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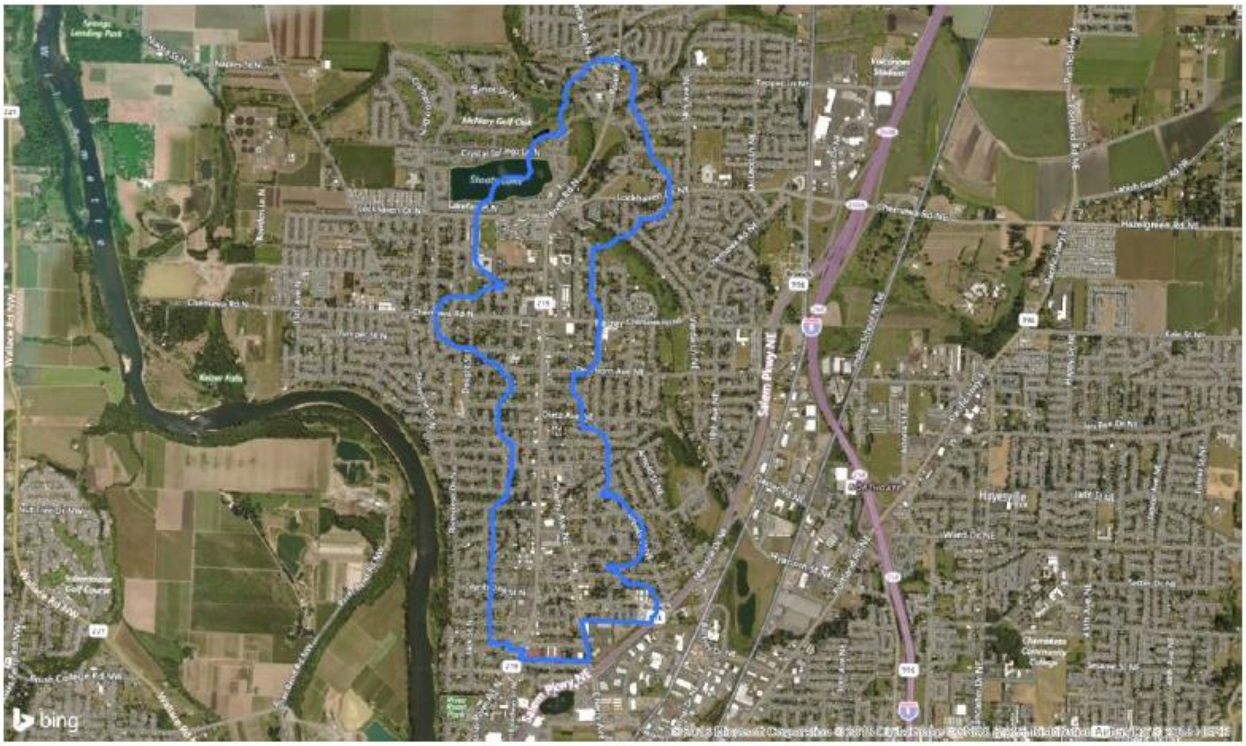

KEIZER REVITALIZATION PLAN
MEMORANDUM #3: MARKET ANALYSIS

Prepared for
City of Keizer
April 2018

JOHNSON
ECONOMICS

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I. Keizer Demographic & Employment Trends

Population and Households

- Keizer is a City of nearly 38,700 people located in the greater Salem-Keizer metropolitan area.
- Keizer is now the 13th largest city in Oregon, having recently passed Lake Oswego in population.
- Keizer has grown by an estimated 6,400 people since 2000, or 20%. This growth was roughly equal to that experienced by the city of Salem (20%), Marion County (19%), and the state (21%) over that period. (US Census and PSU Population Research Center)
- Keizer was home to over 14,350 households in 2018. The percentage of families fell somewhat since 2000 and 2010 from 71.4% to 69.5% of all households. This is very similar to the Marion County figure of 68% family households, and higher than the state's 63%.
- The Census estimates that Keizer's average household size has actually increased somewhat since 2000, from 2.64 to 2.67. This is slightly smaller than the Marion County average of 2.7 but larger than the statewide average of 2.5.

The following table (Figure 1) presents a profile of City of Keizer demographics from the 2000 and 2010 Census. It also presents projected demographics in 2013, based on assumptions detailed in the table footnotes.

Figure 1: Keizer Demographic Profile

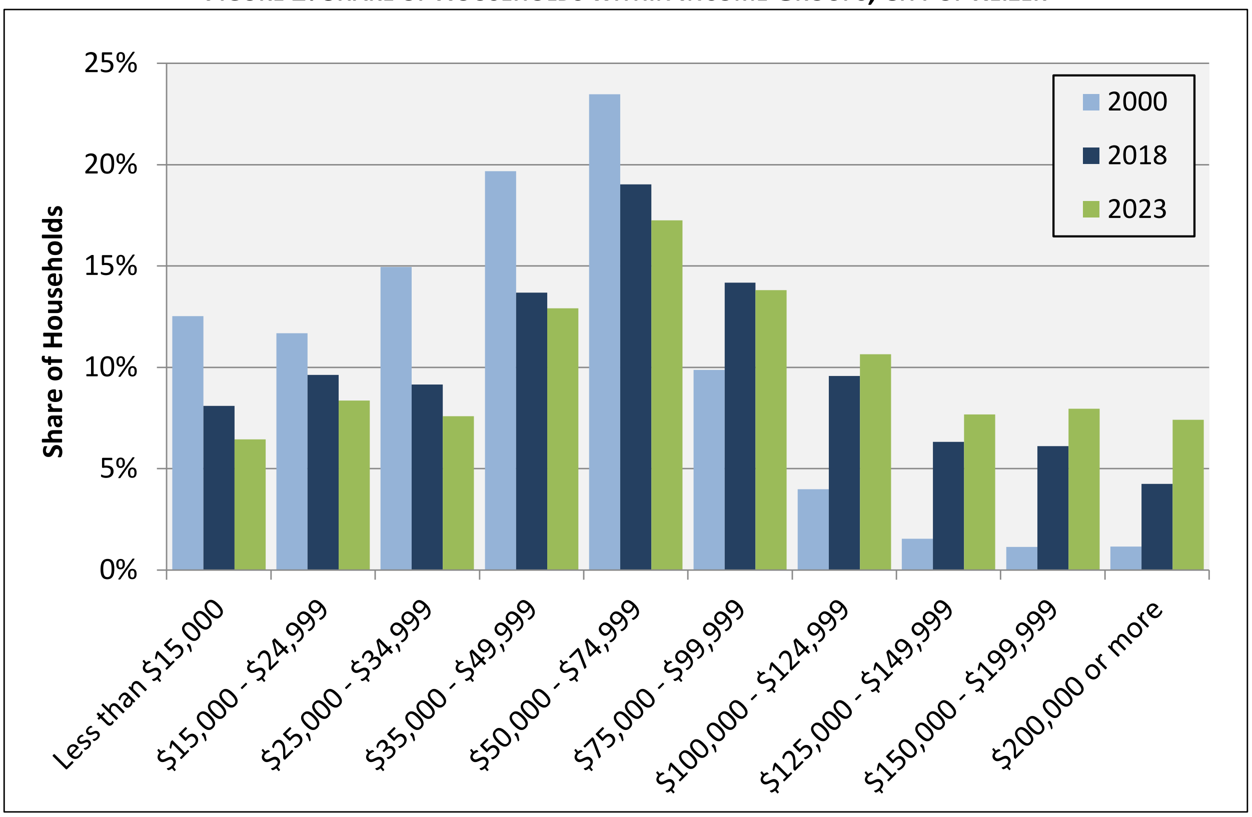
POPULATION, HOUSEHOLDS, FAMILIES, AND YEAR-ROUND HOUSING UNITS						
	2000 (Census)	2010 (Census)	2018 (Est.)	Growth Rate 10-18	2023 (Proj.)	Growth Rate 18-23
Population	32,203	36,478	38,619	0.7%	41,228	1.3%
Households	12,110	13,687	14,348	0.6%	15,269	1.3%
Families	8,642	9,517	9,972	0.6%	10,612	1.3%
Housing Units	12,774	14,424	15,040	0.5%	15,980	1.2%
Household Size	2.64	2.64	2.67	0.1%	2.67	0.1%
PER CAPITA AND AVERAGE HOUSEHOLD INCOME						
	2000 (Census)	2010 (ACS)	2018 (Est.)	Growth Rate 10-18	2023 (Proj.)	Growth Rate 18-23
Median HH ($)	$45,052	$51,894	$61,624	2.2%	$70,955	2.9%
Average HH ($)	$53,425	$63,337	$77,644	2.6%	$91,170	3.3%

