off of Chemeketa Street. Additionally, we intend to facilitate monthly parking passes for residents thru the City that will allow residents to utilize the surrounding public parking garages to the extent there is availability and interest. The project will also have ample bike storage to encourage alternative modes of transportation and we will utilize the aforementioned TransitScreen to make it easy for residents to use alternative modes of transportation. On-site resident parking will also include EV charging stations so residents can charge their electric vehicles while parked on-site.

**Private and Public Access:** The building will have access points for residents and guests from the public right away along both Chemeketa and High Street with the main building entrance at the corner where those streets intersect at our site. There will also be access to the interior parking lot via Wexford Alley off Chemeketa street, with additional resident and guest access from that side of the building. Additionally, the ground floor commercial live/work units have street-front access for business owner residents from the public right of way.

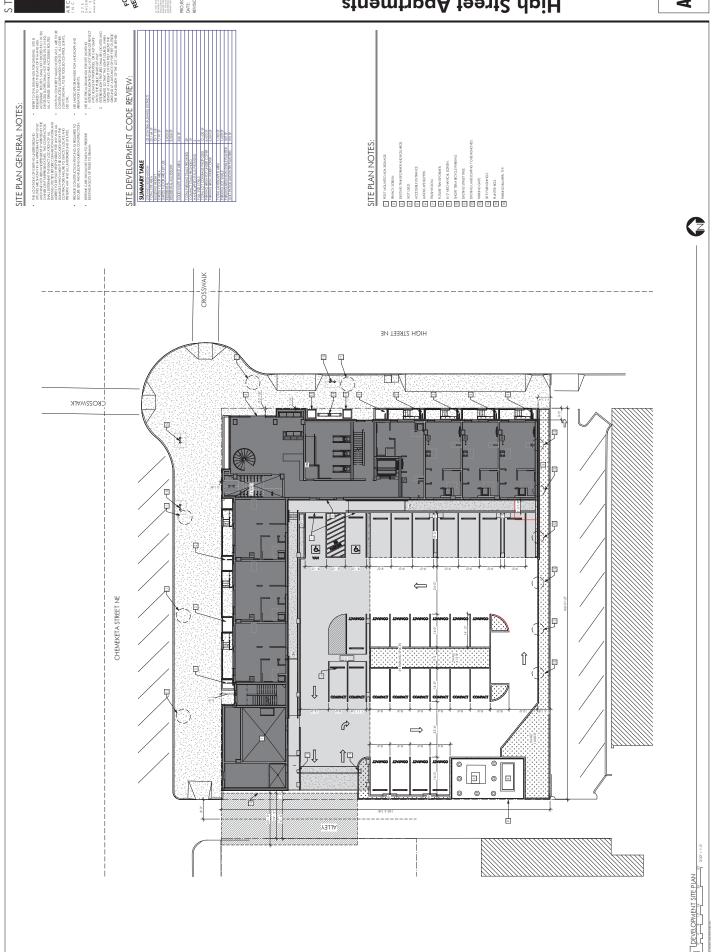
#### **Public Benefits:**

- Unit Sales Prices or Rental Rates Accessible to Broad Range of Mixed Incomes: The proposed project will provide 105 apartment units in a broad range of pricing not yet well represented in the designated core area. The unit mix consists of 44 studio units ranging from 406 square feet to 508 square feet, 42 one-bedroom units ranging from 515 square feet to 656 square feet, and 19 two-bedroom units averaging 900 square feet. Included in the aforementioned unit breakdown are 7 ground floor commercial live/work units with street-front access for business owner residents, which will be a mix of studio and one-bedroom units. We're not aware of any other unit offerings like this in the City of Salem and we're excited to bring them to the Salem market. We have a diverse mix of units with many configurations over a broad range of both size and pricing. The monthly rental rates for the market rate units are expected to range from \$1,375 per month up to \$1,975 per month depending on size, number of bedrooms, and location within the building. The project will also bring affordable living units to downtown Salem, by setting aside and designating 15% of the units as affordable living units at the 80% median family income level, something the City is in great need of. There truly is something for everyone with this project from a unit size and pricing standpoint, and this was our overall intent during the design process.
- Recreation Facilities: The project will include a recreational fitness center for residents and their guests, which will include fitness equipment and floor area for personal aerobic activities and classes.
- Open Space: The project will include a top floor amenity deck and open space that will be approximately 750 square feet in size. This area will provide residents and their guests an outdoor gathering space with spectacular views of downtown Salem and the

Riverfront City Park and will include amenities such as an outdoor grill, fire pit and lounge seating surrounded with garden planters.

- <u>Development or Redevelopment of Underutilized or Blighted Property</u>: The existing site
  is currently underutilized with a public parking lot use. The proposed development will
  bring the site into its highest and best use and provide much needed housing to
  downtown Salem, further aligning the city with its objectives outlined and evidenced in
  the Salem Housing Needs Analysis. The analysis specifically addresses the need for
  additional multi-family housing where a deficit of developable land for that use
  currently exists.
- <u>Development in Structures That May Include Ground Level Commercial Space</u>: The
  project development will bring seven commercial live/work units to the City of Salem
  with street front access for entrepreneurial residents looking to take advantage of the
  introduction of these flexible and novel unit types.
- <u>Development on Existing Surface Parking Lots:</u> The existing site is currently underutilized with a public parking lot use. The proposed development would bring the site into its highest and best use and provide much needed housing to downtown Salem, further aligning the city with its objectives outlined and evidenced in the Salem Housing Needs Analysis. The analysis specifically addresses the need for additional multi-family housing where a deficit of developable land for that use currently exists.
- <u>Provision of Parking Spaces Within the Structure</u>: The redevelopment includes an improved enclosed parking area on-site within the footprint of the project. The new parking area consists of 26 total parking spaces for the project which includes ADA parking and EV charging stations for residents and guests.
- Provision of Amenities Supportive of Mass Transit: To encourage and to make it easy for residents to use alternative modes of transportation, the lobby will be equipped with a large screen monitor for the purpose of displaying TransitScreen (<a href="https://actionfigure.ai/">https://actionfigure.ai/</a>) TransitScreen displays 24/7 real-time arrival information for nearby trains (Amtrak), buses (Chariots), bicycle and electric scooter sharing systems (Lime, Bolt and Spin), ridesharing systems (Uber, Lyft) and carsharing companies (Zipcar). TransitScreen also promotes community engagement through its display of nearby neighborhood businesses (coffee shops, post office, etc.) with helpful walking statistics for the surrounding area.

## EXHIBIT D – Site Plan







## EXHIBIT E – Public Works Letter



555 Liberty Street SE / Room 305 • Salem OR 97301-3503 • Phone 503-588-6173 • www.cityofsalem.net

February 22, 2024

Ian Lewallen, President Deacon Development, LLC 901 NE Glisan St. Suite 100 Portland, OR 97232

Delivered via email: lan.lewallen@Deacon.com

SUBJECT: Availability of Public Water and Sewer Services at:

277 High Street NE

To Whom It May Concern:

This letter is furnished in response to your request for a commitment from the City of Salem to provide water and sanitary sewer services to the proposed multi-family residential development located at 277 High Street NE, Salem, OR 97031. The City of Salem will provide water and sewer at the developer's cost for the proposed multi-family residential use on the subject property pursuant to the conditions established through the site plan review, building plan review, and other regulatory development processes.

If there are any questions or additional information required, please contact me using the information provided below.

Sincerely,

Laurel Christian, Infrastructure Planner II

City of Salem | Community Planning and Development | Development Services

555 Liberty St SE, Suite 320, Salem OR 97301-3515 lchristian@cityofsalem.net | Office: 503-584-4632

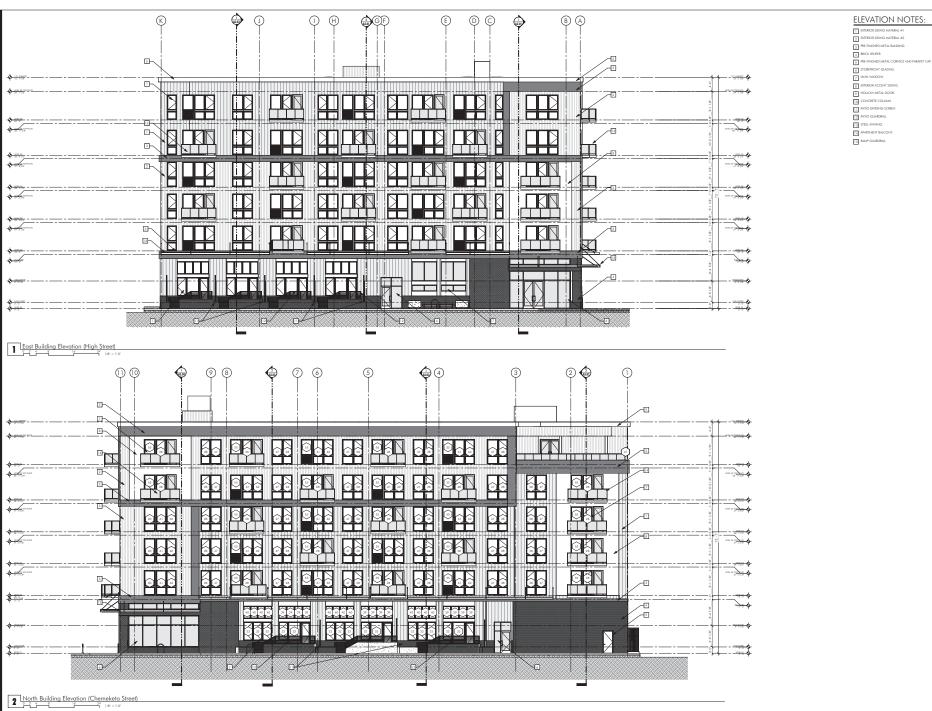
File Reference: Permit No. 23-122324-PLN

cc: File

# EXHIBIT F – Other Documents

- 1. Current Rendering
- 2. Current Drawings & Elevations
- 3. Current Floor Plans
- 4. Johnson Economics Market Study

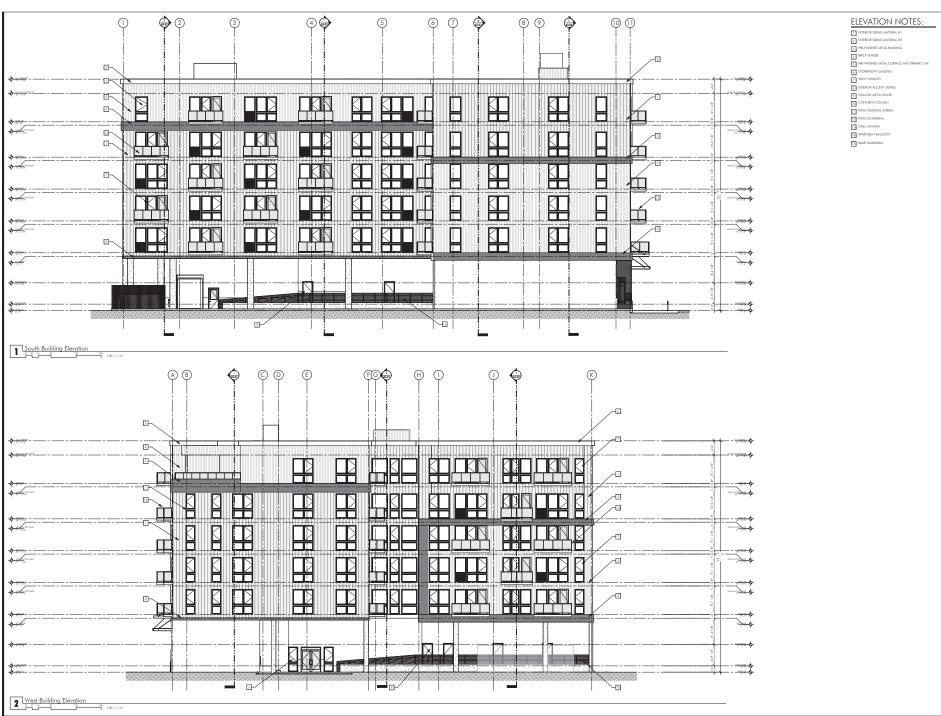




PROJECT # 2023-101 DATE: 11/3/2023 REVISIONS:

Apartments **Apartment Building** Design Development 277 High Street NE Salem, OR 97301 Street High

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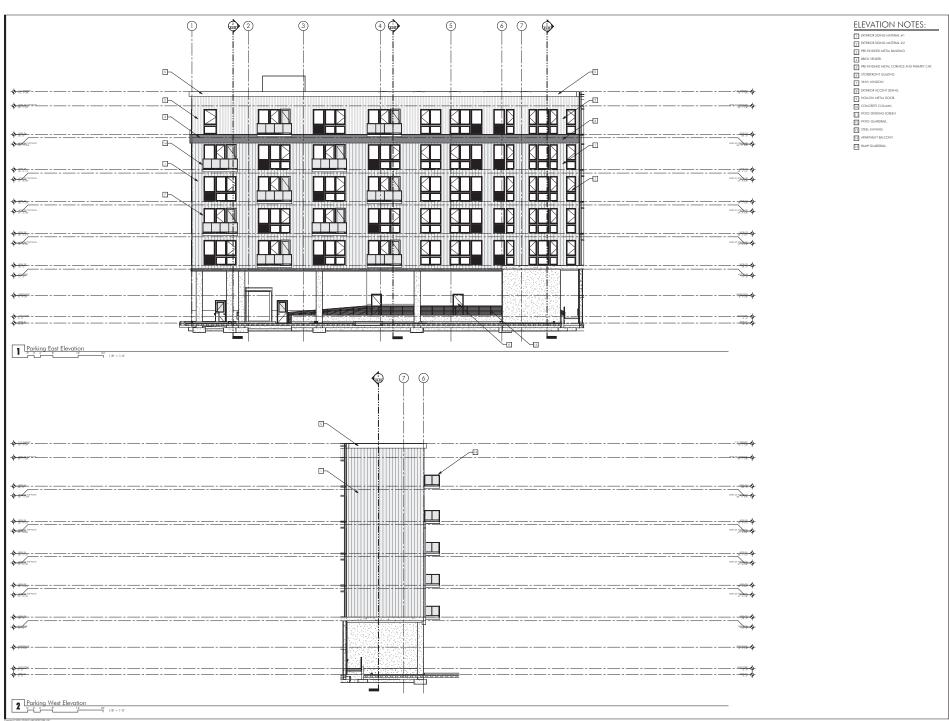




PROJECT # 2023-101 DATE: 11/3/2023 REVISIONS:

Street Apartments Apartment Building Design Development 277 High Street NE Salem, OR 97301 High

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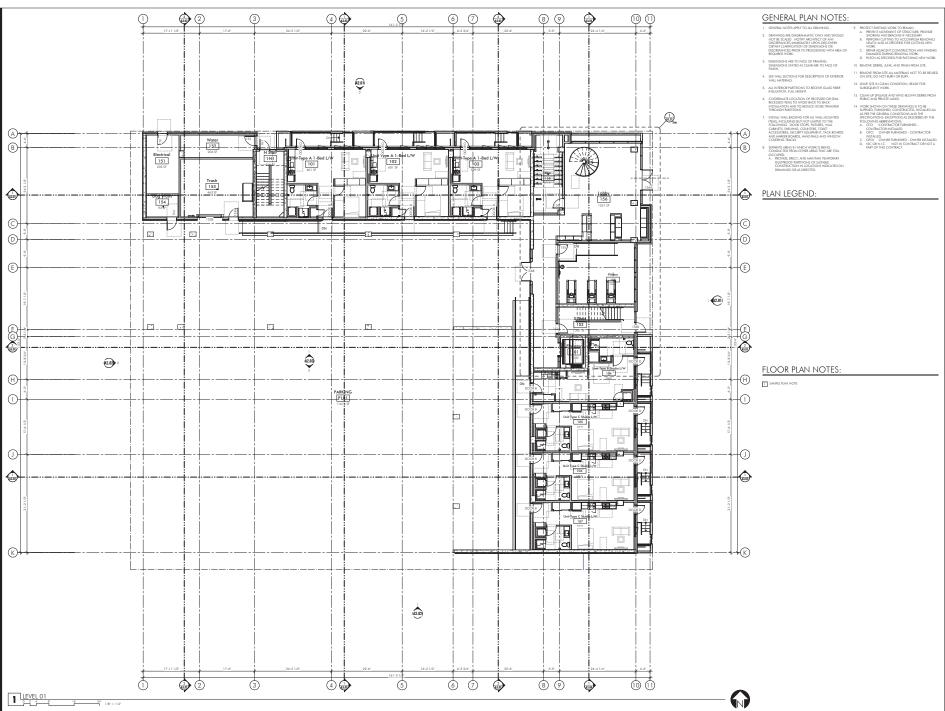




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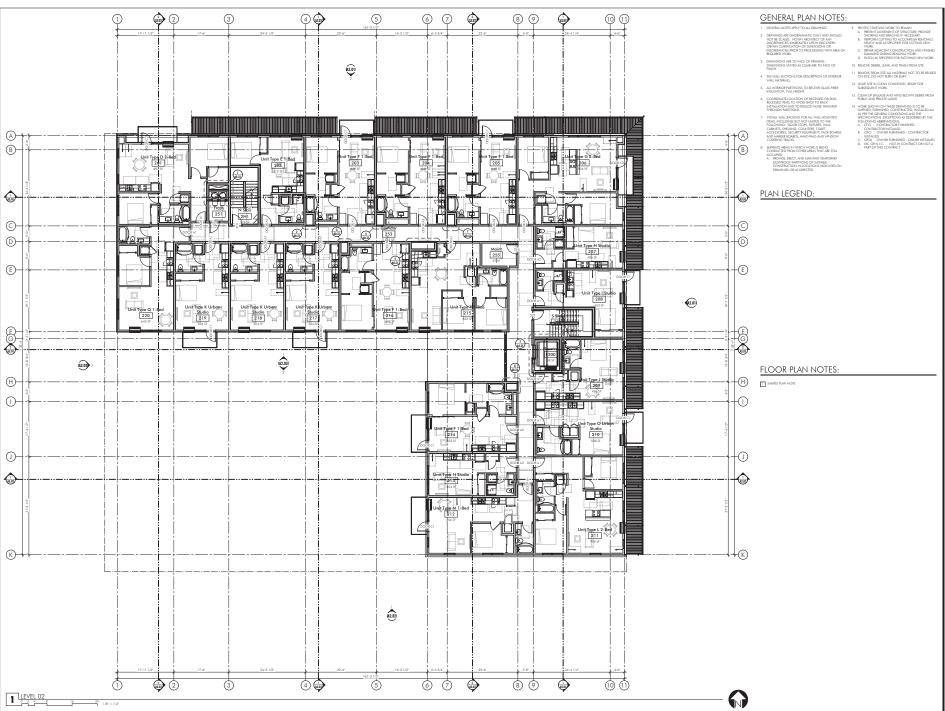
Street Apartments Apartment Building Design Development 277 High Street NE Salem, OR 97301 High

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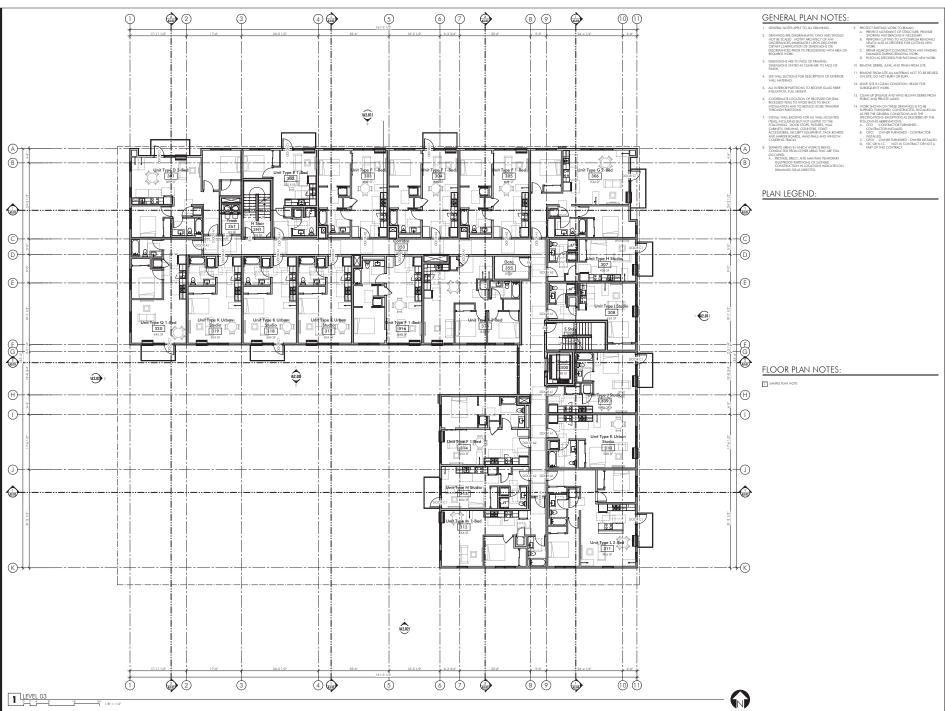
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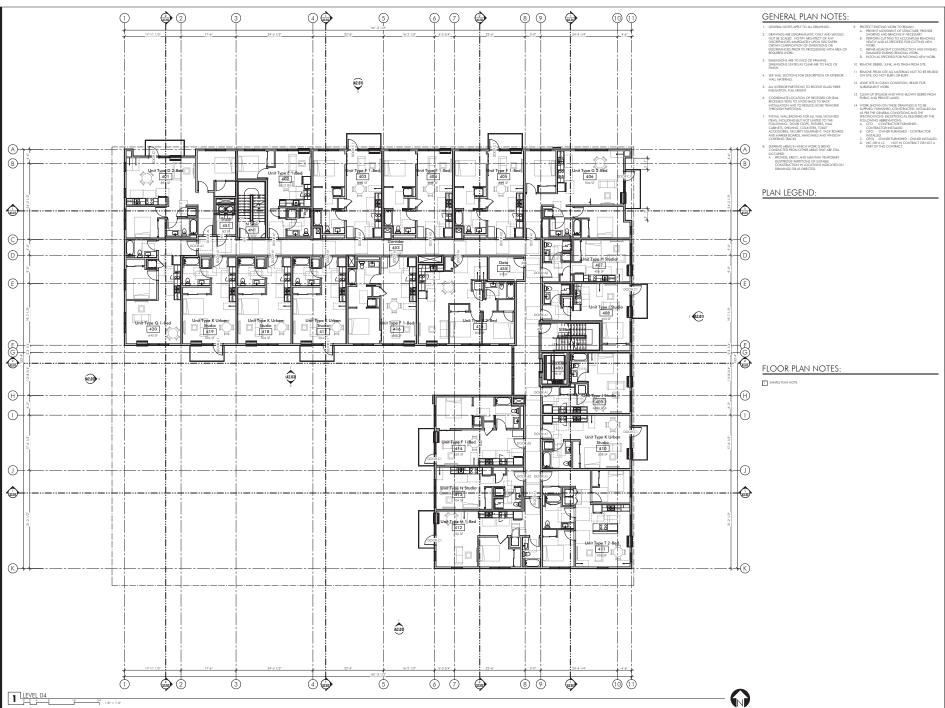
Street Apartments Apartment Building Design Development 277 High Street NE Salem, OR 97301 High



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Street Apartments Apartment Building Design Development 277 High Street NE Salem, OR 97301

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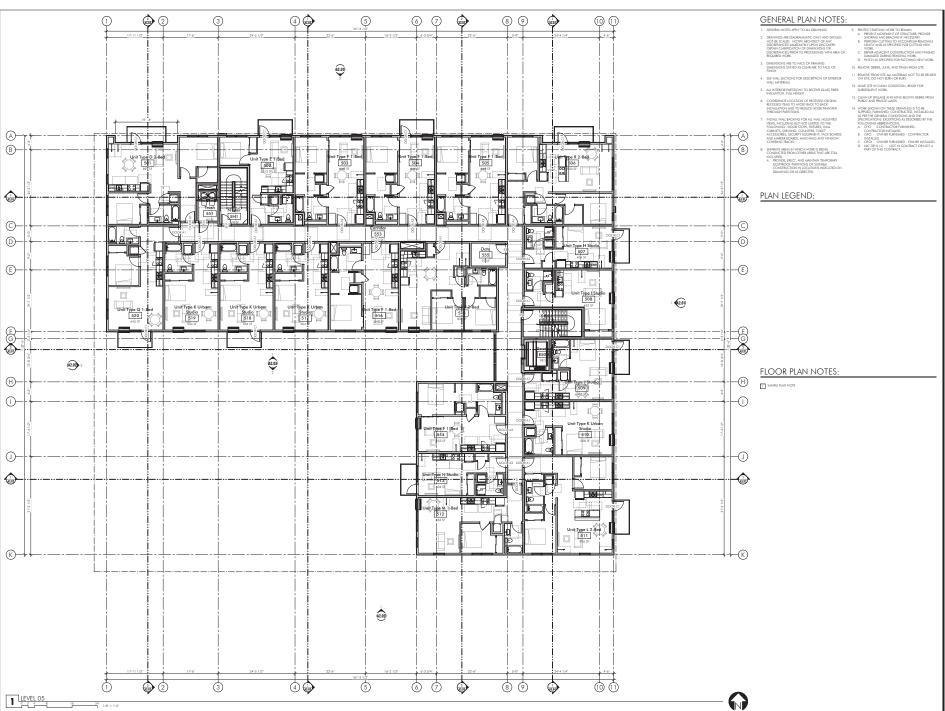


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Street Apartments Apartment Building Design Development 277 High Street NE Salem, OR 97301

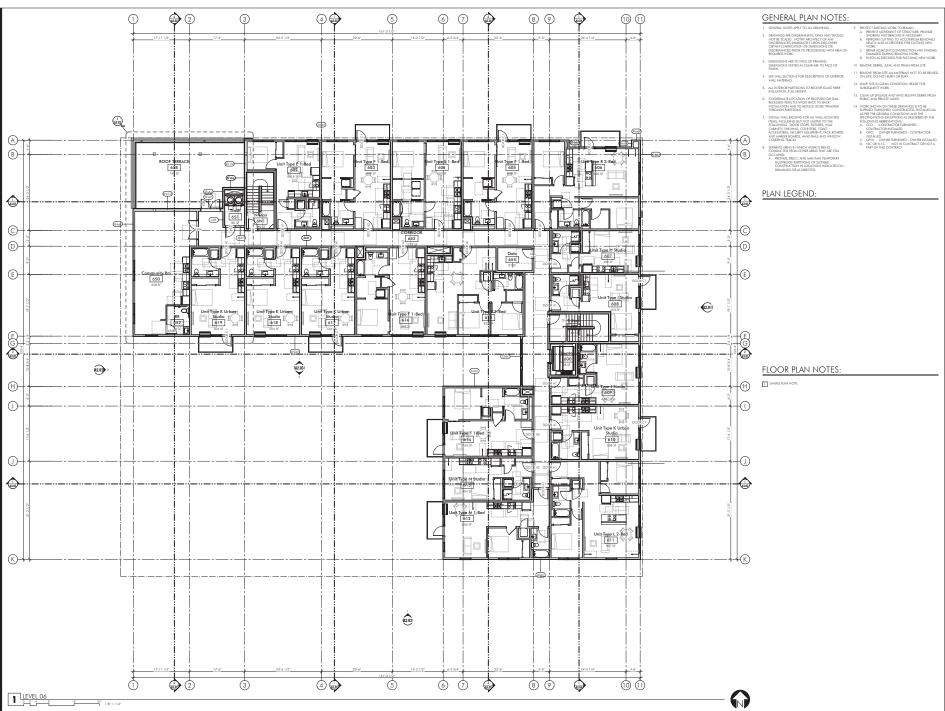
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PROJECT # 2023-101 DATE: 11/3/2023 REVISIONS:

Street Apartments Apartment Building Design Development 277 High Street NE Salem, OR 97301 High



PROJECT # 2023-101 DATE: 11/3/2023 REVISIONS:

Street Apartments Apartment Building Design Development 277 High Street NE Salem, OR 97301 High





# MARKET ANALYSIS FOR RENTAL APARTMENTS AT 280 LIBERTY IN DOWNTOWN SALEM, OREGON

PREPARED FOR
DEACON DEVELOPMENT
FEBRUARY 2023

JOHNSON ECONOMICS, LLC

621 SW Alder St, Suite 506 Portland, Oregon 97205



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# I. Introduction

JOHNSON ECONOMICS was retained by DEACON DEVELOPMENT to evaluate the market potential of a rental apartment development at 280 Liberty Street NE in Downtown Salem, Oregon. The main objectives of the study are to generate reliable assumptions with respect to achievable pricing and absorption as well as to provide general program guidelines considering the competitive environment and anticipated market demand. The analysis follows the template of a market analysis conducted for DEACON of the Nordstrom site in Salem in 2021.

The main components of this study are:

- Site evaluation
- Analysis of relevant local economic and demographic conditions
- Evaluation of local apartment trends
- Survey of the competitive environment, including existing and anticipated future supply
- Market depth analysis, with absorption projections for the market and the subject site
- Recommendations with respect to market timing, tenant orientation, and program characteristics

# II. EXECUTIVE SUMMARY

#### **SOCIO-ECONOMIC TRENDS**

The Salem Metro economy experienced relatively strong growth in the second half of the last decade, adding jobs at a 2-4% annual rate, which is somewhat higher than the statewide growth and the growth seen in the Portland Metro Area, and well above national growth rates. In most years, the region has added 4,000-6,000 jobs per year, though the growth moderated at the end of the decade – reflecting broader economic slowdown. The Salem area fared relatively well during the first part of COVID, but has seen relatively weak growth over the past year. The region has yet to recover the jobs lost early in the pandemic. Employment grew at 1.0% per year at the end of 2022.

Workers in the 25-34 age group – which is the dominant age group in terms of apartment demand – was an important part of new hiring around the middle of the last decade. However, hiring has shifted to older age groups in recent years, mostly at wage levels above \$70,000.

The Salem Metro Area added 42,000 residents over the past 10 years, including 22,500 within the City of Salem. The growth represents annual rates of 1.0% regionally and 1.4% in Salem. The regional growth is on par with statewide growth, while the city's growth is stronger than most other large cities in Oregon. Salem has average 2,500 new residents annually over the past five years. Most of the growth has been driven by in-migration in the 25-44 age group. The number of seniors has also grown significantly, but more through aging-in-place than in-migration.

# **APARTMENT TRENDS**

Salem's apartment market has been characterized by relatively stable, low vacancy since the middle of the last decade. The vacancy rate has hovered around 3.0% over much of this period, despite an increase in the rate of new supply added to the market. However, the new supply appears to have slowed the rent growth, from around 8.0% around the middle of the last decade to around 4.5% in the last few years pre-COVID. COVID resulted in increased demand, especially from households leaving Portland, which brought the rent growth to around 8.0% again by mid-2022. We may see a partial reversal of this trend currently, as vacancy has increased to 3.9% and the rent growth has slowed to 4.7% per year.

JOHNSON ECONOMICS surveyed a sample of six apartment projects for this analysis, built between 2008 and 2021. The vacancy rate across the sample is 1.0%. The average rent level in the sample is currently \$1,832 per unit and \$2.24 per square foot (PSF). This represents an increase of 19% since the previous survey of these properties for Deacon in May 2021.



#### MID-TERM APARTMENT SUPPLY AND DEMAND

Over the coming five years, we project growth in apartment demand of around 1,650 units in the Salem-Keizer market. In comparison, we estimate that roughly 2,200 new units will be delivered, excluding the subject site, based on projects that are currently in the pipeline. This indicates oversupply of 550 units on the net. However, the market currently appears somewhat undersupplied based on vacancy and rent growth, and the "excess" supply will only reduce the market-wide occupancy rate to 94.5%, which is within the range of a well-balanced market. Moreover, recent construction trends indicate that the region will fail to produce enough single-family homes to meet single-family demand, something that might bring additional households to the apartment market. There may still be shorter periods with downward pressure on occupancy and rents from new supply, most likely in 2025-26.

Based on the anticipated supply-demand balance, we would for proforma purposes assume only moderate rent growth in the range of 2-3% per year prior to the subject's market introduction. We regard the subject to be somewhat protected from the large amount of new supply expected in 2025-26, as most of those projects are garden-style projects in suburban locations. Apart from Deacon's project at Salem Center, there are to our knowledge no mid- or large-scale projects proposed in Downtown.

#### **ACHIEVABLE PRICING**

Based on our assessment of the competitive position of the subject site, JOHNSON ECONOMICS estimates that the site can achieve monthly rents ranging from around \$1,400 to \$2,400 per unit, depending on type and size, with PSF rents in the \$2.26-3.44 range in today's market. These rent estimates assume modern and modestly upscale features, including air-conditioning and balconies, along with key community amenities. With our recommended unit mix for the site, this produces a blended average of \$1,719 per unit and \$2.73 PSF in today's market. Assuming 2.5% annual rent growth, the blended average is estimated to be \$1,824 per unit and \$2.90 PSF three years from now.