Source: US Census, PSU Population Research Center, Johnson Economics

Income Levels

- Keizer's median household income was $52,000 in 2010. This is 20% higher than the median income found in the City of Salem ($43,500) and 14% higher than the Marion County median ($45,600).
- Median income has grown an estimated 37% between 2000 and 2018.
- Figure 2 shows the distribution of households by income in 2000, 2018 (estimated) and 2023 (projected). The largest single income cohort is those households earning between $50k and $75k, at 19% of households. 41% of households earn less than this, while 40% of households earn $75k or more per year.
- 18% of households earn $25k or less, down from 23% of households in 2000.

FIGURE 2: SHARE OF HOUSEHOLDS WITHIN INCOME GROUPS, CITY OF KEIZER



Source: US Census, Environics, Johnson Economics

Age Trends

- Figure 3 shows the share of households by the age of the primary householder. In general, the distribution of households has shifted away from younger households and towards older households. Nevertheless, 49% of householders still fall 25 to 54 year range.

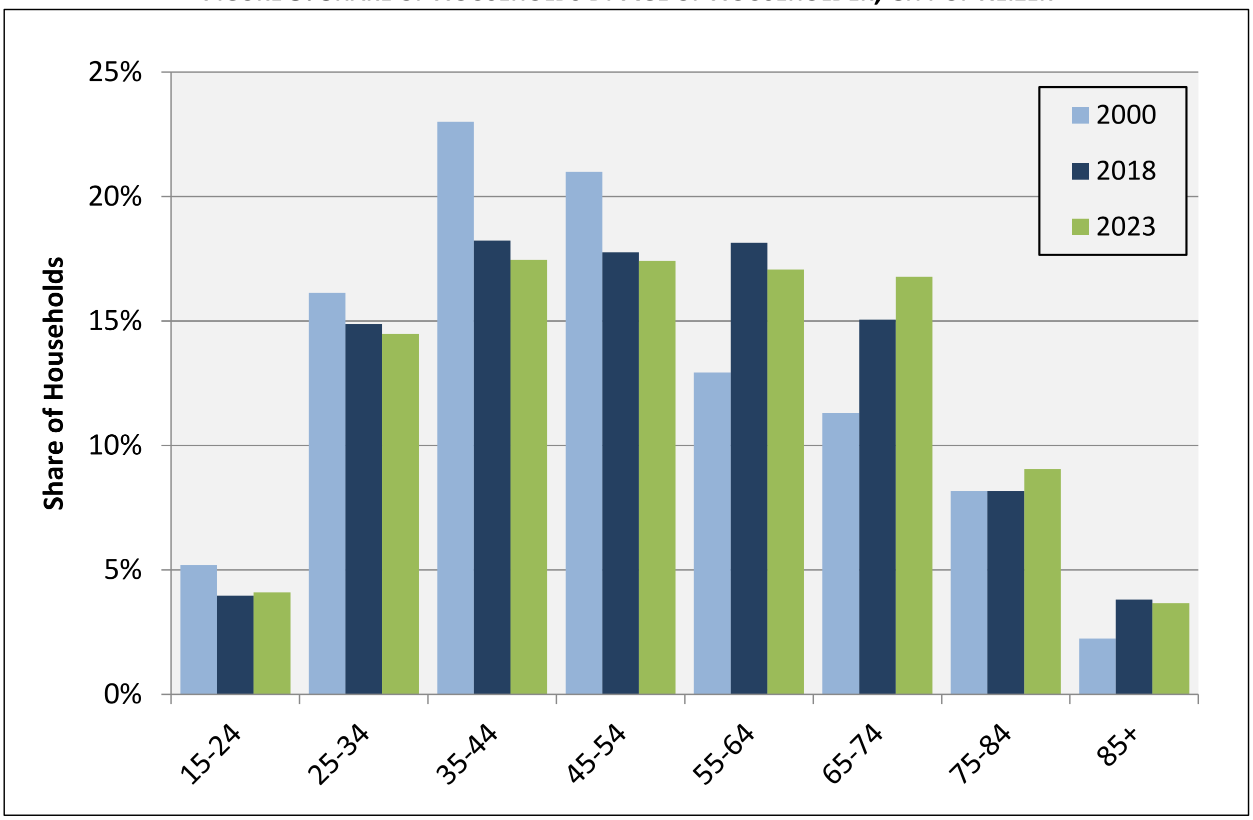
- The greatest growth was in households in the 55 to 64 age range, coinciding with the oldest of the Baby Boom cohort. This cohort grew from 13% to 17% of households.

- 29% of householders are now 65 years or older, having risen from 20% since the time of completion of the City's most recent Housing Needs Analysis (2013).

- These figures reflect the age of householders, which is an important metric of housing needs. In terms of the total population, 26% of Keizer's citizens are children aged 18 years or younger, down slightly since 2000. Keizer has more children than the statewide average of 23% of the population.