1Q26\* 1Q23 Unit **Average** Rent per Rent per Rent per Rent per **Unit Type** Units Allocation **Unit Size** Unit **Square Foot** Unit **Square Foot** 24 14% 400 \$1,375 \$3.44 \$3.70 Studio \$1,480 0.5B/1b Loft 40 23% 500 \$1,528 \$3.06 \$1,645 \$3.29 1B/1b 40 23% 600 \$1,686 \$2.81 \$1,815 \$3.03 1B/1b \$2.55 \$2.75 32 18% 700 \$1,788 \$1,926 2B/1b 16 9% 750 \$1,920 \$2.56 \$2,068 \$2.76 2B/2b 16 9% 900 \$2,134 \$2.37 \$2,299 \$2.55 2B/2b corner 8 1,050 \$2,372 \$2.26 \$2,554 \$2.43 5% Total/Avg. 176 100% 630 \$1,719 \$2.73 \$1,824 \$2.90

FIGURE 2.1: RECOMMENDED UNIT MIX WITH ACHIEVABLE PRICING

SOURCE: JOHNSON ECONOMICS

#### **ABSORPTION**

Assuming market introduction in early 2026, JOHNSON ECONOMICS estimates that the subject site can achieve absorption at a rate of 11-16 units per month, with full absorption of 175 units in 11-16 months. Given the amount of new supply in 2025-26, we would assume that one month free rent will be necessary to achieve these rates.

# **RECOMMENDED TARGET SEGMENTS**

Taking into account projected demand, competing supply, and the subject's competitive advantages, we recommend a primary focus on single, working-age adults in mid- and mid-upper income brackets at the site. In order to avoid competition with the Salem Center project, we would target slightly more mature and affluent renters. We regard an age-restricted senior project to be an option as well, given strong growth in this age segment. However, we would want to confirm with local property managers that this is a viable segment, given the outflow of senior demand from

<sup>\*</sup> Assumes 2.5% annual rent growth.



downtown multifamily properties over the past three years, driven by COVID fears, social unrest, and increasing homelessness and crime.

# **RECOMMENDED UNIT MIX**

To accommodate the identified target segments and differentiate from competing properties, we recommend an emphasis on small and mid-size single-occupant units, but with floor plans that avoid direct competition with Salem center. We would also include some larger units for couples. For a senior project, we would primarily focus on one-bedrooms with 600-750 square feet.

We would consider furnishing 10-15% of the units for short-term renters. We have observed monthly premiums up to 70% for furnished units with three-month contracts. We would assume 40-50% rent premiums at the subject site.

#### RECOMMENDED AMENITIES

We recommend modern finishes and moderately upscale features that can compete with the best positioned projects in Downtown, but with finishes and color palettes that differentiate the project from Salem Center. We recommend nine-foot ceilings and air-conditioning in every unit and would also include balconies in as many units as possible while also considering exterior design impacts.

We recommend many of the same community amenities as at Salem Center, though they should be designed with differentiation in mind, appealing to slightly more mature renters. We do not regard a fitness room to be necessary given the new YMCA fitness facility two blocks away. We expect a parking need of 1.1 space per unit with the suggested unit mix. Much of this can be met by off-site parking garages, but we would try to accommodate at least one space per two-bedroom on-site (\$125/mo.).

FIGURE 2.2: RECOMMENDED AMENITIES

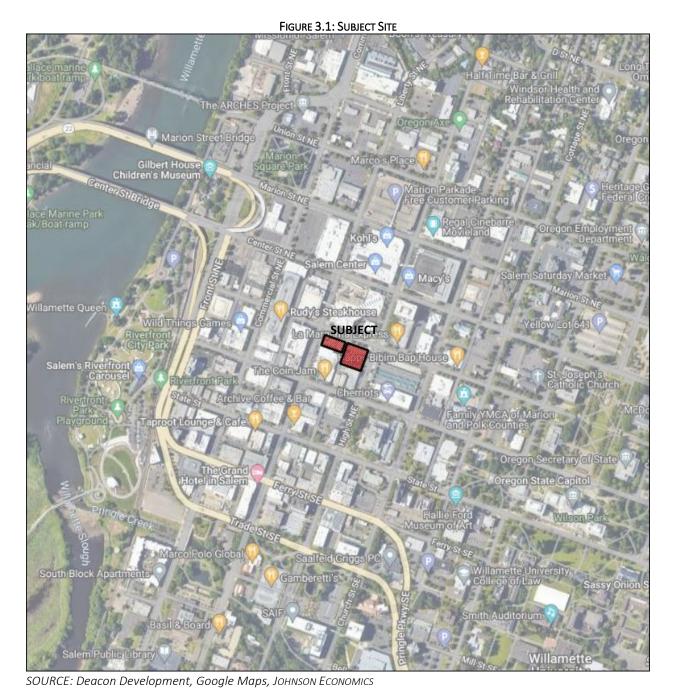
Unit Amenities	Community Amenities								
9-foot ceilings	Community lounge w/kitchen								
Vinyl/laminate plank flooring	View deck w/BBQ and firepit								
Stone/solid-surface countertops	Work area								
Undermount sinks & garbage disposal	Bike storage, wash/repair room								
Stainless steel appliances	Pet wash								
Washer and dryer	Package lockers								
Balconies	(Storage units)								
Air conditioning	Auto parking: 1 space per 2-bedroom								
1	1								



# III. SITE ANALYSIS

# THE SUBJECT SITE

The subject site is located in the heart of Downtown Salem, on the south side of Chemeketa Street, between Liberty and High streets. Liberty is the "Main Street" of Salem, with a wide range of commercial amenities in a pedestrian-friendly urban environment, especially to the south of the site. Three blocks north of the site are occupied by Salem Center, a multi-building enclosed shopping mall connected by skybridges. Tenants include Macy's, Kohl's, and Ross. The site is three blocks from the Riverfront Park to the west and three blocks from Wilson Park to the southeast.

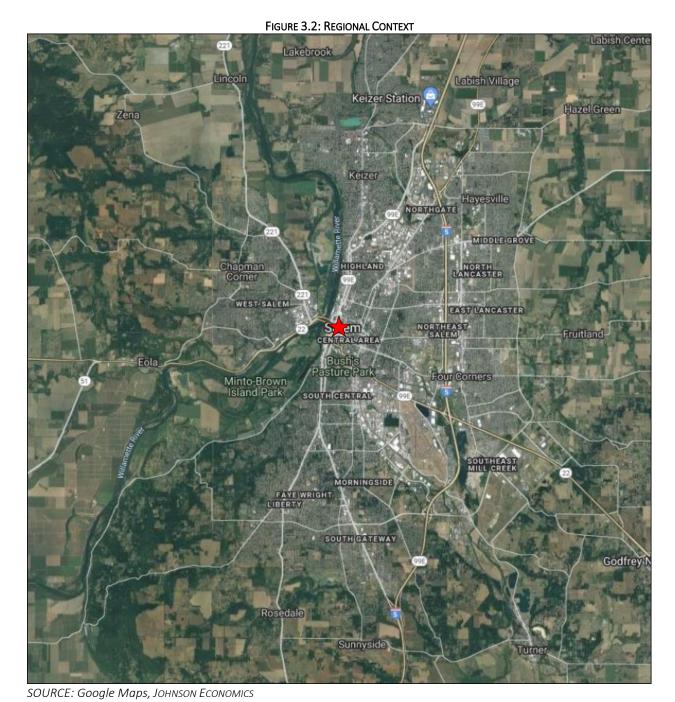




# **REGIONAL CONTEXT**

#### **REGIONAL ACCESS**

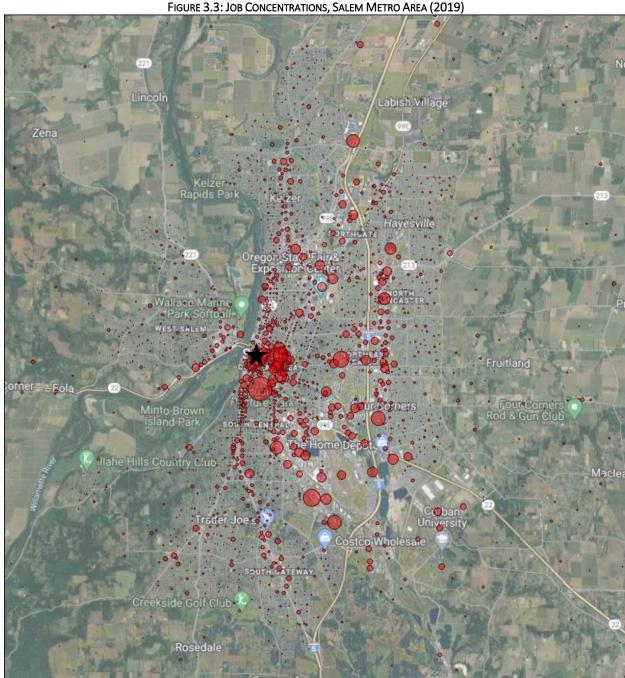
In a broader context, the subject site is located centrally in the Salem Metro Area, with good access to employment centers and amenities. The site is 2.5 miles west of the I-5 freeway, 45 miles (~45 min. drive) south of Downtown Portland, and 57 miles (~65 min.) south of the Portland International Airport. The site is approximately 25 miles (~35 min.) north of Albany, 35 miles (~45 min.) north of Corvallis, and 65 miles (~65 min.) north of Eugene.





#### **EMPLOYMENT CONCENTRATIONS**

Downtown Salem is the largest employment center in the region, with roughly 33,000 jobs. The largest employment clusters in Downtown are to the south and east of the subject site, centered around the Salem Hospital, Willamette University, and various State government buildings along Capitol Street. The CBD commercial area, in which the subject is centrally located, is also a large employment cluster. Other employment in the region is concentrated around arterial corridors, like River Road to the north, Lancaster Drive to the east, and Commercial Street to the south.



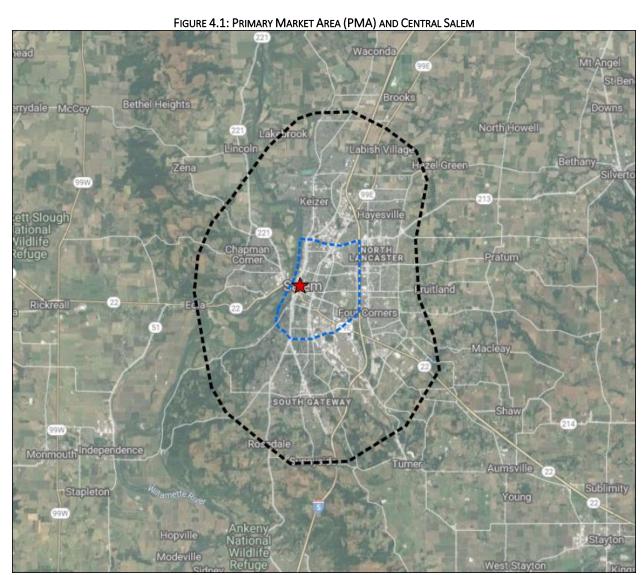
SOURCE: U.S. Census Bureau, JOHNSON ECONOMICS



# IV. MARKET AREA DEFINITION

The Primary Market Area (PMA) is defined as the geographic region from which the subject development is expected to draw most of its market support, and within which similar projects compete on a comparable basis. In other words, it is the geographic region from which we would expect potential tenants to evaluate alternative options.

For this analysis, we define the PMA as the Salem-Keizer region, as outlined in black below. The two contiguous cities include most of the apartment inventory in the Salem Metro Area (Marion and Polk counties) and are geographically separated from nearby cities with apartment supply (e.g., Silverton, Woodburn). Projections for future supply and demand will be focused on this market. We will also provide some data for Central Salem, as defined by the blue dashed line. This area extends north to River Road City Park, east to I-5, south to Fairview Avenue, and west to the Willamette River. Data only available on the county level will be provided for the Salem Metro Area (Marion and Polk counties).



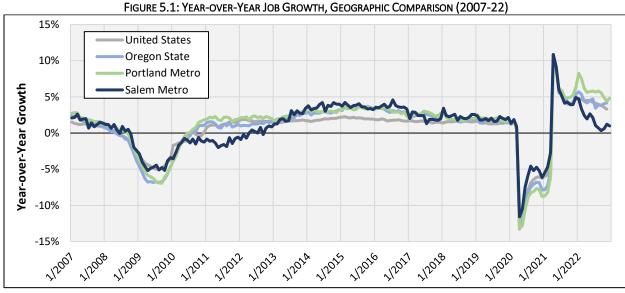


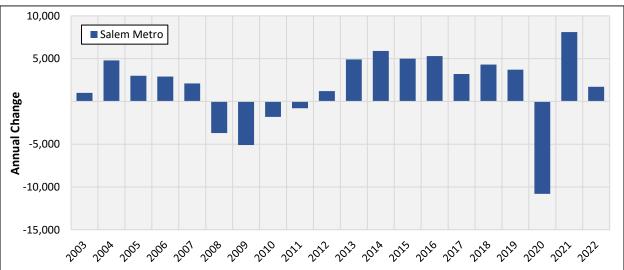
# V. SOCIO-ECONOMIC TRENDS

#### **EMPLOYMENT**

As the state capitol, Salem's economy is dominated by the public sector. This tends to give the region some stability in terms of employment, limiting the growth potential during expansions but protecting against steep losses during downturns. Thus, Salem Metro Area fared relatively well during COVID-19, as it did during the 2008-09 recession. The 2008-09 was followed by steep budget cuts that led to a protracted period of moderate job losses, something that so far has been avoided in the wake of COVID. Still, the job growth over the past year has been somewhat weak, and the region has yet to recover all the jobs lost during the pandemic. At the end of 2022, the annual growth rate was 1.0% compared to rates between 2% and 4% per year in the seven years prior to the pandemic.

In absolute terms, the region created 3,000-6,000 jobs annually during most of the past expansion. 22,300 jobs were lost early in COVID, while the net loss over the 2020 calendar year was 11,800. Just over 8,000 were recovered in 2021, followed by 1,700 in 2022. Current employment is 2% (400 jobs) below the pre-COVID level.





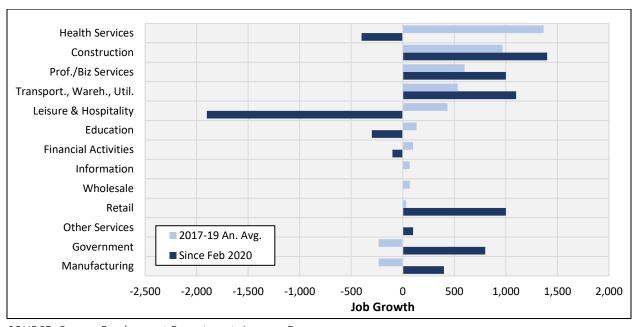
SOURCE: Oregon Employment Department, JOHNSON ECONOMICS



As indicated, COVID-19 had a dramatic impact on regional employment, though Salem was spared from the steep cuts seen in most larger cities. The stability of government jobs helped the Salem area, as did the fact that Salem has a relatively small leisure and hospitality industry. The following charts show recent change in employment by major industry in the Salem Metro Area. The first chart compares declines between February and April 2020 to the subsequent recovery. The industries with the strongest total growth over the period are at the top. The second chart shows the total growth since COVID hit compared to the average annual growth of the previous three years, with the strongest industries over the three-year period at the top. The latter reveals that five industries have dominated recent job growth, representing a broad range in terms of wage levels. The strongest industries since the pandemic arrived have been construction, professional/business services, and transportation/warehousing (incl. e-commerce).

Feb-Apr 2020 Construction ■ Apr 2020 - Dec 2022 Transport., Wareh., Util. Retail Prof./Biz Services Government Manufacturing Other Services Information Wholesale **Financial Activities** Education **Health Services** Leisure & Hospitality 2,000 -8,000 -6,000 -4,000 -2.000 4,000 6,000 8,000 Job Growth

FIGURE 5.2: JOB GROWTH BY SECTOR, SALEM METRO AREA (2017-19 AND 2020-22)



SOURCE: Oregon Employment Department, JOHNSON ECONOMICS



# **WORKFORCE**

Whereas baby boomers in their fifties and sixties dominated job growth in the region during the 2000s, millennials dominated in the 2010s. Many millennials were unemployed following the 2008-09 recession, causing a large share to enroll in higher education. A few years later, a wave of college graduates entered the labor force, causing the 25-34 age segment to be the largest growth segment in the workforce in most parts of the country. This age group is also the dominant segment of the apartment market.

In the Salem Metro Area, the strongest job growth over the past decade took place in the 35-44 age group, closely followed by 25-34-year-olds. The growth shifted to the older age group toward the end of the decade, reflecting the aging of the millennial wave. In the three last years pre-COVID, the 35-44 age group filled 3,600 new jobs on the net, while the 25-34 segment filled 2,100. The senior segment also saw strong growth, mostly in part-time jobs. Losses during COVID disproportionately affected young workers, while growth in 2021 was dominated by workers above the age of 45.

FIGURE 5.3: JOB GROWTH BY WORKER AGE, SALEM METRO AREA (2007-21)

AGE	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
19-24	-188	-1,122	-1,032	-375	230	177	1,194	1,048	702	714	251	417	303	-783	291
25-34	886	-792	-941	-187	352	-692	1,016	1,363	1,011	1,499	655	1,017	441	-1,546	945
35-44	-278	-1,369	-998	150	808	486	1,009	1,412	1,089	1,550	775	1,647	1,183	-1,459	693
45-54	-128	-1,367	-1,377	-651	244	-486	424	321	987	599	112	1,218	724	-816	1,279
55-64	1,329	676	311	803	712	543	576	638	811	854	382	969	221	-1,304	723
65-99	512	54	154	383	769	525	511	641	605	857	851	1,406	855	-306	1,361
TOTAL	2,067	-4,717	-4,721	-201	3,047	585	5,026	5,760	5,486	6,363	3,295	6,820	3,867	-6,047	5,764

SOURCE: U.S. Census Bureau, JOHNSON ECONOMICS

In the last three years pre-COVID, net job growth in the 25-34 age segment was concentrated at wage levels between \$60,000 and \$80,000. There was also growth in the \$20,000-40,000 bracket, but largely due to wage increases. In older age groups, most of the growth took place above \$70,000. In 2020-21, which is not shown below, there were losses in low-wage service jobs (\$40,000\$) due to COVID, but healthy gains above \$50,000. The 25-34 age group also saw significant growth in the \$40,000-50,000 range.

FIGURE 5.4: JOB GROWTH BY WORKER AGE AND WAGE, SALEM METRO (2017-19)

2017-19	19-24	25-34	35-44	45-54	55-64	65-99	Total
<\$10,000	-654	47	61	139	115	112	-180
\$10,000-\$19,999	-1,122	-3,218	-1,138	-1,444	-1,140	-516	-8,577
\$20,000-\$29,999	1,050	1,396	-411	-2,426	-103	1,027	533
\$30,000-\$39,999	1,074	1,005	-459	-1,519	-19	480	562
\$40,000-\$49,999	501	213	499	2,378	-152	615	4,053
\$50,000-\$59,999	52	163	336	-1,683	-433	521	-1,043
\$60,000-\$69,999	64	1,162	-573	-36	-510	-22	85
\$70,000-\$79,999	8	788	2,216	1,748	1,273	533	6,566
\$80,000-\$89,999	0	218	244	1,414	285	-39	2,124
\$90,000-\$100,000	1	-110	1,733	527	658	234	3,042
>\$100,000	-3	450	1,098	2,955	1,597	165	6,262
Total	971	2,113	3,605	2,054	1,572	3,112	13,982

SOURCE: U.S. Census Bureau, JOHNSON ECONOMICS



# POPULATION AND HOUSEHOLDS

#### **POPULATION**

The Salem Metro Area currently totals around 440,000 people, according to the PSU Population Research Center. Of these, nearly 180,000 live within the City of Salem. The regional population grew faster than the remainder of the state and the nation during the 1990s and 2000s, though not as fast as the Portland Metro Area. The regional growth was on par with statewide growth over the past decade. The City of Salem has experienced relatively strong growth during the 2000s as well as during the last few years, likely benefitting from the outflow from Portland during COVID. Salem has grown by 16% since 2010, adding 25,000 residents.

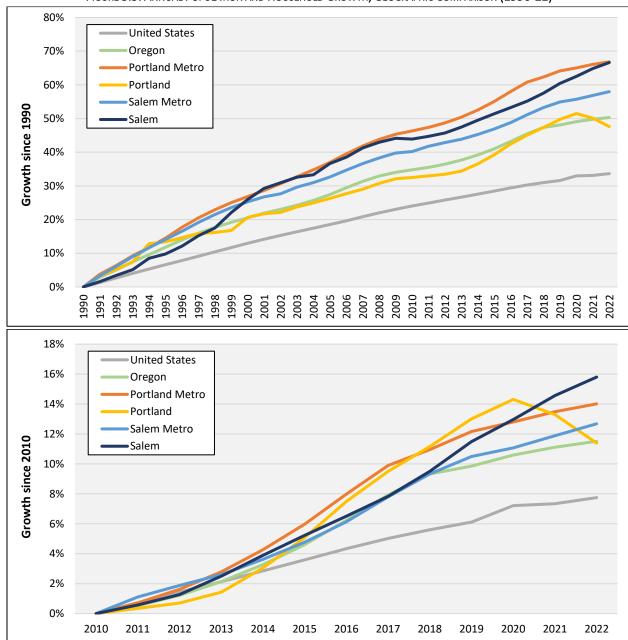


FIGURE 5.5: ANNUAL POPULATION AND HOUSEHOLD GROWTH, GEOGRAPHIC COMPARISON (1990-22)

SOURCE: U.S. Census Bureau, Portland State University, JOHNSON ECONOMICS



Over the past decade, regional population growth accelerated until 2017, when 6,500 new residents were added to the region on a net basis. This was the strongest growth seen since the mid-1990s. The growth decelerated to 4,600 in 2019 and 2,200 in 2020 – with the latter reflecting reduced mobility during COVID. Note that these estimates from the PSU Population Research Center are to some extent add odds with building permit data for the region (see later in this section), which indicate an acceleration of growth over the past 10 years. Within the City of Salem, the estimates indicate that the growth peaked in 2019, helped by increased apartment supply (see next section), and continued at a relatively strong rate over the following years. This is more in line with building permit data.

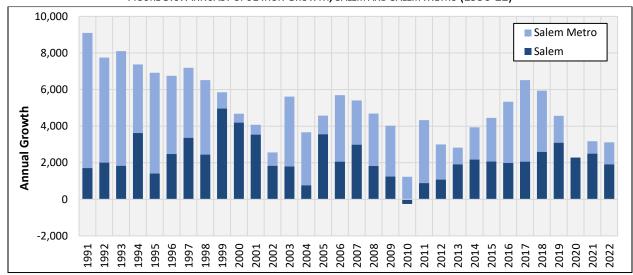
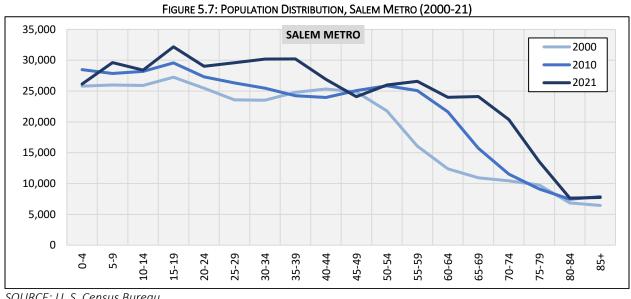


FIGURE 5.6: ANNUAL POPULATION GROWTH, SALEM AND SALEM METRO (1990-22)

SOURCE: Portland State University, JOHNSON ECONOMICS

#### AGE TREND

Most of the growth in the Salem region over the past decades took place at the family and young adult stages, likely related to employment. There has also been a strong growth among seniors, though this appears to be reflective of baby boomers aging in place rather than in-migration. Population data by age is only available through 2021.





We have also included the age distribution for Central Salem below. Age data for this geography is only available in five-year averages, with the most recent dataset covering the 2017-21 period. This roughly represents 2019 levels. Like many other central cities, this area has a concentration of young adults, reflecting the availability of multifamily housing with access to urban amenities. However, the concentration has moved from the typical college age (20-24) to the 25-34 age group over the past decade, mirroring the crest of the millennial wave. Growth has also taken place in empty-nester and senior segments.

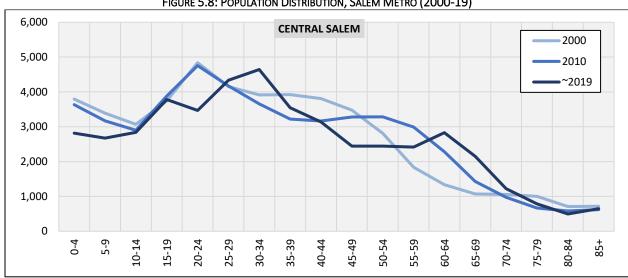
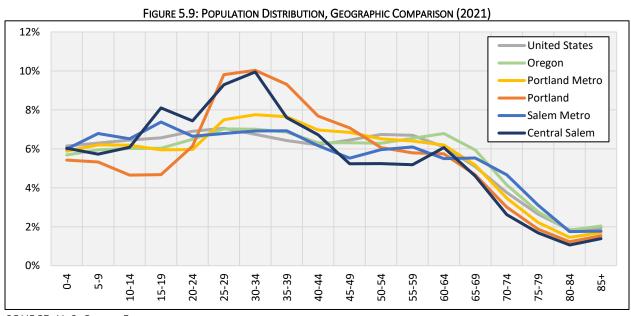


FIGURE 5.8: POPULATION DISTRIBUTION, SALEM METRO (2000-19)

SOURCE: U. S. Census Bureau

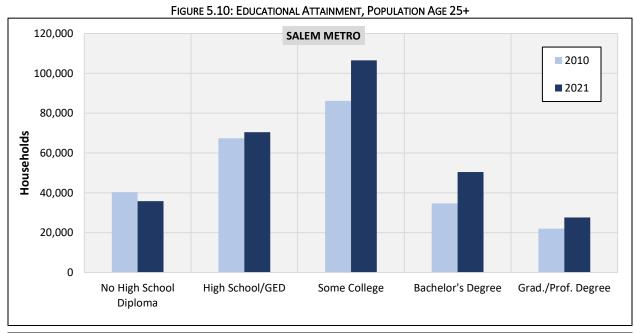
The following chart compares the population distribution in Central Salem and Salem Metro to other geographies. The Salem region is quite similar to the state and nation in terms of age distribution, though with more families with children and fewer middle-age households. Central Salem has a large millennial cohort, similar to Portland, but fewer middle-age households – who generally represent higher income levels.

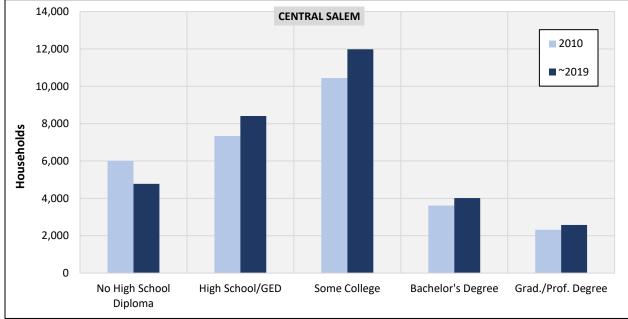




#### **EDUCATION TREND**

Education levels are often an indicator of housing preferences, at least in households without children. People with high education tend to have children later and are more likely to choose multifamily housing in urban locations. Most areas have seen an increase in education levels over the past decade due to the surge in college enrollment following the 2008-09 recession. On the regional level, there has been almost no change in the number of people above the age of 25 with only a high school diploma or less. However, there has been a significant increase in people with associate's and bachelor's degrees. Central Salem has seen a more moderate increase in people with higher education, while also seeing some growth among residents with only high school diploma.







#### HOUSEHOLD SIZE

Regionally, most of the population growth over the past decade has come in one- and three-person households. Interestingly, at the same time the Portland Metro Area has seen the strongest growth in two-person households, especially in Central Portland where housing prices are too high for many single-income households. The pattern seen in the Salem Metro Area may reflect that the region's lower rent and home price levels attract more singles as well as more starting families.

The following charts illustrate household growth by size within the City of Salem over the past decade. The city has seen the strongest growth in one and two-person households. The same pattern is observed if we focus on renter households only. Similar trends are seen in Central Salem, thoug the growth there has been more even across household types.

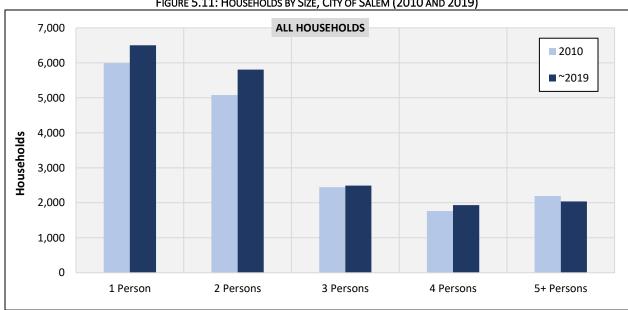
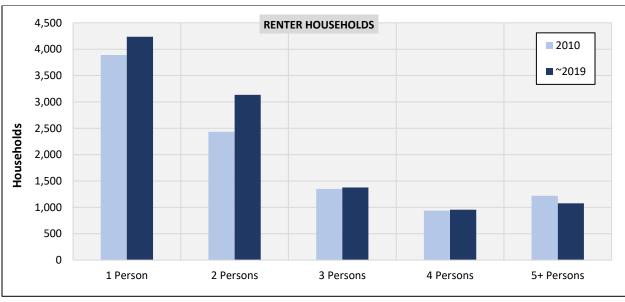


FIGURE 5.11: HOUSEHOLDS BY SIZE, CITY OF SALEM (2010 AND 2019)





#### HOUSEHOLDER AGE

The age groups that have dominated household growth within the City of Salem over the 2010-21 period seniors (baby boomers) and young adults (millennials). The 25-34 age group, which dominates the apartment demand, has aded 1,300 units, while the 35-44 age group has added 2,500. A large share of this growht has taken place in the renter segment. The renter segment has also seen a strong increase among empty nesters and seniors.

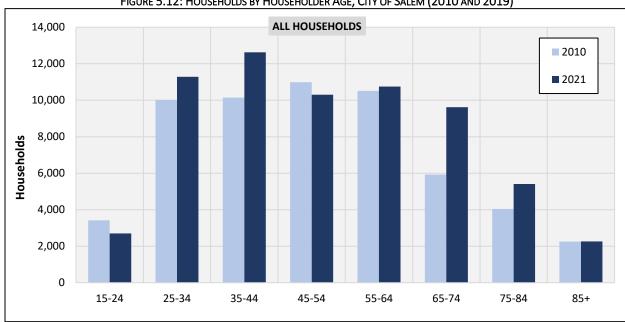
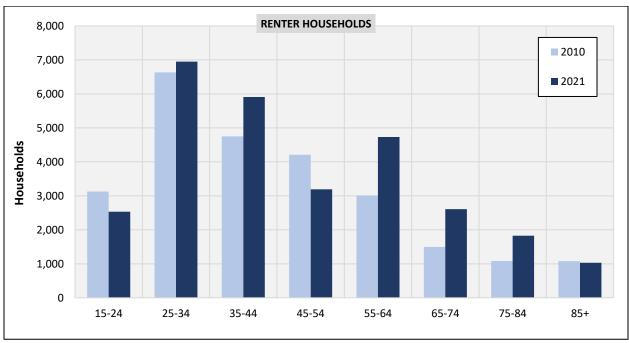


FIGURE 5.12: HOUSEHOLDS BY HOUSEHOLDER AGE, CITY OF SALEM (2010 AND 2019)





#### **HOUSING PRODUCTION**

As household counts are not available in annual estimates, residential building permits provide a proxy for household growth, though the units are often occupied a year or two after the permit was issued. The Salem Metro Area averaged around 2,000 new housing units annually in the 1990s and 2000s, before the foreclosure crisis and ensuing recession nearly halted new construction. Over the past decade, the annual output grew from a low of 400 units in 2011 to just over 2,000 units in 2019. Demand growth during COVID led to even more new units permitted in 2021 and 2022, with the latter totaling 2,700 units.

Multifamily units – virtually all rental apartments – have accounted for an increasing share of the production, reaching a record 1,800 units in 2022. The City of Salem has usually permitted most of these, though Woodburn has recently accounted for a larger share. Roughly 800 multifamily units were permitted in Salem in 2021, on par with 2020. Within the city, multifamily construction has outpaced single-family construction since 2016, totaling 4,000 units over a seven-year period, for an annual average of nearly 600.