- 15.5% of Keizer's population is 65 years or older which is higher than the share in 2000 (12.2%), and roughly equivalent to the statewide average. This reflects the aging of the Baby Boomer generation.

FIGURE 3: SHARE OF HOUSEHOLDS BY AGE OF HOUSEHOLDER, CITY OF KEIZER



Source: US Census, Environics, Johnson Economics

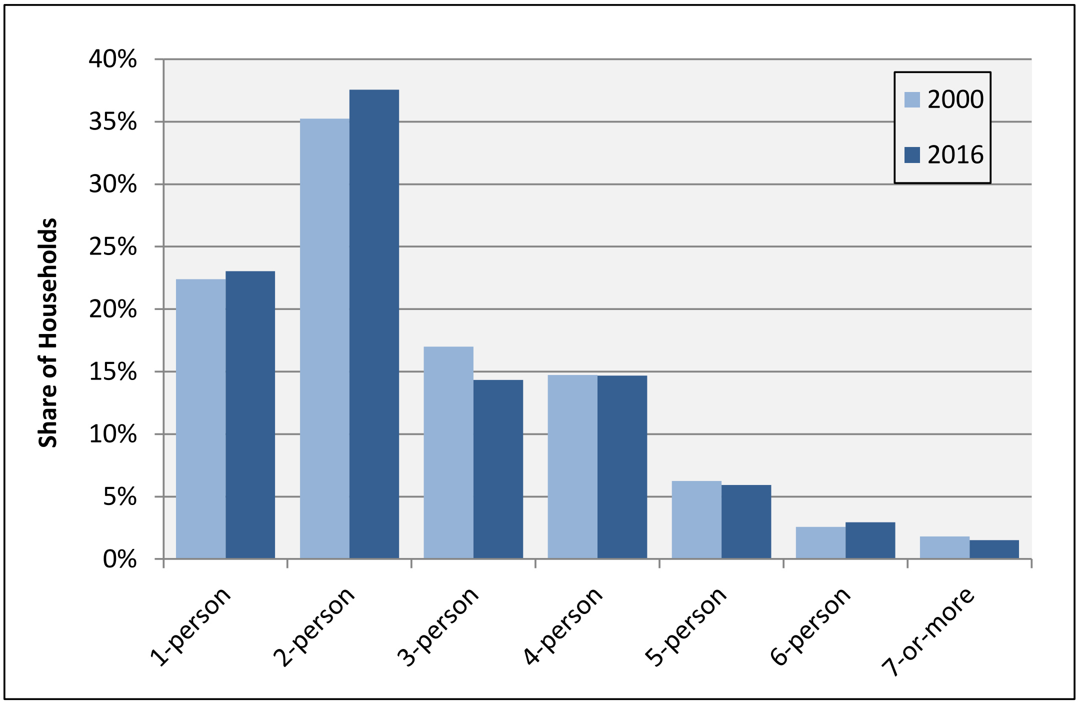
Household Size

- Keizer's average household size is 2.67 persons, up from 2.4 since 2000.

- Figure 4 shows the share of households by the number of people. 23% are single-person households, up slightly since 2000. This is similar to the percentage in Marion County (25%), but less than the statewide average (27%).

- The share of smaller households of one and two people grew in share. The share of households with three people fell slightly, while large households of five or six people grew slightly in share.

FIGURE 4: NUMBER OF PEOPLE PER HOUSEHOLD, CITY OF KEIZER

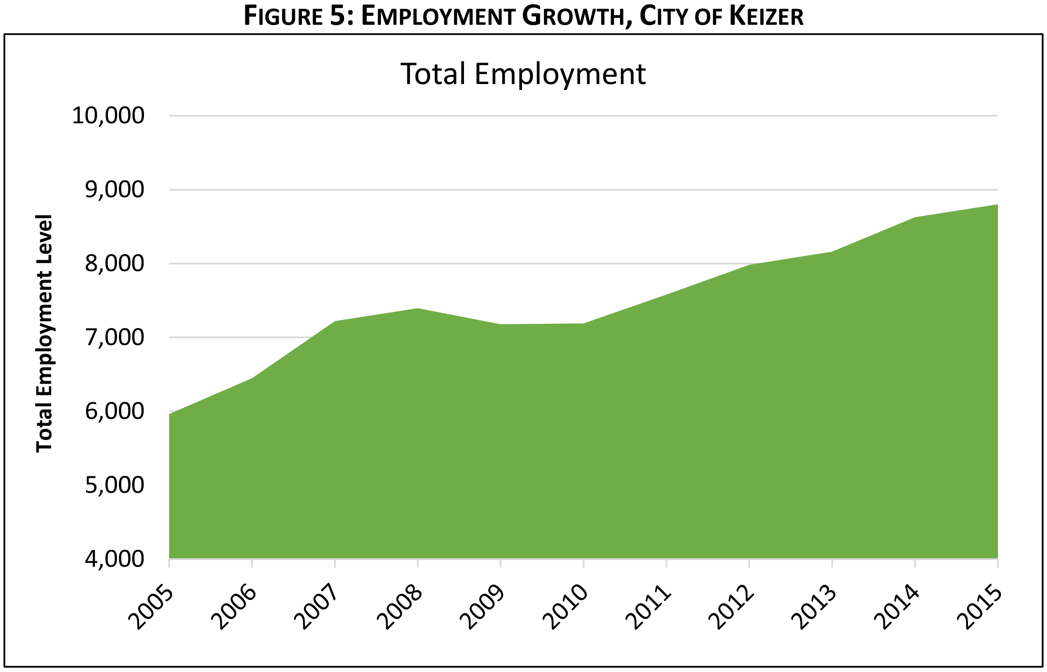


Source: US Census, American Community Survey, Johnson Economics

Employment Trends

Keizer has an estimated 8,800 local jobs, for an estimated jobs/household ratio of roughly 0.6 jobs per household. This is a low ratio, indicating that many local residents commute elsewhere for employment. While no one standard exists, a goal of 1.25 jobs/household or greater is common.