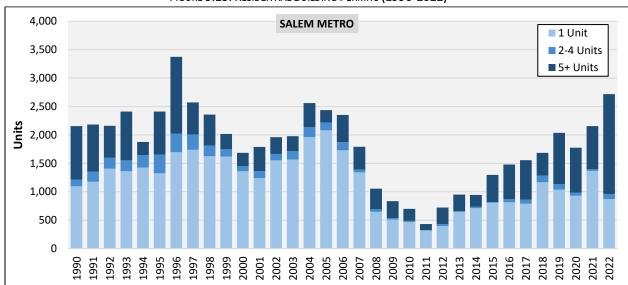
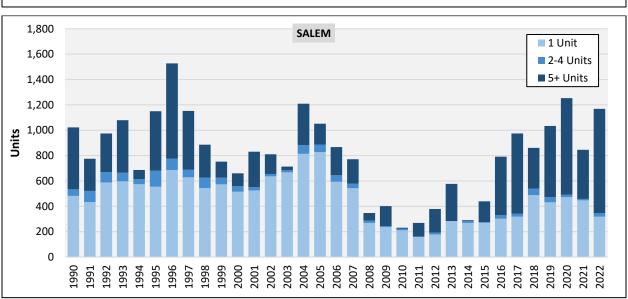


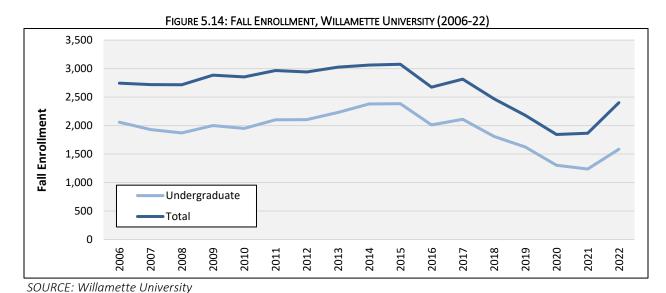
FIGURE 5.13: RESIDENTIAL BUILDING PERMITS (1990-2022)



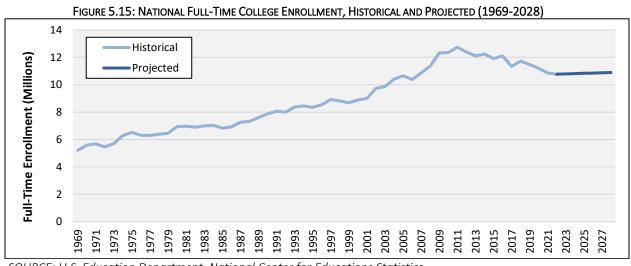


# **UNIVERSITY ENROLLMENT**

Willamette University in Salem saw steep declines in enrollment between 2015 and 2019, steeper than seen at other universities in Oregon. The declines reflected changes to California's education system in 2015 that encouraged more in-state enrollment among its residents. Students from California had previously represented nearly half of all incoming freshmen. COVID caused additional declines in 2020 and 2021. The enrollment increased again in fall 2022, for a total of 2,400 students, including 1,600 undergraduate students.



The trends at Willamette reflect in part broader demographic and economic conditions. Nationally, college enrollment peaked in 2011, and has since declined by 15%. Contributing factors include smaller college-age populations as the large millennial cohort has gotten older, lower unemployment, and higher tuition costs. Projections from the Education Department indicate a stabilization and slight increase in enrollment over coming years. However, these projections have been too optimistic in recent years, not fully capturing the impact of low unemployment and rising tuition costs. Based on the recent trend, we would expect stable or moderately growing enrollment at Willamette. The newly opened Western Oregon University satellite campus in Downtown may bring additional students to Salem, though the campus is expected to remain limited in size.



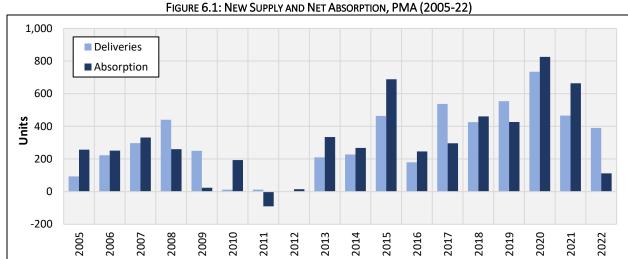
SOURCE: U.S. Education Department, National Center for Educations Statistics



#### VI. **APARTMENT MARKET TRENDS**

#### MARKET GROWTH

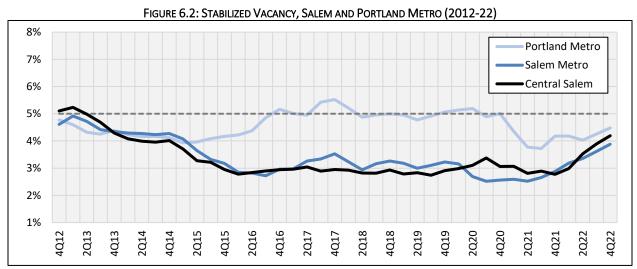
The Salem-Keizer market totals 27,200 rental apartments, including 4,200 units built over the past 10 years. Over the past five years, an average of 500 units have been delivered annually. As this has been a period of stable, low vacancy, net market absorption has largely been limited to the new supply, thus also averaging 500 units annually. The net absorption increased to 800 units in 2020, due to a wave of new supply and COVID/riot flight from Portland. The absorption fell to 100 in 2022, reflecting a reversal of the COVID impact, which is nationwide trend.



SOURCE: Metro, CoStar, JOHNSON ECONOMICS

### **RENT AND VACANCY TRENDS**

As indicated, vacancy rates in Salem have been stable and low for several years. Since 2013 the regional rate has not been above 5%, which is generally considered to represent a balanced market in terms of supply and demand. The rate hovered around 3% over the 2016-21 period, before increasing during 2022 to year-end rate of 3.9%. In comparison, Central Salem currently has a vacancy rate of 4.2% and Portland Metro 4.5%.



SOURCE: CoStar



The average rent level in the Salem region lower than in the Portland Metro Area. The differential between the two regions has remained fairly stable over the past 10 years. Rents in Central Salem are slightly higher than in the remainder of the Salem region, although the latter has almost caught up with Central Salem in recent years. This likely reflects that suburban areas have seen more new supply, which has reduced the average age of the suburban apartment stock and increased the average rent level. Current rent averages are \$1.58 per square foot (PSF) in Central Salem, \$1.55 in Salem Metro, and \$1.95 in the Portland Metro Area, according to CoStar.

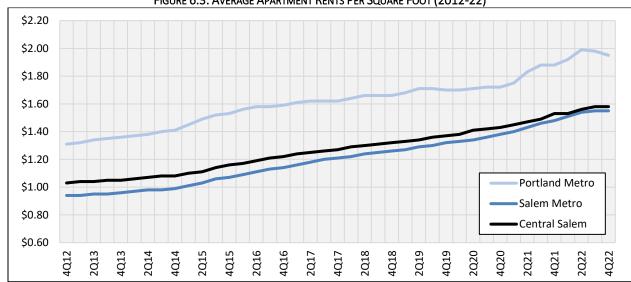
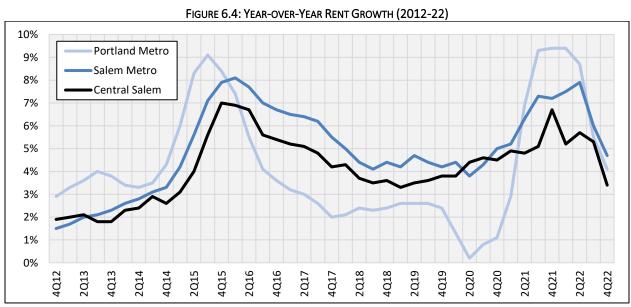


FIGURE 6.3: AVERAGE APARTMENT RENTS PER SQUARE FOOT (2012-22)

SOURCE: CoStar

Salem Metro saw the rent growth moderate from a high of 8.1% per year in early 2016 to around 4.5% over the 2018-20 period. The rent growth subsequently accelerated to 7.9% by mid-2022 due to the increased demand, before lower vacancy brought it back down to 4.7% at year-end. Central Salem has seen slower rent growth, at least in part reflecting the limited new supply, with a year-over-year gain of 3.4% at the end of 2022.



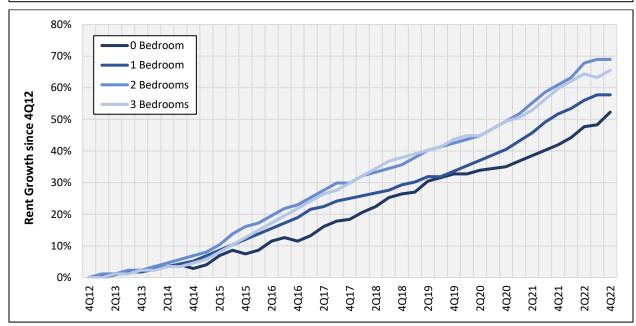
SOURCE: CoStar



#### RENTS BY UNIT TYPE

Currently, the average rent for a studio in Salem Metro is \$1,328, while one-bedrooms average \$1,241, two-bedrooms \$1,368, and three-bedrooms \$1,689, according to CoStar. The relatively high rents for studios reflect that these are mostly urban units of newer vintage, while the relatively low two-bedroom rents that these are dominated by older suburban inventory. Below, we show trends for per-square-foot (PSF) averages. Studios have the highest average (\$2.68), followed by one-bedrooms (\$1.83), two-bedrooms (\$1.47), and three-bedrooms (\$1.43). The largest units have seen the strongest rent growth over the past 10 years, while studios have underperformed. However, studios have seen the strongest rent growth in 2022 (6.0%), as the COVID-driven demand for larger spaces has faded.

FIGURE 6.5: AVERAGE RENT AND CUMULATIVE RENT GROWTH SINCE 4Q12 BY NUMBER OF BEDROOMS \$2.80 0 Bedroom \$2.60 1 Bedroom \$2.40 2 Bedrooms \$2.20 3 Bedrooms \$2.00 **PSF Rent** \$1.80 \$1.60 \$1.40 \$1.20 \$1.00 \$0.80 \$0.60 4Q12 2Q13 4Q13 2Q14 4Q14 2Q15 2Q16 4Q16 2Q18 4Q18 2Q19 4Q19 2Q20 **2Q17** 4Q17 2021 2022

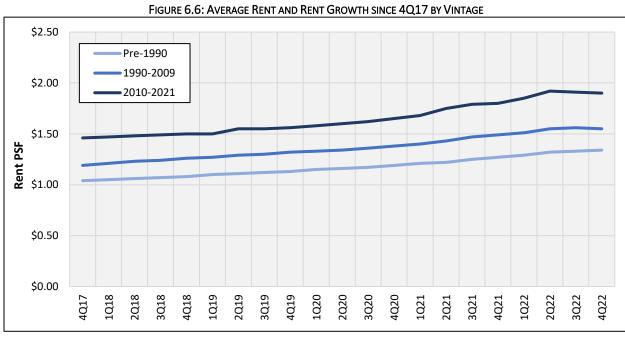


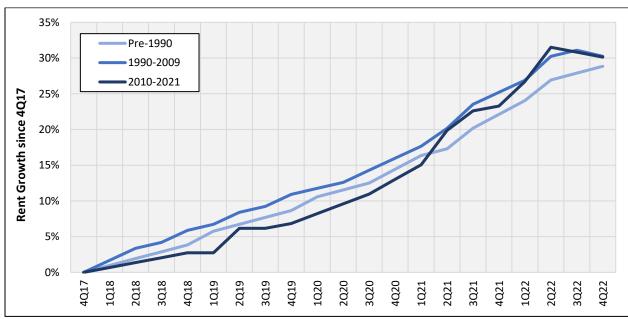
SOURCE: CoStar, JOHNSON ECONOMICS



#### **RENTS BY VINTAGE**

The following charts compare average rent levels by date of construction. Newer properties typically outperform in times of strong economic growth, reflecting increasing employment and income levels, while older and more affordable properties tend to outperform in times of weakness. The opposite was the case during COVID due to the pandemic affecting low-wage service and retail employment disproportionately, while newer properties benefitted from households being willing to spend more on their homes. In Salem, the rent trajectories for the three broad vintage categories shown below have been fairly stable. However, projects built between 1990 and 2009 outperformed over the 2017-19 period, while the newest properties have outperformed since.





SOURCE: CoStar, JOHNSON ECONOMICS

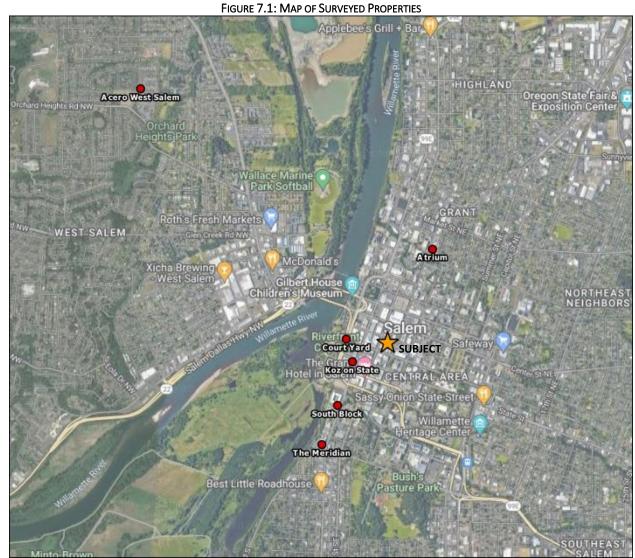


# VII. COMPETITIVE MARKET SURVEY

# **COMPETITIVE SURVEY**

JOHNSON ECONOMICS conducted a detailed survey of six apartment projects in Salem for this market study. These represent the newest and best positioned projects in and around Downtown. Five are urban projects located in Downtown, while one is a garden-style project in West Salem. The latter is the suburban project in the region with the highest rent levels, completed in 2019. Among the urban properties, one is a failed luxury condo project from 2008 that was finished in 2013 (the Meridian). The others were completed in 2015 and later. Two properties opened in 2021 (Koz on State and Atrium). No projects have been completed in this area since.

The following map shows the locations of the surveyed properties. Detailed profiles of the projects are included over the next pages, followed by a summary of relevant observations and an analysis of achievable pricing at the site.



SOURCE: Google Earth, JOHNSON ECONOMICS



#### FIGURE 7.2: PROFILES OF SURVEYED COMPARABLES

# 1 - COURT YARD

211 Court Street NE, Salem, Oregon



 YEAR BUILT:
 2019

 TOTAL UNITS:
 40

 OCCUPANCY:
 95%

 PARKING STALLS/UNIT:
 1.00

 AVERAGE RENT/SF:
 \$2.05

#### **Project Description:**

Five-story building with 40 units above a ground-floor parking garage, at the intersection of Front and Court streets, facing the Riverfront Park. Relatively large units for an urban project. All units have balconies. Gated surface parking is available in addition to garage parking. Opened in early 2019 and was fully leased in the fall, according to CoStar, indicating roughly 5 units leased per month on average. Offered one month free rent during lease-up. All unit types except 2B/1b have units on east and west side of building. The 2B/1b floor plan is only on the west side (park/river views) and thus captures relatively high rents.

#### **Project Amenities**

Coffee room/lounge
Bike storage, small outdoor pet area
Secured covered parking (\$100/mo.)
Secured uncovered parking (\$75/mo.)
Pet friendly (\$35/mo.)

#### **Unit Amenities**

Quartz or solid surface countertops Stainless steel appliances Vinyl plank and carpet flooring Large windows, 9-foot ceilings, A/C Balcony

	UNIT CHARACTERISTICS			occui	PANCY	RENTS				
	Units (#)	Units (%)	Avg. Size	Vac. (#)	Occ. (%)	Low	High	Average	Avg. PSF	
Studio	8	20%	541	1	88%	\$1,315	\$1,380	\$1,348	\$2.49	
1B/1b	20	50%	835	1	95%	\$1,675	\$1,775	\$1,718	\$2.06	
2B/1b	4	10%	1,010	0	100%	\$2,195	\$2,230	\$2,213	\$2.19	
2B/2b	8	20%	1,323	0	100%	\$2,125	\$2,620	\$2,373	\$1.79	
Tot./Avg:	40	100%	891	2	95%	\$1,315	\$2,620	\$1,824	\$2.05	











# 2 - SOUTH BLOCK

315 Commercial Street SE, Salem, Oregon



 YEAR BUILT:
 2015-16

 TOTAL UNITS:
 178

 PARKING SPACES/UNIT:
 1.35

 OCCUPANCY:
 96%

 AVERAGE RENT/SF:
 \$2.46

#### **Project Description:**

The South Block is the apartment component of Mountain West's Pringle Square project, a redevelopment of the former Boise Cascade site. The site is located along the Willamette Slough and adjacent to the Waterfront Park. The complex has a doughnut/courtyard configuration, with many units only having courtyard views. 100 units (56%) have balconies. The property includes 15,000 sf of commercial space and 240 parking stalls. The parking is free of charge (unassigned). Currently one month free on three-bedrooms.