FIGURE 5: EMPLOYMENT GROWTH, CITY OF KEIZER

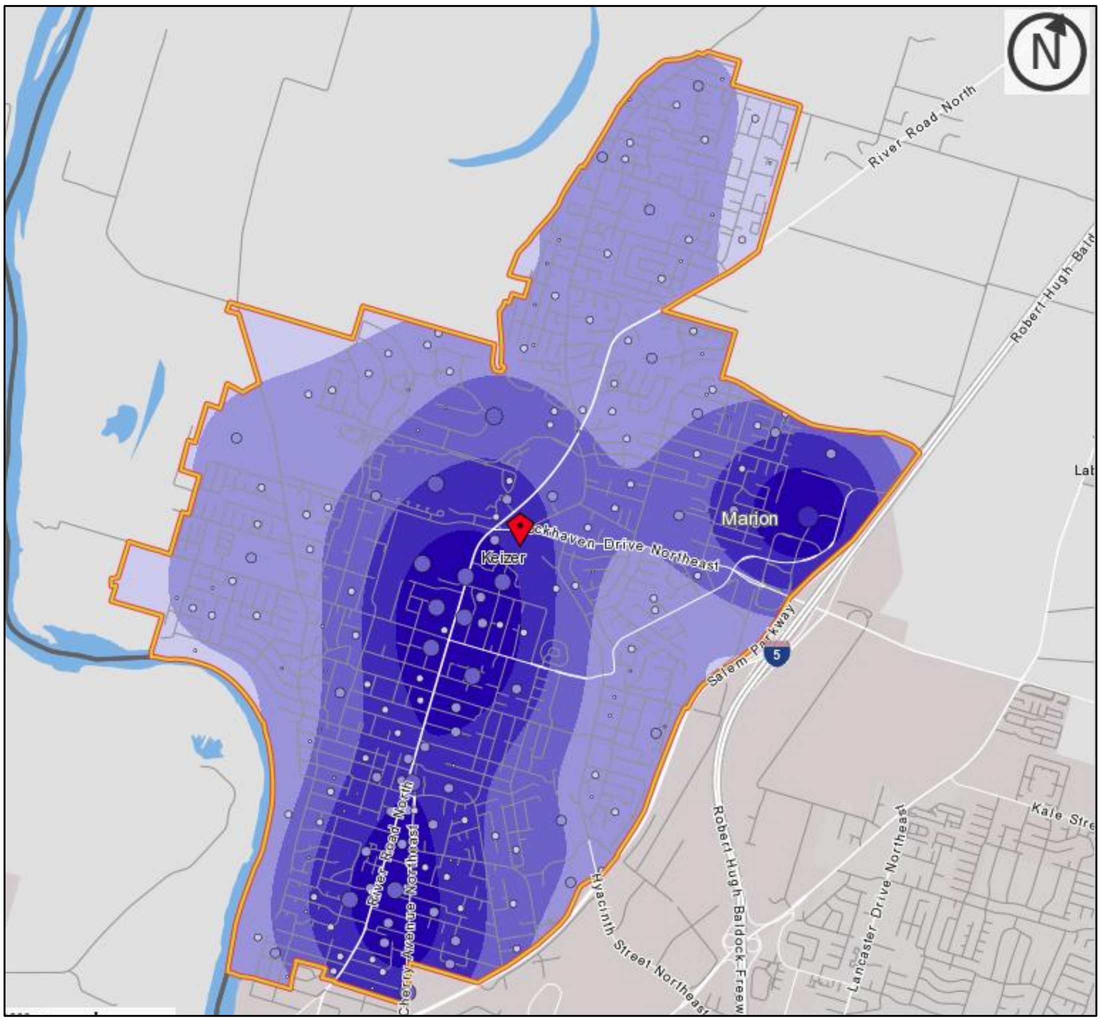


Source: US Census, Johnson Economics

However, local employment has demonstrated a strong upward trend over the last decade, falling by only 3% during the most recent recession. The Bureau of Labor Statistics estimates that employment grew by nearly 3,000 jobs or 48% between 2005 and 2015 (the most recent year for this local employment data set.) This was average growth of over 275 jobs per year during this period.

The following figure shows where employment is concentrated in Keizer, with most jobs located along River Road, and the Keizer Station area.

FIGURE 6: EMPLOYMENT CONCENTRATIONS, CITY OF KEIZER



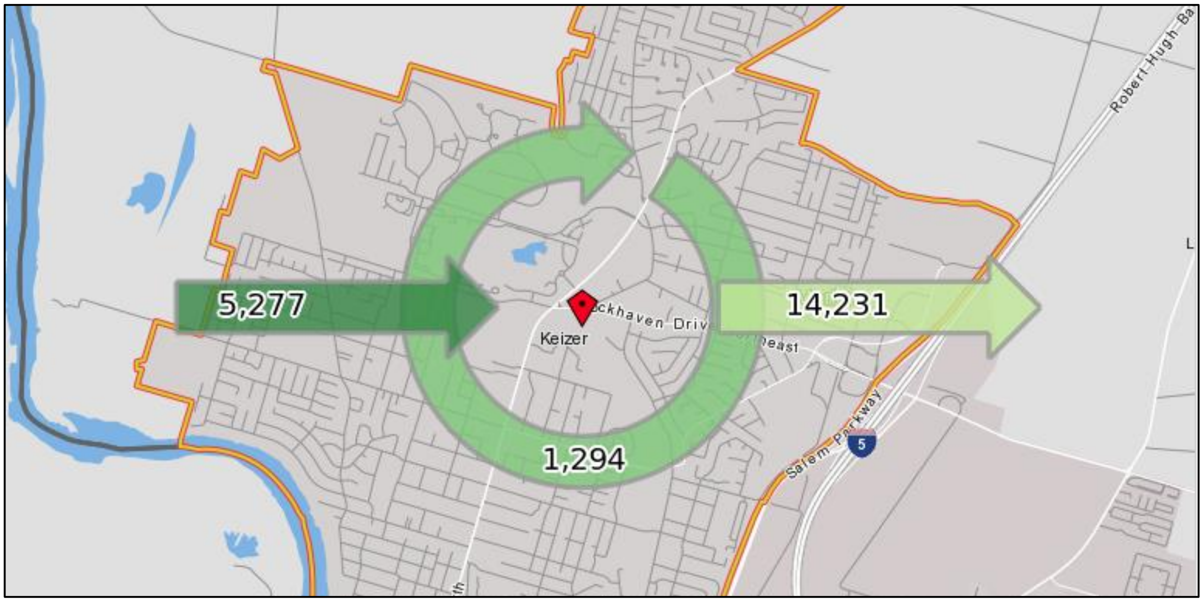
Source: US Census, BLS, Johnson Economics

Commuting

The following figures shows commuting patterns into and out of Keizer. Residents hold roughly 20% of the local jobs, while 80% are held by employees commuting from elsewhere. Meanwhile over 14,000 Keizer residents are estimated to commute out of the city for employment. While the pattern is stark, it is not uncommon to see in many communities. The pattern indicates that Keizer is a living community for many households who work elsewhere, rather than an employment center.