#### **Project Amenities**

Community lounge Courtyard Storage units Secured parking garage Pet friendly (\$25/mo.)

#### **Unit Amenities**

Quartz countertops, undermount sinks Stainless steel appliances Walk-in closets, 9"ceilings available Large windows, balconies available Air conditioning

	UNIT CHARACTERISTICS			occui	PANCY	RENTS				
_	Units (#)	Units (%)	Avg. Size	Vac. (#)	Occ. (%)	Low	High	Average	Avg. PSF	
Studio	19	11%	509	1	95%	\$1,520	\$1,647	\$1,546	\$3.04	
1B/1b	71	40%	658	3	96%	\$1,705	\$1,992	\$1,784	\$2.71	
2B/1.5b	8	4%	940	0	100%	\$1 <i>,</i> 975	\$2,325	\$2,150	\$2.29	
2B/2b	68	38%	1,078	3	96%	\$2,215	\$2,890	\$2,530	\$2.35	
3B/2b	12	7%	1,404	1	92%	\$2,715	\$3,015	\$2,873	\$2.05	
Tot./Avg:	178	100%	866	8	96%	\$1,520	\$3,015	\$2,133	\$2.46	











# 3 - KOZ ON STATE

260 State Street, Salem, Oregon



YEAR BUILT: 2021
TOTAL UNITS: 148
PARKING SPACES/UNIT: 0.12
OCCUPANCY: 98.0%
AVERAGE RENT/SF: \$4.12

#### **Project Description:**

Six-story micro-unit building at the southwest intersection of Commercial and State streets. Includes a central, second-floor courtyard, as well as secured bike parking and a laundry room on every floor. Utilities included in rent. Partially furnished units available at no extra cost. No balconies or air-conditioning. Some units have park/river views. Opened in March 2021. The few one- and two-bedroom units at the property leased up quickly. The property was fully leased in just over six months, averaging 22 transactions per month. Rents raised 25% since opening.

## **Project Amenities**

Elevated courtyard Bike storage Laundry rooms on each floor Garage parking (\$100/mo.) Pet friendly (\$25/mo.)

## Unit Amenities (Renovated)

Quartz countertops & backsplash
Vinyl plank flooring
White or stainless steel appliances
Air conditioning, 8-9' ceilings
Balconies

	UNIT	CHARACTERI	STICS	occui	PANCY		RENTS					
•	Units (#)	Units (%)	Avg. Size	Vac. (#)	Occ. (%)	Low	High	Average	Avg. PSF			
Studio	136	92%	271	3	98%	\$1,115	\$1,265	\$1,190	\$4.39			
1B/1b	2	1%	427	0	100%	\$1,515	\$1,515	\$1,515	\$3.55			
2B/2b	10	7%	653	0	100%	\$1,705	\$1,795	\$1,750	\$2.68			
Tot./Avg:	148	100%	299	3	98%	\$1,115	\$1,795	\$1,232	\$4.12			











# 4 - ATRIUM

990 Broadway Street NE, Salem, Oregon



#### **Project Description:**

Four-story walk-up courtyard at the intersection of Broadway Street and E Street. It includes three standard floors plus mezzanie space for four of the third-floor units. The building has one retail space on the ground floor. No community amenities apart from courtyard, bike parking, and a surface parking lot. No balconies or air-conditioning.

YEAR BUILT:	2021
TOTAL UNITS:	23
PARKING SPACES/UNIT:	1.13
OCCUPANCY:	96%
AVERAGE RENT/SF:	\$2.80

#### **Project Amenities**

Courtyard with bench
Bike parking
Surface auto parking
Pet friendly

#### **Unit Amenities**

Vinyl plank flooring (vinyl in bathr.)
Solid surface countertops
Stainless steel appliances
Washer/dryer
High ceilings/mezzanies (select u.)

	UNIT	CHARACTERI	STICS	occui	PANCY		RENTS					
_	Units (#)	Units (%)	Avg. Size	Vac. (#)	Occ. (%)	Low	High	Average	Avg. PSF			
Studio	16	70%	357	1	94%	\$1,125	\$1,195	\$1,151	\$3.22			
1B/1b	1	4%	458	0	100%	\$1,225	\$1,225	\$1,225	\$2.67			
1B/1b Mezz	4	17%	658	0	100%	\$1,415	\$1,415	\$1,415	\$2.15			
2B/1b	2	9%	743	0	100%	\$1,750	\$1,750	\$1,750	\$2.36			
Tot./Avg:	23	100%	447	1	96%	\$1,125	\$1,750	\$1,252	\$2.80			











# 5 - THE MERIDIAN

777 Commercial Street SE, Salem, Oregon



 YEAR BUILT:
 2008-13

 TOTAL UNITS:
 85

 PARKING SPACES/UNIT:
 2.45

 OCCUPANCY:
 85%

 AVERAGE RENT/SF:
 \$2.01

#### **Project Description:**

The Meridian is originally a luxury condominium project, converted to rental apartments during the last the downturn. It therefore features units that are larger than typical for rental apartments. It is located in a sparsely amenitized area south of Downtown, but provides views of the Willamette Slough and Minto Island. Killian Pacific purchased the building in 2012, at which point the two lower floors were already completed and leased out. These have relatively basic features like tile countertops and white appliances. The remaining floors were finished with more upscale features and leased up in 2013-14. Many units have only juliette balconies.

# Project Amenities Community lounge w/theater area Fitness room, business center Bicycle storage, storage units (\$65)

Covered/garage parking (\$50-105/mo.) Limited concierge services

#### **Unit Amenities**

Granite countertops, undermount sinks
Stainless steel appliances, gas/el range
Laminate plank and berber carpet floors
A/C, fireplace, recessed lighting
Balconies available

	UNIT	CHARACTER	ISTICS	occui	PANCY	RENTS					
	Units (#)	Units (%)	Avg. Size	Vac. (#)	Occ. (%)	Low	High	Average	Avg. PSF		
1B/1b	37	44%	1,000	9	76%	\$1,900	\$2,300	\$2,058	\$2.06		
2B/1b	16	19%	1,105	4	75%	\$2,050	\$2,900	\$2,361	\$2.14		
2B/2b	27	32%	1,371	0	100%	\$2,400	\$3,300	\$2,713	\$1.98		
3B/2b	3	4%	1,518	0	100%	\$2,900	\$3,200	\$3,051	\$2.01		
3B/2.5b	2	2%	2,393	0	100%	\$3,500	\$3,600	\$3,550	\$1.48		
Tot./Avg:	85	100%	1,189	13	85%	\$1,900	\$3,600	\$2,393	\$2.01		











# 6 - ACERO

## 1948 Linwood Road NW, Salem, Oregon



YEAR BUILT:	2019
TOTAL UNITS:	312
PARKING SPACES/UNIT:	0.51
OCCUPANCY:	98%
AVERAGE RENT/SF:	\$1.92

#### **Project Description:**

Large garden-style project located in a suburban setting in West Salem. Based on blueprints replicated by developer IDM throughout large parts of the Pacific Northwest. The property offers a broad range of suburban community amenities, including a clubhouse, fitness room, outdoor pool/spa, dog run, and barbeque pavilion. All units have balconies/patios. Opened in June 2019 and stabilized by September 2020, according to CoStar, indicating average absorption of 20 units per month. \$1,000 off select units.

# **Project Amenities**

Clubhouse, business center
Fitness center, outdoor pool/spa
Barbeque pavilion, park
Dog park, storage units
Guest suites

## **Unit Amenities**

Vinyl plank and carpet flooring Quartz countertops/backsplash Stainless steel appliances Walk-in closet Deck, 9-foot ceilings, A/C

	UNIT CHARACTERISTICS			occui	PANCY	RENTS					
_	Units (#)	Units (%)	Avg. Size	Vac. (#)	Occ. (%)	Low	High	Average	Avg. PSF		
1B/1b	78	25%	705	0	100%	\$1,650	\$1,745	\$1,698	\$2.41		
2B/1b	84	27%	997	2	98%	\$1,805	\$1,920	\$1,863	\$1.87		
2B/2b	150	48%	1,066	5	97%	\$1,845	\$1,945	\$1,895	\$1.78		
Tot./Avg:	312	100%	957	7	98%	\$1,650	\$1,945	\$1,837	\$1.92		









SOURCE: Surveyed Properties, RealPage, CoStar, Craigslist, Metro, Johnson Economics



FIGURE 7.3: COMPETITIVE SURVEY SUMMARY

	Unit Characteristics								Rent Char	acteristi	cs	
Project Name/			•						Low	High	Avg.	Avg. Rent
Location	Year	Occupancy	Туре	Units	Mix	Sq. Ft.	Vac	cant	Rent	Rent	Rent	Per SF.
1) COURT YARD	2019	95.0%	Studio	8	20%	541	1	13%	\$1,315 -	\$1,380	\$1,348	\$2.49
211 Court St NE			1B/1b	20	50%	835	1	5%	\$1,675 -	\$1,775	\$1,718	\$2.06
Salem, OR			2B/1b	4	10%	1010	0	0%	\$2,195 -	\$2,230	\$2,213	\$2.19
			2B/2b	8	20%	1323	0	0%	\$2,125 -	\$2,620	\$2,373	\$1.79
			Tot./Avg:	40	100%	891	2	5%	\$1,315 -	\$2,620	\$1,824	\$2.05
2) SOUTH BLOCK	2015-16	95.5%	Studio	19	11%	509	1	5%	\$1,520 -	\$1,647	\$1,546	\$3.04
315 Commercial St SE			1B/1b	71	40%	658	3	4%	\$1,705 -	\$1,992	\$1,784	\$2.71
Salem, OR			2B/1.5b	8	4%	940	0	0%	\$1,975 -	\$2,325	\$2,150	\$2.29
			2B/2b	68	38%	1078	3	4%	\$2,215 -	\$2,890	\$2,530	\$2.35
			3B/2b	12	7%	1404	1	8%	\$2,715 -	\$3,015	\$2,873	\$2.05
			Tot./Avg:	178	100%	866	8	4%	\$1,520 -	\$3,015	\$2,133	\$2.46
3) KOZ ON STATE	2021	98.0%	Studio	136	92%	271	3	2%	\$1,115 -	\$1,265	\$1,190	\$4.39
260 State St			1B/1b	2	1%	427	0	0%	\$1,515 -	\$1,515	\$1,515	\$3.55
Salem, OR			2B/2b	10	7%	653	0	0%	\$1,705 -	\$1,795	\$1,750	\$2.68
			Tot./Avg:	148	100%	299	3	2%	\$1,115 -	\$1,795	\$1,232	\$4.12
4) ATRIUM		95.7%	Studio	16	70%	357	1	6%	\$1,125 -	\$1,195	\$1,151	\$3.22
990 Broadway St NE	2021		1B/1b	1	4%	458	0	0%	\$1,225 -	\$1,225	\$1,225	\$2.67
Salem, OR			1B/1b Mezz	4	17%	658	0	0%	\$1,415 -	\$1,415	\$1,415	\$2.15
			2B/1b	2	9%	743	0	0%	\$1,750 -	\$1,750	\$1,750	\$2.36
			Tot./Avg:	23	100%	447	1	4%	\$1,125 -	\$1,750	\$1,252	\$2.80
5) MERIDIAN	2008-13	84.7%	1B/1b	37	44%	1000	9	24%	\$1,900 -	\$2,300	\$2,058	\$2.06
777 Commercial St SE			2B/1b	16	19%	1105	4	25%	\$2,050 -	\$2,900	\$2,361	\$2.14
Salem, OR			2B/2b	27	32%	1371	0	0%	\$2,400 -	\$3,300	\$2,713	\$1.98
			3B/2b	3	4%	1518	0	0%	\$2,900 -	\$3,200	\$3,051	\$2.01
			3B/2.5b	2	2%	2393	0	0%	\$3,500 -	\$3,600	\$3,550	\$1.48
			Tot./Avg:	85	100%	1189	13	15%	\$1,900 -	\$3,600	\$2,393	\$2.01
6) ACERO WEST SALEM	2019	97.8%	1B/1b	78	25%	705	0	0%	\$1,650 -	\$1,745	\$1,698	\$2.41
1948 Linvwood Rd NW			2B/1b	84	27%	997	2	2%	\$1,805 -	\$1,920	\$1,863	\$1.87
Salem, OR			2B/2b	150	48%	1066	5	3%	\$1,845 -	\$1,945	\$1,895	\$1.78
			Tot./Avg:	312	100%	957	7	2%	\$1,650 -	\$1,945	\$1,837	\$1.92

SOURCE: Surveyed Properties, RealPage, CoStar, Craigslist, Metro, JOHNSON ECONOMICS

## **SUMMARY OF OBSERVATIONS**

#### OCCUPANCY

Occupancy rates are in a normal range at most of the properties. Three have rates in the 95-96% range, while two have rates around 98%. Only the Meridian has excessive vacancy, with current occupancy of 85%. The property saw strong demand in 2021 as more affluent renters from the Portland area sought large floor plans, and it consequently raised its rents aggressively. This appears to have hurt its occupancy as the COVID-driven demand has abated. The overall vacancy rate across the survey is 95.7% (4.3% vacancy), which is in line with the remainder of the PMA.

#### **ABSORPTION**

Koz at State, which opened in March 2021 averaged 22 lease transactions per month, despite primarily offering micro units, which were largely out of favor during COVID. Acero West Salem achieved an average absorption rate of 20 units per month throughout its entire lease-up, according to CoStar. This is close to the normal absorption rate for a project of its scale, indicating that it was appropriately priced. CoStar data indicates that Court Yard only averaged five units per month during its lease-up, likely reflecting its large units and high absolute rent levels, combined with a low parking ratio. We do not have reliable absorption data for Atrium, which totals only 23 units.



#### RENTS

The surveyed comparables collectively represent an average rent level of \$1,832 per unit and \$2.24 per square foot (PSF). This is with an average unit size of 820 square feet, which is large for urban properties.

The current rent levels represent an increase of 19% since May 2021, translating into annualized rent growth of 10% per year. The steepest rent increase was at the Meridian (+30%), followed by South Block (+28%, new ownership, was previously underpriced) Koz (+25%), Atrium (+15%), Acero (+11%), and Court Yard (+7%).

Only two of the properties currently offer any rent concessions. Acero offers \$1,000 off a few select units, while South Blocks offers one month free rent on three-bedrooms.

The highest rents in absolute terms are at the Meridian, which has condo-sized units averaging 1,189 square feet. These represent average monthly rents of \$2,393 per unit and \$2.01 PSF. South Block also has relatively large units for an urban project (866 SF), and currently averages \$2,133 per unit and \$2.46 PSF.

The lowest absolute rents are at the two properties with small units. Atrium averages \$1,252 per unit and \$2.80 PSF, at an average unit size of 456 square feet. Koz on State averages \$1,232 per unit and \$4.12 PSF, at an average unit size of 299 square feet. Its rent levels are relatively high considering the unit sizes.

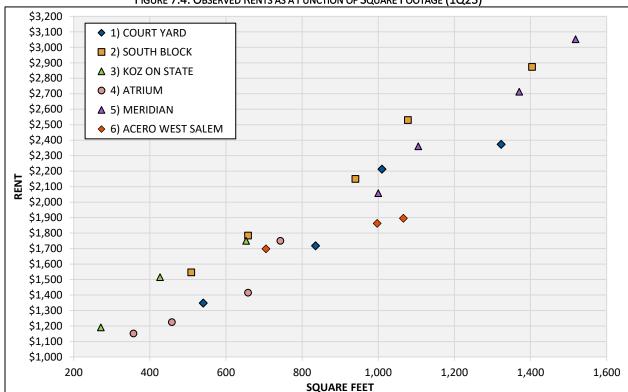


FIGURE 7.4: OBSERVED RENTS AS A FUNCTION OF SQUARE FOOTAGE (1Q23)

SOURCE: Surveyed properties, CoStar, Craigslist, JOHNSON ECONOMICS

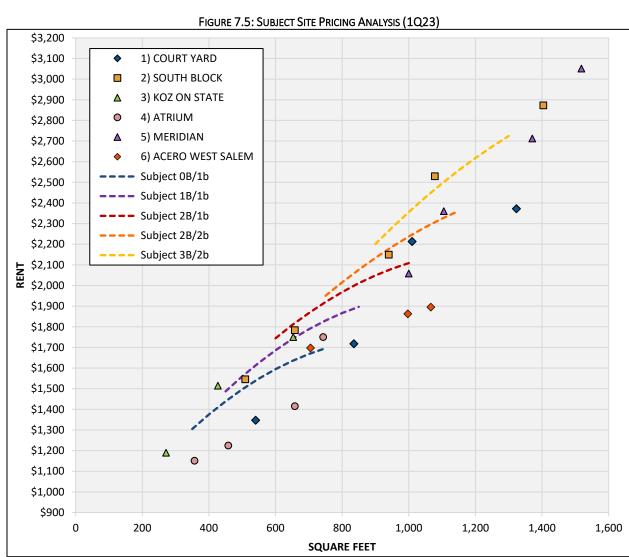
#### **ACHIEVABLE PRICING**

Achievable pricing at the subject site will to some extent depend on the standard and profile of the community, including specific unit features and community amenities. In the following, we assume an up-to-date, moderately upscale profile and an amenity package in line with recommendations later in this report. We assume balconies in 50% of the units and air-conditioning in all units.



We estimate that the subject site can achieve pricing in the upper end of the survey sample. The site benefits from a central location with good access, though the adjacent bus station and shopping mall may reduce the marketability to some extent. We regard the site to be at a slight disadvantage to the properties located along the Riverfront Park and in the south end of Downtown, which have a more pedestrian-friendly environment. Views are also more limited than at some of the comparables, though the proposed configuration of the building will allow a larger share of the units good views, at least on the upper floors. Balconies would also yield rent premiums to the properties that do not offer these (Koz, Atrium). Moreover, the subject can offer more up-to-date features than South Block and Meridian.

Based on this analysis, we expect pricing roughly on par with South Block and Koz. The former benefits from a riverfront setting and a central courtyard, though the closed courtyard and lack of good views from many of the units reduce its appeal somewhat. We regard Koz to be located in a slightly more pedestrian-friendly environment, though it offers few community amenities and no balconies. For smaller units, we expect pricing above Court Yard on the assumption of superior community amenities at the subject site, which have particular impact on small units. We anticipate pricing below Court Yard's 2B/1b units (1,010 SF), all of which are located on the river side. We expect significant premiums to Atrium, which holds a lower standard, and Acero, which has a suburban location and walk-up format. We also expect premiums to the Meridian, which has inefficient units and a less central location.



SOURCE: Surveyed properties, CoStar, Craigslist, Johnson Economics



Applying the rent estimates to our recommended unit mix for the site (see Recommendations) indicates a blended monthly average of \$1,719 per unit and \$2.73 per square foot (PSF) in today's market. We regard 2.5% annual rent growth to be a conservative assumption for future rents, taking into account recent trends and the anticipated supply-demand balance in this market (see next sections). This indicates a blended average of \$1,824 per unit and \$2.90 PSF three years from now. We would assume one month free rent during lease-up.

FIGURE 7.6: SUBJECT ACHIEVABLE PRICING, RECOMMENDED UNIT MIX

				10	Q23	10	Q26*
Unit Type	Units	Unit Allocation	Average Unit Size	Rent per Unit	Rent per Square Foot	Rent per Unit	Rent per Square Foot
Studio	24	14%	400	\$1,375	\$3.44	\$1,480	\$3.70
0.5B/1b Loft	40	23%	500	\$1,528	\$3.06	\$1,645	\$3.29
1B/1b	40	23%	600	\$1,686	\$2.81	\$1,815	\$3.03
1B/1b	32	18%	700	\$1,788	\$2.55	\$1,926	\$2.75
2B/1b	16	9%	750	\$1,920	\$2.56	\$2,068	\$2.76
2B/2b	16	9%	900	\$2,134	\$2.37	\$2,299	\$2.55
2B/2b corner	8	5%	1,050	\$2,372	\$2.26	\$2,554	\$2.43
Total/Avg.	176	100%	630	\$1,719	\$2.73	\$1,824	\$2.90

<sup>\*</sup> Assumes 2.5% annual rent growth.

SOURCE: JOHNSON ECONOMICS



# VIII. NEW SUPPLY

## **DEVELOPMENT PIPELINE**

In this section, we identify apartment projects in the supply pipeline within the defined PMA. We have identified 29 such projects with a total of 3,200 units, including tentative projects. Less than 600 units are under construction. At least three projects with nearly 200 units are regulated affordable apartments, while the remainder to our knowledge are market-rate. A table with additional details on the projects is included on the next page.

The projects are mapped below. Only three of the projects are located in Downtown. These include Salem Center plus two smaller projects with 20-34 units. At this scale, these are unlikely to offer much by way of community amenities. Three additional projects are located within Central Salem, as defined in this analysis. All three are smaller projects with 12-45 units. Altogether, the six Central Salem projects total 287 units, of which Salem Center makes up 54%.

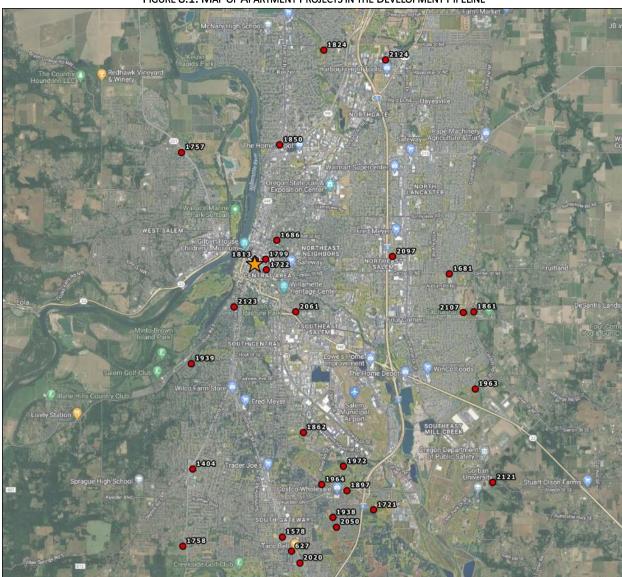


FIGURE 8.1: MAP OF APARTMENT PROJECTS IN THE DEVELOPMENT PIPELINE

SOURCE: City planning departments, local brokers, developers, online media, JOHNSON ECONOMICS



FIGURE 8.2: APARTMENT DEVELOPMENT PIPELINE, SALEM-KEIZER PMA

#	Project Name	Location	Status	Pot. Delivery	Entitlement	Туре	Units
1404	Laike Plaza Mixed-Used	122 Hrubetz Rd SE	U.C.	2023	Permit Issued	Market	20
1681	Crossings at Center	4696 Center St NE	U.C.	2023	Permit Issued	Market	138
1722	Courtney Place	220 Cottage St NE	U.C.	2023	Permit Issued	Market	34
1578	Woodside Street MF	5611 Woodside Dr SE	U.C.	2023	Permit Issued	Market	18
1824	Verda Crossing	Chemawa Rd/Dearborn Ave	U.C.	2023	Permit Issued	Market	112
1813	Salem Center	420 Center St NE	U.C.	2024	Permit Issued	Market	157
1972	27th Ave Affordable Apts	2691 Marietta St SE	U.C.	2024	Permit Issued	Affordable	96
627	Commercial Crossing	5775 Commercial St SE	Proposed	2024	Permit Review	Market	71
1862	Village Center MU Project 2	3931 Village Center Dr SE	Proposed	2024	Permit Review	Market	16
1939	Schurman Dr Apartments	1055 Schurman Dr S	Proposed	2024	Permit Review	Market	42
1758	Liberty Project	5871 Liberty Rd S	Proposed	2024	LU Approval	Market	66
1850	Sequoia Crossing	3120 Broadway St NE	Proposed	2024	LU Approval	Affordable	60
1686	Cottage Street Apartments	925 Cottage St NE	Proposed	2024	LU Approval	Market	19
1721	Boone Rd Apartments	3230 Boone Rd SE	Proposed	2025	LU Approval	Market	210
1757	NW Wallace Rd Mixed Use	2499 Wallace Road NW	Proposed	2025	LU Approval	Market	189
1799	Hope Plaza Project	454 Church St NE	Proposed	2025	LU Approval	Affordable	20
1861	East Park PUD Apts	255 Cordon Rd NE	Proposed	2025	LU Approval	Market	318
1897	Kuebler Blvd Apts	0 Kuebler Blvd SE	Proposed	2025	LU Approval	Market	200
1938	Salal St Complex	5240 Salal St	Proposed	2025	LU Approval	Market	184
2020	Waln Drive MF	1805 Waln Drive SE	Proposed	2025	LU Approval	Market	43
1964	Battle Creek Rd MF	4700 Battle Creek Rd SE	Proposed	2025	LU Review	Market	200
2061	17th MF	676 17th St SE	Proposed	2025	LU Review	Market	12
2097	Lancaster Garden Expansion	3705 D St NE	Proposed	2025	LU Review	Market	24
2107	State St MF (East Park PUD)	NW of State St & Cordon Rd	Proposed	2025	LU Review	Market	42
2123	Cozy Residential	1035 Commercial ST SE	Proposed	2025	LU Review	Market	45
2124	Blossom Dr MF	3390 Blossom Dr NE	Proposed	2025	LU Review	Market	39
2050	Battle Creek Rd Apts	5205 Battle Creek Rd SE	Proposed	2026	LU Review	Market	129
2121	Aumsville Highway MF	4195 Aumsville Hwy SE	Proposed	2026	LU Review	Market	279
1963	Cordon Rd SE Apts	1700-1900 Cordon Rd SE	Proposed	2026	LU Review	Market	396
Tota	ıl under construction						575
Tota	ıl proposed						2,604
Tota	ıl, regulated affordable						176
Tota	ıl, market rate						3,003
Ро	tential deliveries 2023						322
Ро	tential deliveries 2024						371
Po	tential deliveries 2025						1,506
	tential deliveries 2026						804
ΤΟΤΔ	L UNITS						3,179

SOURCE: City planning departments, local brokers, developers, online media, JOHNSON ECONOMICS

#### **ESTIMATED DELIVERIES**

In the above table, each project is assigned a "potential delivery year," which refers to the expected delivery year assuming a typical progression through planning and construction, considering entitlement status, construction type, and scale. Due to projects being delayed and abandoned, realized deliveries usually fall short of these estimates, despite some additional projects being added to the pipeline as time goes by. We have seen an increase in the share of proposed projects being abandoned recently, due to higher construction and financing costs in the wake of COVID.



The following model shows expected realized new supply through 2027, based on the current entitlement status of the projects currently in the pipeline. The model only includes market-rate projects, as this is the supply we will reconcile with demand in the next section. (We assume that affordable supply on a net basis will be absorbed by pentup demand from households currently priced out of the market, while our demand estimates represent households with the ability to participate in the market at current rates).

We assume that 100% of the projects under construction will be realized, and 95% of the projects that have filed permit applications. We assume that 80% of units with land use approval and 60% of units with filed land use applications will be realized. The model also incorporates assumptions regarding delays relative to indicated potential delivery year.

The analysis indicates that around 200-300 units will be completed in each of the next two years, followed by roughly 600 and 800 units in the following two years. In total, we expect 2,200 market-rate units to be delivered over the five years, based on the projects that are currently in the development pipeline.

FIGURE 8.3: ESTIMATES OF REALIZED MARKET-RATE SUPPLY, PMA (2023-27)

EXPECTED DELIVERIES		РОТ	ENTIAL D	ELIVERY		Assumed	EXPECTED DELIVERY					
Status	2023	2024	2025	2026	Total	Realized	2023	2024	2025	2026	2027	Total
Under Construction	322	157			479	100%	290	120	69	0	0	479
Proposed - Permit Review		129			129	95%		69	54	0	0	123
Proposed - LU Approval		85	1,144		1,229	80%		40	356	460	127	984
Proposed - LU Review			362	804	1,166	60%			101	369	144	615
Total Expected Realized	322	371	1,506	804	3,003		<b>290</b> 90%	<b>229</b> 62%	<b>580</b> 39%	<b>830</b> 103%	<b>270</b> N/A	<b>2,200</b> 73%

SOURCE: JOHNSON ECONOMICS



# IX. MARKET DEPTH ANALYSIS

In this section, we analyze the depth of the market for rental apartments within the defined market area. We provide estimates of market depth in the existing apartment population as well as demand growth over the coming five years. We then reconcile our demand estimates with the identified supply pipeline to project absorption for the defined Salem-Keizer PMA and the subject site.

#### **CURRENT MARKET DEPTH**

The existing apartment inventory in the PMA totals approximately 27,200 units, according to CoStar. With an estimated occupancy rate of 96.1% in this market, there are approximately 26,100 apartment households in the PMA. We segment these renters by age and income based on Environics' (form. Nielsen Claritas) segmentation of the total household. This is done in a model that uses microdata from the U.S. Census Bureau to establish local propensity rates for apartment tenure in each age-income segment. The same dataset is used to establish historical, segment-specific turnover rates.

According to our model, turnover among existing apartment households in the PMA represents roughly 9,100 lease transactions annually. Turnover demand tends to benefit new projects disproportionately, as these have more visible marketing and more marketable units and amenities.

Young and middle-income households are expected to dominate turnover in the market, reflecting the market's demographic profile and the relatively high turnover rates in the younger segments. We expect support for a new apartment project on the subject site to come primarily from households with incomes above \$50,000. Our model indicates 3,700 annual turnover transactions above this threshold. The following chart provides a demographic profile of turnover, based on the outputs from our segmentation model.

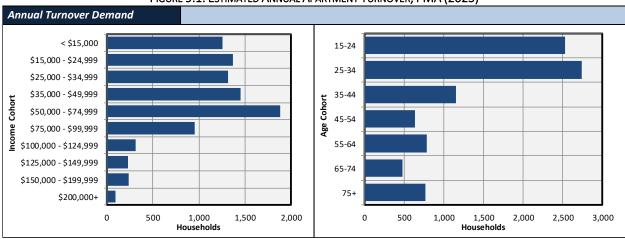


FIGURE 9.1: ESTIMATED ANNUAL APARTMENT TURNOVER, PMA (2023)

SOURCE: Environics and Johnson Economics

# DEMAND GROWTH (2023-28)

JOHNSON ECONOMICS has developed a housing demand model that translates estimates of market-area household growth into demand for housing of different forms. Our model begins with household growth estimates stratified by age and income, as these are the variables that best predict housing preferences. Our household growth estimates are based on projections by Environics, which produces age/income-specific household projections for custom areas down to the census block group level. We adjust these estimates when we have specific knowledge of local conditions pertaining to employment and housing, and based on our county-wide and regional projections. The goal is for the



projections to reflect underlying demand rather than expected realized household growth, which is constrained by supply. Local, segment-specific propensity rates calculated from census microdata are used to allocate the new growth to different types of housing.

#### **TOTAL HOUSING DEMAND**

Over the coming five years, our baseline forecast is for a demand increase of 6,500 housing units, or around 1,300 units per year. This represents annual growth of 1.3%, which is slightly higher than the average annual household growth over the past decade, but takes into account the acceleration in recent years, as reflected in residential building permits. The following chart displays the anticipated distribution of housing demand across age groups over the coming five years. The projections take into account recent migration trends as well as aging of the existing household base. The estimates indicate particular growth concentrations in the typical family segments (age 25-54) and among seniors (age 65+).

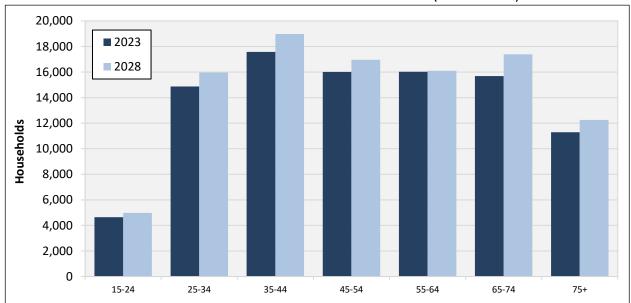


FIGURE 9.2: PROJECTED DISTRIBUTION OF PMA HOUSEHOLDS BY AGE (2023 AND 2028)

SOURCE: Environics, JOHNSON ECONOMICS

With respect to income, the demand growth is anticipated to be concentrated in middle- and upper-income segments (see next page), in line with recent trends. On a net basis, all the growth is expected above \$50,000, offset by declines among low-income households. This is expected also among households below the age of 35, which is projected to see the strongest growth in middle-income households. The same is expected among seniors, while other workingage segments are projected to see most of the growth in upper-income categories.