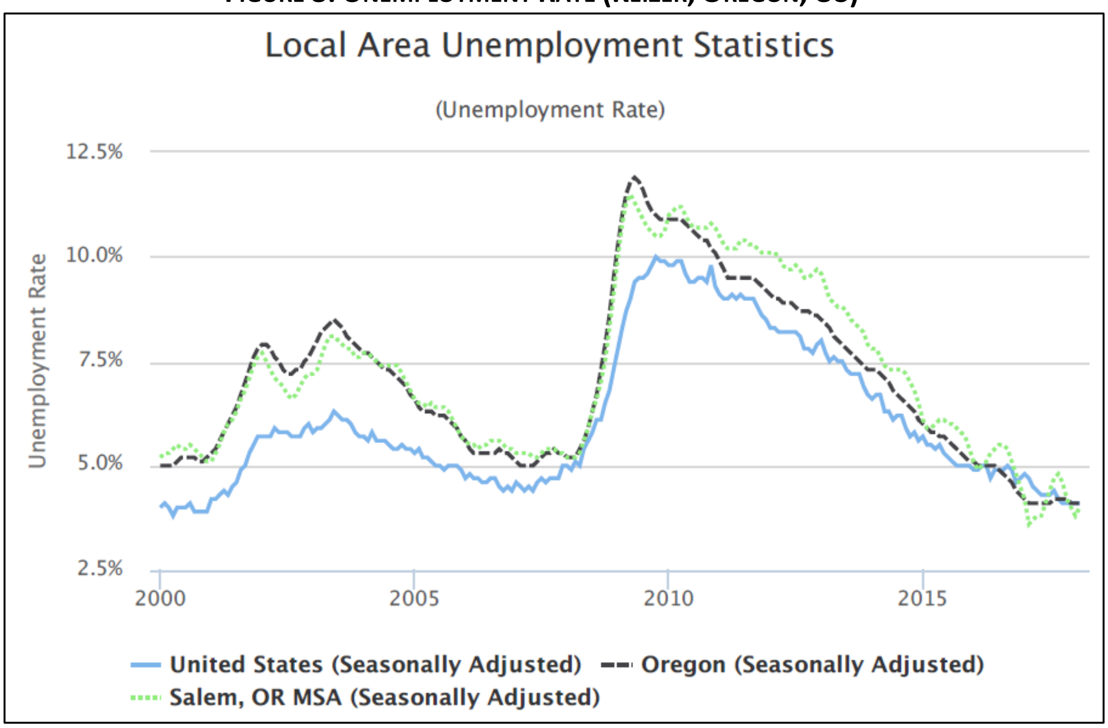
This data set includes "covered employment" only—employer firms that tracked through unemployment insurance. This data omits a significant portion of the workforce that are not covered (i.e. sole-proprietors, self-employed, commission workers), who may be more likely to work in the same community, or from home. Therefore these figures probably somewhat understate the total number of local residents who work in the community, but this is unlikely to change the prevailing pattern.

FIGURE 7: COMMUNITY PATTERNS, CITY OF KEIZER



Source: US Census, BLS, Johnson Economics

FIGURE 8: UNEMPLOYMENT RATE (KEIZER, OREGON, US)



Source: Oregon Employment Department, BLS, Johnson Economics

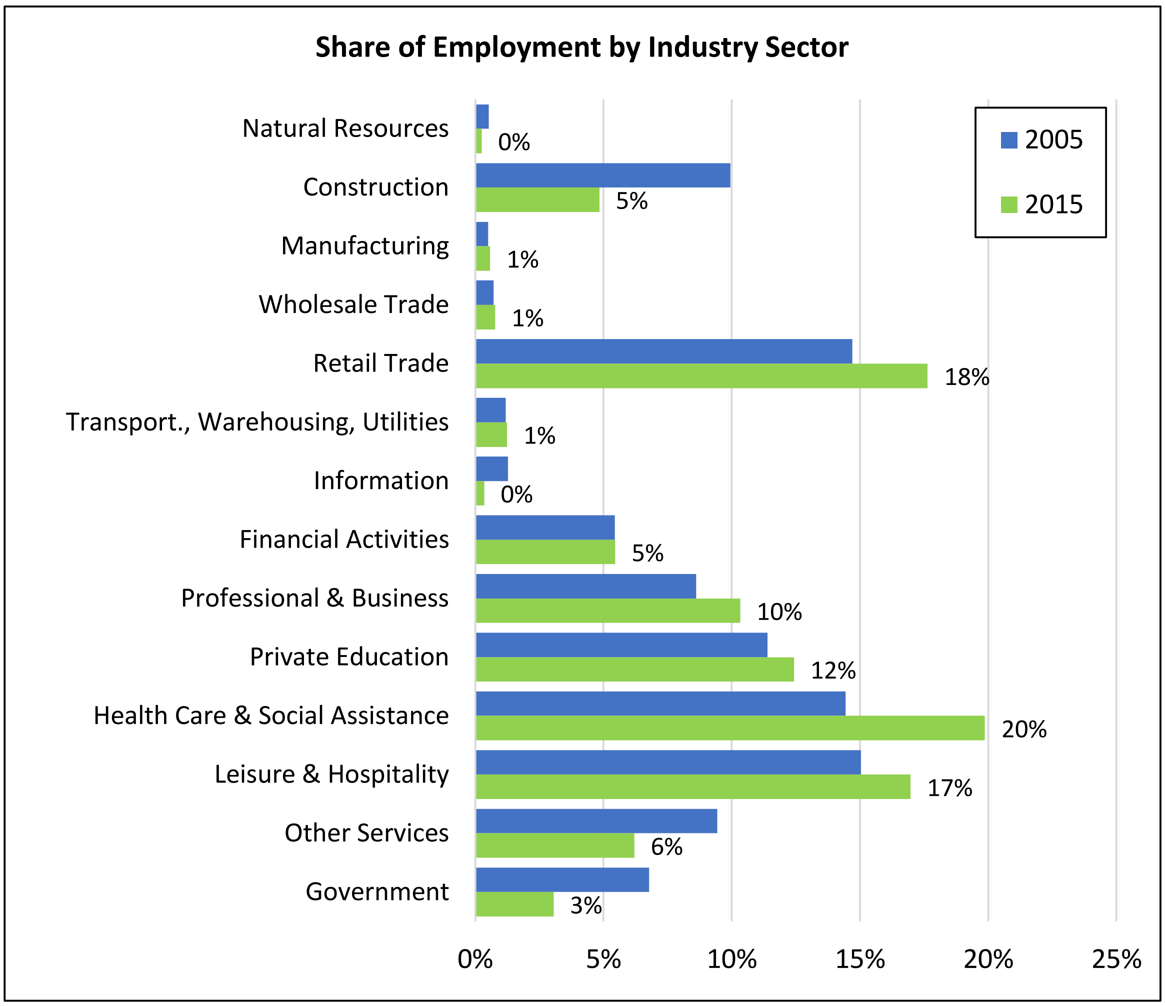
Unemployment Rate

The Salem/Keizer metro area currently has an unemployment rate of 4.0%, very similar to the statewide and nationwide rates. Unemployment has been falling steadily since the last recession brought on by the housing bust and financial crisis. In 2009, the unemployment rate in the Salem metro and Oregon peaked at nearly 12%, roughly 2 percentage points higher than the national rate. Local unemployment has been below 5% since 2016, and has fallen below 4% at times in the last two years.

Employment by Industry

The industry sectors with the greatest share of employment in Keizer are Health Care, Retail, and Leisure and Hospitality which includes food service, visitor and tourist spending. Over the last decade, these sectors have also grown the most as a share of overall employment. Professional and Business Services and Private Education services have also grown somewhat in share. The Construction and Government sectors have fallen as a share of employment over the last decade.

FIGURE 9: EMPLOYMENT BY INDUSTRY SECTOR, CITY OF KEIZER



Source: Oregon Employment Department, BLS, Johnson Economics

II. Keizer Population and Housing Need Projections

Population and Households

Keizer's Goal 10 Housing Needs Analysis (HNA), adopted in 2013, is consulted as the official source of projections for population, household and housing needs. The following table presents a comparison of 2018 estimates (presented above) with the 2033 forecasts from the HNA:

Figure 10: Projected Population and Household Growth (2018-2033)

	2018	2033	Growth	% Change	Annual Growth
Population	38,619	48,697	10,078	26%	1.6%
Households	14,348	18,191	3,843	27%	1.6%

Source: City of Keizer Housing Needs Analysis (2013), Johnson Economics

The projected annual growth rate of 1.6% exceeds the most recent population growth rate forecasted by the Portland State University Population Research Center forecast program. PSU forecasts a growth rate in the combined Salem/Keizer UGB of 1.1% between 2017 and 2035. Because PSU does not disaggregate the growth rates between Keizer and Salem it is problematic to apply this forecast to Keizer alone. This is because between smaller and larger cities or populations, it is common for the smaller community to feature a higher growth rate, because each marginal increase in population has a larger impact (i.e. one household added to Keizer is a larger percentage of the total population, than the same household added to the larger Salem.) For this reason, it should be expected that Keizer's growth rate be higher than Salem's growth rate, with 1.1% being the average.

20-Year Housing Need

The following figure presents the projected 20-year need for new housing units from the 2013 HNA. This is the need for net new housing units, including an allowance for some natural housing vacancy. These projections provide the basis for estimated housing demand applied in this market analysis.

- The results projected a 20-year need for over 4,500 new housing units by 2033. Some units have been produced since 2013, but the HNA still provides the most detailed profile of needed housing types in Keizer.
- Of the new units needed, 54% are projected to be ownership units, while 46% are projected to be rental units.
- The largest share (50%) of one housing type is projected to be single-family detached homes, due again to the stronger need for new ownership housing. The remainder of units is projected to be some form of attached housing (46%), or mobile homes (4%).
- Single family attached units (townhomes, and duplexes, individually metered) are projected to meet 6% of future need.
- Two-unit through four-plex units are projected to represent 9% of the total need.

- 32% of all needed units are projected to be multi-family in structures of 5+ attached units.
- 3.6% of new needed units are projected to be mobile home units, which meet the needs of some low-income households for both ownership and rental.

FIGURE 11: PROJECTED FUTURE NEED FOR NEW HOUSING UNITS (2013-2033), KEIZER

OWNERSHIP HOUSING

Price Range	Single Family Detached	Single Family Attached	Multi-Family 2-unit	Multi-Family 3- or 4-plex	Multi-Family 5+ Units MFR	Mobile home	Boat, RV, other temp	Total Units	% of Units	Cummulative %
$0k - $70k	390	3	1	-3	5	77	0	474	19.4%	19.4%
$70k - $120k	522	3	2	-13	6	40	0	559	22.9%	42.3%
$120k - $170k	-414	-20	2	-1	8	0	0	-425	-17.4%	24.9%
$170k - $240k	-1,841	-31	4	6	13	0	0	-1,850	-75.7%	-50.8%
$240k - $300k	1,511	33	6	15	21	0	0	1,586	64.9%	14.1%
$300k - $350k	1,063	23	4	10	14	0	0	1,114	45.6%	59.7%
$350k - $440k	220	15	2	6	8	0	0	251	10.3%	69.9%
$440k - $530k	289	10	1	3	4	0	0	307	12.6%	82.5%
$530k - $640k	258	7	1	2	3	0	0	271	11.1%	93.6%
$640k +	146	6	1	2	2	0	0	157	6.4%	100.0%
Totals:	2,145	49	24	24	86	117	0	**2,445**	**% All Units:**	54.2%
Percentage:	87.7%	2.0%	1.0%	1.0%	3.5%	4.8%	0.0%	100.0%		

RENTAL HOUSING

Price Range	Single Family Detached	Single Family Attached	Multi-Family 2-unit	Multi-Family 3- or 4-plex	Multi-Family 5+ Units MFR	Mobile home	Boat, RV, other temp	Total Units	% of Units	Cummulative %
$0 - $380	197	165	47	189	557	14	0	1,169	56.5%	56.5%
$380 - $620	10	-10	-15	-2	94	23	0	101	4.9%	61.4%
$620 - $870	-225	-212	-93	-257	-619	9	0	-1,397	-67.6%	-6.2%
$870 - $1090	-34	39	-10	29	190	0	0	214	10.3%	4.2%
$1090 - $1370	167	154	53	222	714	0	0	1,311	63.4%	67.6%
$1370 - $1680	41	56	17	78	219	0	0	411	19.9%	87.5%
$1680 - $2100	2	8	6	38	112	0	0	167	8.1%	95.5%
$2100 - $2520	-27	-4	5	19	54	0	0	47	2.3%	97.8%
$2520 - $3360	-11	5	1	6	16	0	0	17	0.8%	98.6%
$3360 +	5	4	1	5	14	0	0	28	1.4%	100.0%
Totals:	124	206	14	327	1,352	45	0	**2,068**	**% All Units:**	45.8%
Percentage:	6.0%	10.0%	0.7%	15.8%	65.4%	2.2%	0.0%	100.0%		

TOTAL HOUSING UNITS

	Single Family Detached	Single Family Attached*	Multi-Family 2-unit	Multi-Family 3- or 4-plex	Multi-Family 5+ Units MFR	Mobile home	Boat, RV, other temp	Total Units	% of Units
Totals:	2,269	255	38	351	1,437	162	0	**4,513**	**100%**
Percentage:	50.3%	5.7%	0.8%	7.8%	31.8%	3.6%	0.0%	100.0%	

Source: City of Keizer Housing Needs Analysis (2013), Johnson Economics

III. Keizer Commercial and Employment Need Projections

Commercial Demand

Keizer also completed a Goal 9 Economic Opportunities Analysis (EOA) in 2013, which serves as the official source of projections for projected job growth and demand for commercial space.

The EOA projects an annual employment growth rate of 1.8% between 2013 and 2033, with the fastest growth rates forecasted in sectors such as Health Care, Professional and Business Services, and Construction. In terms of overall job numbers, the greatest gains are projected in Health Care and Leisure & Hospitality which includes food service and visitor-related spending. In total, just under 3,000 new jobs were forecasted over this period.