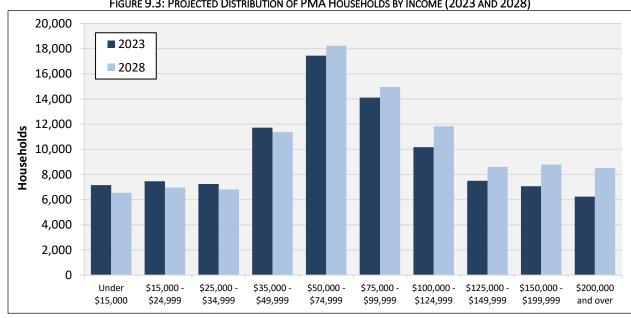


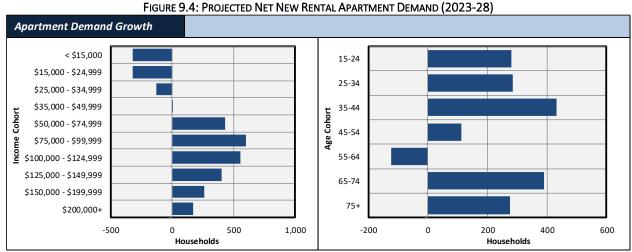
FIGURE 9.3: PROJECTED DISTRIBUTION OF PMA HOUSEHOLDS BY INCOME (2023 AND 2028)

SOURCE: Environics, JOHNSON ECONOMICS

#### **FORECAST OF DEMAND GROWTH FOR RENTAL APARTMENTS**

Our forecast model indicates that roughly one-quarter of the net new households in the PMA will be apartment renters. This rate is estimated based on segment-specific propensity rates in the market area, applied to projected growth. The rates take into account ongoing shifts in propensity driven by factors like student debt, creditworthiness, and employment mobility. In comparison, roughly 30% of the existing household base are apartment renters, according to census data. The lower rate in the net growth forecast reflects the growth in family segments. However, inadequate supply of single-family housing in the PMA may drive additional demand to the apartment market.

Over the five-year forecast period, our baseline estimate for net-new rental apartment demand is roughly 1,650 units, or 330 units annually. The growth is expected to be concentrated around mid/upper income segments, with contributions from seniors as well as younger households. The model indicates demand for nearly 5,000 units in other housing categories, which may be difficult to accommodate judging from recent building permit trends.



SOURCE: Environics and JOHNSON ECONOMICS



## FORECAST OF TOTAL APARTMENT DEMAND

Combining our estimates of turnover demand and demand growth, we arrive at the following profile of total demand within the market area. The charts reflect annual estimates, indicating roughly 9,400 lease transactions per year, dominated by young and middle-income renters. We expect approximately 2,000 transactions annually involving households with incomes in the \$50,000-75,000 range, and 1,200 with incomes above \$100,000.

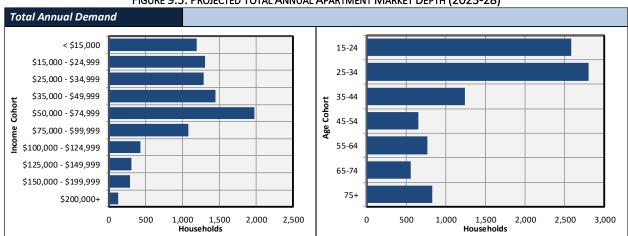


FIGURE 9.5: PROJECTED TOTAL ANNUAL APARTMENT MARKET DEPTH (2023-28)

SOURCE: Environics and JOHNSON ECONOMICS

#### SUPPLY-DEMAND BALANCE

According to CoStar, the current stabilized occupancy rate in the PMA is 96.1% – above the 95.0% typically assumed to represent a balanced market in terms of supply and demand. Except for the most recent months, the occupancy rate has hovered around the 97% level since 2015, while the rent growth has ranged between 4% and 8% per year, well above the 2-3% that typically reflects a balanced market. The rent growth is currently 4.7%, trending downward. On this basis, the PMA currently appears moderately undersupplied.

Our demand projections indicate net new demand for 1,650 apartment units in the PMA over the coming five years, or 330 units annually. In comparison, our estimates of new supply over this period – based on projects currently in the pipeline – indicate new supply below this level in 2023 and 2024, but well above this level in the following two years. In total, our model indicates 2,200 new units over the five-year period, exceeding estimated demand growth by 550 units. This would move the occupancy rate from the current 96.1% to 94.5%, which is within the range of a balanced market. In other words, the oversupply on a net basis over the next five years is not expected to result in an oversupplied market, though it will correct the current moderate undersupply.

We expect the increase in supply to slow the rent growth over the five-year period, especially in 2025-26, when a large amount of new supply could lead to slight rent declines, depending on economic growth and apartment demand growth at the time. However, we would assume continued positive rent growth in 2023-24, at least if a recession is avoided. For pro-forma purposes, we would assume 2-3% annual rent growth for the five-year period as a whole.

We should note that the decline in single-family building permits in Salem and Salem Metro in recent years suggest inadequate supply of non-apartment housing over the next five years. Our demand forecast indicates a need for nearly 1,000 non-apartment units annually in the PMA. This is close to recent non-apartment building permits in the combined Marion/Polk two-county region (Salem Metro), which includes cities outside the defined PMA, like Woodburn, Silverton, and Independence. In other words, we regard it likely that non-apartment supply within the PMA will fall short of our demand estimates. This will likely result in additional apartment demand, especially from young families, which might support somewhat stronger occupancy and rent growth than indicated above.



#### SITE ABSORPTION

JOHNSON ECONOMICS estimates subject site absorption by utilizing a fair-share absorption model. The fair-share model assumes that each property, including existing properties with units in turnover, will capture a share of total demand proportionate to its share of total available supply. Differences between the projects in terms of competitive position are thus assumed to be accounted for by rent premiums and discounts rather than by the pace of absorption.

The results of the absorption model are displayed below. The model assumes introduction of new supply at the beginning of each year, with the subject supplying 175 units in 2026. Another 830 units are assumed to be delivered the same year. According to the model, the subject will capture 1.7% of the demand, leasing 11-16 units per month, and achieving full absorption of 175 units in 11 to 16 months.

Note that the model evaluates the supply-demand balance for the market as a whole, and does not take into account that a large amount of new supply may oversaturate the high end of the market, slowing the absorption for new units. With the estimated new supply in 2025-26, this could be the case, although the subject will be somewhat protected from direct competition with suburban garden-style projects. Still, with a conservative approach, we would use the low end of the estimate (11 units per month) as our assumption for absorption at the subject site.

FIGURE 9.6: SUBJECT SITE ABSORPTION ANALYSIS (2023-27)

Apartment Absorption Mod				7 1000111 11			,			
Annual Demand Growth Annual Turnover Demand Total Annual Demand		331 9,103 <b>9,434</b>	-							
	ADSCAPATION 2023		20	024	20	025	20	026	20	027
ABSORPTION	Units	Capture	Units	Capture	Units	Capture	Units	Capture	Units	Capture
SUPPLY Existing Turnover Supply  2023 Deliveries (290 u.) 2024 Deliveries (229 u.) 2025 Deliveries (580 u.) 2026 Deliveries (830 u.) 2027 Deliveries (270 u.)	9,103	96.9%	9,103 - 229	97.5% 0.0% 2.5%	9,103 - - 565	94.0% 0.0% 0.0% 6.0%	9,103 - - 14 774	89.9% 0.0% 0.0% 0.1% 8.2%	9,103 - - 1 56 270	96.4% 0.0% 0.0% 0.0% 0.6% 2.9%
SUBJECT (175 u.)							163	1.7%	12	0.1%
Subject Estimated Unit Ab Subject Estimated Months			I	Low 11.3 15.5	Baseline 13.6 12.9	<b>High</b> 15.9 11.0	I		I	

SOURCE: JOHNSON ECONOMICS



# X. RECOMMENDATIONS

## TIMING, SCALE, AND FORMAT

Though we expect a healthy market for new projects in Salem over the next two years, the large number of new apartment projects initiated recently indicates stronger competition in the following years. We expect this to result in softer conditions for new projects, with slower absorption and increased use of rent concessions. However, we expect the softness to be temporary and not result in oversupply in the market as a whole. Moreover, we regard it likely that new non-apartment housing supply over this period will fall short of new demand, something that might bring additional demand to the apartment market from households with the financial ability to lease new apartments.

Another factor in the subject's favor is that most of the new supply are suburban garden-style projects. Fewer than 300 new units are expected in Central Salem, with Salem Center accounting for 157. The other central projects are small and unlikely to include much by way of community amenities. Thus, we expect limited direct leasing competition for the subject. We therefore expect adequate demand at the subject site in 2025-26, but would assume relatively slow absorption (10 u./mo.) and one month free rent to be conservative.

#### **TARGET SEGMENTS**

Our demand projections indicate growth across a broad age range, concentrated around middle-income households. Some of the new demand will be from millennials entering the family stage. These will likely gravitate toward larger units in family-friendly suburban locations. The best opportunities in urban locations will likely be from single young adults and seniors. However, we would also expect some demand from middle-age singles.

COVID had a particularly negative impact on demand for dense multifamily housing among seniors, due to higher health risks associated with the virus. Social unrest and increasing homelessness and crime have also had particularly negative impact on senior demand in downtown areas. The safest option is therefore likely to focus on young adults with moderate income levels. These tend to place emphasis on access to urban amenities, but have been priced out of several recent projects in Downtown due to large floor plans (Koz and Atrium are exceptions). Salem Center will be oriented toward this segment, but given that project's heavy focus on small studios, we believe there will be opportunities for another project with somewhat larger units and a broader orientation toward working-age singles.

We also regard a senior project to be a possibility. Our demand forecast indicates significant growth in this segment, and we expect few if any of the projects currently in the pipeline to be oriented specifically toward these renters. Walk-up apartments generally do not have strong appeal to seniors, as they tend to favor access-restricted buildings with elevators. Thus there might be an opportunity to capture demand from these at the subject site. Historically, seniors have sought downtown locations with services (including hospital) that can be accessed by foot or transit. However, we would consult with property managers in Salem to hear about their recent experience with the senior segment and their thoughts on the subject site. We would expect somewhat slower absorption with a senior project, as these renters have lower turnover rates and exhibit lower mobility than younger renters (also pre-COVID). This is generally true of age-restricted projects as well as unrestricted projects with design, amenities, and marketing clearly intended for mature renters.

#### **UNIT MIX**

In order to avoid direct competition with Salem Center, we recommend slightly larger units at the subject site. However, we still recommend relatively small units that will remain within the budgets of moderate-wage renters and that will minimize competition with the many new suburban projects in Salem. We would primarily focus on efficient one-bedrooms, which are underrepresented in this market, but would diversify the mix to also include some large units, especially at building corners where higher corner rent premiums can be collected from the more affluent two-bedroom renters.



The following unit mix represents our recommendations for a project oriented toward young and working-age singles. It includes 14% studios, 23% alcove/loft/shotgun units (no windows in bedroom), 41% one-bedrooms, and 23% two-bedrooms. The units average 630 square feet. With a senior project, we would reduce the smallest and largest units and primarily focus on one-bedrooms with 600-750 square feet. We typically observe small rent premiums (~5%) at age-restricted projects with a standard amenity level.

FIGURE 10.1: RECOMMENDED UNIT MIX AND ACHIEVABLE PRICING

				10	Q23	10	Q26*
Unit Type	Units	Unit Allocation	Average Unit Size	Rent per Unit	Rent per Square Foot	Rent per Unit	Rent per Square Foot
Studio	24	14%	400	\$1,375	\$3.44	\$1,480	\$3.70
0.5B/1b Loft	40	23%	500	\$1,528	\$3.06	\$1,645	\$3.29
1B/1b	40	23%	600	\$1,686	\$2.81	\$1,815	\$3.03
1B/1b	32	18%	700	\$1,788	\$2.55	\$1,926	\$2.75
2B/1b	16	9%	750	\$1,920	\$2.56	\$2,068	\$2.76
2B/2b	16	9%	900	\$2,134	\$2.37	\$2,299	\$2.55
2B/2b corner	8	5%	1,050	\$2,372	\$2.26	\$2,554	\$2.43
Total/Avg.	176	100%	630	\$1,719	\$2.73	\$1,824	\$2.90

<sup>\*</sup> Assumes 2.5% annual rent growth.

**SOURCE:** JOHNSON ECONOMICS

## **SHORT-TERM RENTALS**

This market study has not evaluated demand for short-term rentals specifically. However, based on observations from other analyses, we have found significant support for short-term rentals in cities with employers that typically attract short-term contract workers, especially in higher education, healthcare, and professional services. We would also expect the large government sector in Salem to generate demand for these units, due to the sector's heavy use of external consultants. Demand for short-term apartment rentals is to some extent dependent on the availability of extended-stay hotel options.

Many properties offer short-term leases down to three months for regular apartment units, usually with somewhat higher rents. Among the surveyed comps, South Block and Koz provide this option at rent premiums of 10-20% (four-month terms at Koz). At Acero, the premiums are 20-35%.

We are not aware of any project of recent vintage in Salem that offers furnished short-term rentals, and thus regard this as a viable option at the subject site. A recent project in downtown Eugene (Gordon Lofts, 2020) included 19 furnished units in its 127-unit program (15%), charging monthly rent premiums of around 50% for three-month contracts. Based on current availability, the premiums now appear to have increased to 70%, and we know the developer has considered including more of these in another downtown project. These are unusually high premiums. More common rent premiums are in the 30-50% range. We have also seen examples of projects that have reduced the premiums for short-term furnished units due to limited demand. The lowest premium we have observed in recent years is 7% at Our Heroes Place in Vancouver (only basic furniture in small studios).

At the subject site, we would assume rent premiums of 40-50% with 10-15% of the units being furnished. Based on our observations from Eugene, we would include some larger two-bedrooms as well as one-bedrooms and studios among the furnished units.



#### **AMENITIES**

#### **UNIT AMENITIES AND FINISHES**

In terms of unit amenities, we recommend modern finishes and moderately upscale features that can compete with the best positioned projects in Downtown. We recommend nine-foot ceilings and air-conditioning in every unit (at least in south and west-facing units) and would also include balconies in as many units as possible while also considering exterior design impacts. Balconies will help differentiate the project from Koz on State and Atrium, though these are offered in good numbers at Salem Center. For pricing purposes, we have assumed that 50% of the units will have balconies, which we expect will generate monthly premiums ranging from \$50 for the studios to \$150 for the largest two-bedroom units.

We further recommend plank flooring (carpeted bedrooms if senior project), stone or solid-surface countertops, undermount sinks, stainless steel kitchen appliances, and in-unit washers and dryers. We recommend finishes and color palettes that differentiate the project from Salem Center (e.g., tiled kitchen backsplash if feasible).

#### **COMMUNITY AMENITIES**

Some differentiation to Salem Center might be advisable also for the community amenities. However, given the similar locations and target market, we recommend many of the same basic amenities, though they may take on different forms and appeal to slightly more mature renters.

We recommend a community room with kitchen and adjacent view deck on the top floor or rooftop, along with some workspace. We also recommend bike parking, a bike wash/repair room, a pet wash, package lockers, and a few storage units (\$50 per month for 5' x 5'). We do not believe a fitness center is necessary at the site, given the large YMCA fitness center that recently opened two blocks east of the site.

With a senior project, we would include most of the same amenities, but with reduced bike parking and no bike wash/repair. We would also provide additional community rooms, for instance a card/game/puzzle room, a craft/hobby/maker room, and a possibly a library room with a smaller deck. We would also include a computer room/business center and additional storage units of different sizes. We would also consider slightly wider hallways.

FIGURE 10.2: RECOMMENDED AMENITIES

Unit Amenities	Community Amenities
9-foot ceilings	Community lounge w/kitchen
Vinyl/laminate plank flooring	View deck w/BBQ and firepit
Stone/solid-surface countertops	Work area
Undermount sinks & garbage disposal	Bike storage, wash/repair room
Stainless steel appliances	Pet wash
Washer and dryer	Package lockers
Balconies	(Storage units)
Air conditioning	Auto parking: 1 space per 2-bedroom

#### PARKING

We would expect nearly all of the renters at the site to have cars, with some of the two-bedroom renters having two. We would therefore assume a parking need around 1.1 space per unit with the indicated unit mix. Much of this can be accommodated in off-site parking garages. Price-sensitive small-unit renters are usually willing to walk a few blocks for parking, especially if this means lower parking rates. However, we would try to accommodate at least one parking space per two-bedroom unit on-site. A senior project might have a slightly lower parking ratio (the difference would be greater with an independent/assisted project with meal service), though seniors may have a stronger preference for on-site parking. Parking charges for on-site garage spaces at comparable properties are currently \$100 per month. With a limited parking ratio, we would assume \$125 to be achievable at the site.