Figure 12: Projected Future Employment Growth (2013-2033)
City of Keizer

BASELINE FORECAST	2013	Forecast Estimates				'13-'33 Growth	
NAICS	Base Year	2018	2023	2028	2033	Jobs	AAGR
Natural Resources	36	38	41	43	45	9	1.14%
Construction	385	423	465	511	561	176	1.91%
Manufacturing	27	29	31	33	36	9	1.40%
Wholesale Trade	32	35	38	41	44	12	1.63%
Retail Trade	1,288	1,372	1,461	1,557	1,658	370	1.27%
T.W.U.	7	8	9	9	10	3	1.76%
Information	41	41	42	42	42	1	0.10%
Financial Activities	930	986	1,046	1,110	1,177	247	1.18%
Professional & Business	483	552	630	719	820	337	2.68%
Private Education	39	42	44	47	50	11	1.23%
Health Care & Social Assistanc	1,264	1,458	1,681	1,939	2,236	973	2.90%
Leisure & Hospitality	1,151	1,260	1,380	1,511	1,654	503	1.83%
Other Services	646	696	749	806	868	222	1.48%
Government	804	832	861	891	921	117	0.68%
Total	**7,134**	**7,771**	**8,476**	**9,258**	**10,124**	**2,990**	**1.77%**

Source: City of Keizer Economic Opportunities Analysis (2013), Oregon Employment Department, Johnson Economics

20-Year Office Space Need

The EOA projects a need for a cumulative 400,000 s.f. of office space over 20 years. This amounts to a need for over 26 acres of office employment land. This demand will be accommodated in a combination of existing and new office space throughout the community, but demonstrates a strong well of demand for new commercial space over time as employment continues to grow.

The most demand for office space is forecasted in the Health Care, Financial Activities, and Professional Business services sectors.

FIGURE 13: PROJECTED OFFICE SPACE DEMAND (2013-2033)

Baseline Scenario	Cumulative Office Space Need				Typical	Land Need
Employment Sector	**2018**	**2023**	**2028**	**2033**	***F.A.R.***	**2033**
Construction	-1,876	-1,554	-1,200	-811	*0.35*	-0.1
Manufacturing	-265	-224	-181	-135	*0.35*	0.0
Wholesale Trade	-499	-443	-381	-315	*0.35*	0.0
Retail Trade	4,889	6,612	8,446	10,400	*0.35*	0.7
T.W.U.	-5,060	-4,977	-4,886	-4,787	*0.35*	-0.3
Information	1,327	1,399	1,471	1,543	*0.35*	0.1
Financial Activities	84,951	105,674	127,654	150,967	*0.35*	9.9
Professional & Business	-24,356	2,682	33,546	68,776	*0.35*	4.5
Private Education	-1,219	-816	-388	66	*0.35*	0.0
Health Care & Social Assistance	46,866	76,987	111,729	151,801	*0.35*	10.0
Leisure & Hospitality	5,209	7,508	10,026	12,782	*0.35*	0.8
Other Services	-16,647	-11,119	-5,168	1,237	*0.35*	0.1
Government	-1,583	1,733	5,164	8,713	*0.35*	0.6
Total	**91,739**	**183,463**	**285,831**	**400,240**		**26.3**

Source: City of Keizer Economic Opportunities Analysis (2013), Oregon Employment Department, Johnson Economics

20-Year Retail Space Need

The EOA projects a need for a cumulative 450,000 s.f. of retail space over 20 years. This demand will be accommodated in a combination of existing and new office space throughout the community, but demonstrates a strong well of demand for additional commercial space over time as employment and local spending continues to grow. The greatest increases in spending are in the General Merchandise Stores (i.e. department stores), Motor Vehicles, and Food and Beverage (i.e. grocery stores).

FIGURE 14: PROJECTED RETAIL SPACE DEMAND (2013-2033)

Baseline Growth Scenario	Sales Support	Spending Supported Retail Demand [2]					
Category	**Factor [1]**	**2013**	**2018**	**2023**	**2028**	**2033**	**'13-'33 Δ**
Motor Vehicle and Parts Dealers	$387	260,568	279,079	298,904	320,138	342,881	***82,313***
Furniture and Home Furnishings Stores	$209	51,986	55,679	59,635	63,871	68,409	***16,422***
Electronics and Appliance Stores	$302	41,515	44,465	47,623	51,006	54,630	***13,115***
Building Materials and Garden Equipment	$389	129,079	138,249	148,070	158,589	169,855	***40,776***
Food and Beverage Stores	$430	191,543	205,151	219,725	235,334	252,052	***60,509***
Health and Personal Care Stores	$279	112,579	120,577	129,143	138,317	148,143	***35,564***
Clothing and Clothing Accessories Stores	$156	165,310	177,053	189,631	203,102	217,531	***52,221***
Sporting Goods, Hobby, Media Stores	$199	58,720	62,892	67,359	72,145	77,270	***18,550***
General Merchandise Stores	$164	470,044	503,436	539,200	577,505	618,531	***148,487***
Miscellaneous Store Retailers	$127	117,621	125,976	134,926	144,511	154,777	***37,156***
Foodservices and Drinking Places	$267	92,077	98,618	105,624	113,128	121,164	***29,087***
Totals/Weighted Averages		***1,430,474***	***1,532,095***	***1,640,935***	***1,757,508***	***1,882,361***	***451,887***

1 Based on national averages derived from "Dollars & Cents of Shopping Centers," Urban Land Institute.

2 Assumes a Market Clearing Vacancy Rate of 10%

Source: City of Keizer Economic Opportunities Analysis (2013), Neilsen Claritas, Johnson Economics

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IV. Retail Gap Analysis

The table below represents the estimated retail gap and surplus in Keizer. The "gap" is the difference between what local Keizer households spend in various retail categories, vs. the amount of spending that takes place in local retail establishments in those categories.

- If there is more local spending than can be accounted for by local households, those are categories that draw excess spending from outside the area. These categories may feature a locational advantage that draws customers from a wider area, however there may not be much remaining additional spending from local households that those types of stores can hope to attract.

- If the spending by local households (demand) exceeds the amount of spending in local stores in those categories, this indicates that the spending of local households is "leaking" out of the area. In other words, local households are traveling outside of the local market area to spend in those categories. These retail categories are those in which a new retail entrant to the local market might expect to be able to capture some of that leaking spending.

Negative numbers (in red) show where retail sales exceed the local demand. Similarly, the positive numbers (in black) show where sales fall short of local demand.

Figure: Estimated Retail Spending Gap, Keizer (Local Household Spending vs. Spending in Local Stores)

NAICS	RETAIL STORE CATEGORIES	2018 Demand (HH Spending)*	2018 Supply (Retail Sales)	Opportunity Need / (Gap)	Need as % of HH Spend.
441	Motor Vehicle & Parts Dealers	$120,414,077	$49,587,407	$70,826,670	59%
442	Furniture & Home Furnishings	$12,701,949	$11,839,969	$861,980	7%
443	Electronics and Appliances Stores	$11,602,253	$8,161,324	$3,440,929	30%
444	Building Material, Garden Stores	$43,667,174	$22,314,500	$21,352,674	49%
445	Food and Beverage Stores	$86,664,916	$32,031,378	$54,633,538	63%
446	Health & Personal Care Stores	$37,330,859	$17,171,224	$20,159,635	54%
447	Gasoline Stations	$54,560,573	$22,198,699	$32,361,874	59%
448	Clothing & Accessories Stores	$29,841,645	$39,477,422	($9,635,777)	-32%
451	Sporting Goods, Hobby, Book, Music	$10,307,881	$11,673,235	($1,365,354)	-13%
452	General Merchandise Stores	$81,100,461	$78,143,013	$2,957,448	4%
453	Miscellaneous Retailers	$13,355,076	$9,630,066	$3,725,010	28%
454	Non-Store Retailers	$70,440,070	$3,300,255	$67,139,815	95%
722	Food Service & Drinking Places	$86,687,853	$61,533,566	$25,154,287	29%
	Totals:	***$658,674,787***	***$367,062,058***	***$291,612,729***	***44%***

* Annual spending by local households

Source: Environics Johnson Economics

These results demonstrate that there is clearly a large amount of spending by local households that is taking place outside of the Keizer market area. This is true across almost every retail category. Only in the clothing and sporting goods categories does sales by local retailers exceed the spending by local households. In total, local retailers can only account for an average of 44% of spending by local households. This is true even with the continued growth and broader regional draw of the Keizer Station shopping center. This indicates that Keizer in some ways remains a "bedroom community" where people come to live their residential lives, while still finding employment and conducting much business outside of the community.

Where household spending exceeds local retailer sales, there is opportunity for local retailers and new businesses to capture some of this spending. While opportunities exist across most categories, the categories with the greatest opportunity are motor vehicles, food and beverage stores (grocery and discount clubs), gas stations, and restaurants. ("Non-store retailers" refers mostly to on-line shopping which transcends local real estate markets.)

River Road Opportunities

This analysis indicates support for new retail businesses, including restaurants and grocery stores. There is the opportunity to capture additional spending by local households that is currently being done outside of Keizer. Given the physical variability of retail properties along River Road, a broad range of retail categories can find appropriate real estate along the corridor. Only those requiring a true "big box" format with sufficient parking lots will likely be too large to find space within the corridor.

Discussion with real estate professionals and the Technical Advisory Group has identified a perceived lack of local choices, or insufficient quality among the choices that exist. The restaurant, café, entertainment, and grocery categories were cited as needing additional choices. In addition, there are always opportunities in other "boutique" or neighborhood-serving small businesses to provide a new or different experience, different selection or higher quality to attract customers.

What these have in common is a need to keep local consumers in the neighborhood, rather than having to seek options elsewhere. This plan process can help encourage a pleasant environment for customers along the River Road corridor with measures such as improved multi-modal transportation options, street design and décor, and attractive quasi-public/private space (i.e. outdoor seating at dining establishments).

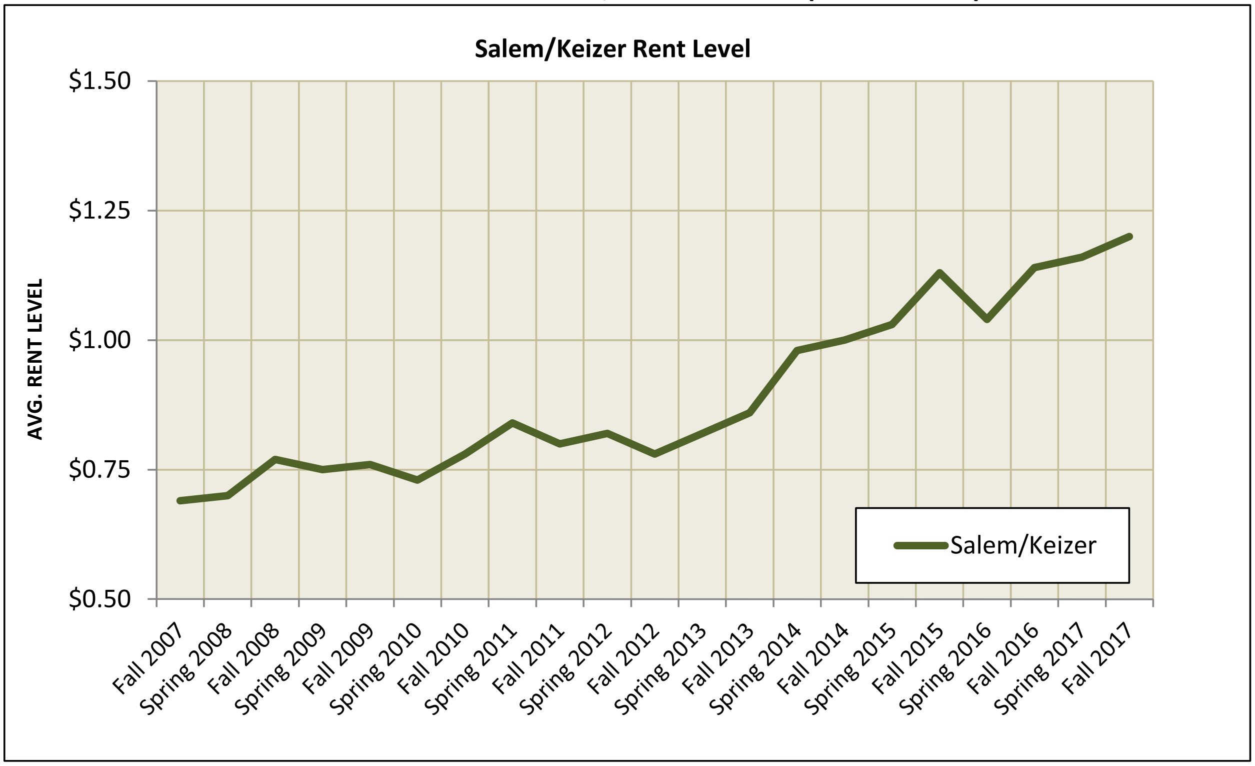
V. Real Estate Market Trends & Pricing

This section summarizes current rent levels and trends that form the assumptions underlying the redevelopment analysis discussed in following sections.

Rental Housing Market Trends

Average residential rents in the Salem/Keizer area have been growing strongly over the last decade, stagnating somewhat during the recession and following period, but rising sharply since 2012. Average rents are estimated at $1.20/sq.ft. as of the fall of 2017, rising 5% over the prior year. The average rent has grown over 50% in five years, averaging 9% annual growth in that time.

Figure 15: Rental Housing, Average Rents (2007 – 2017)

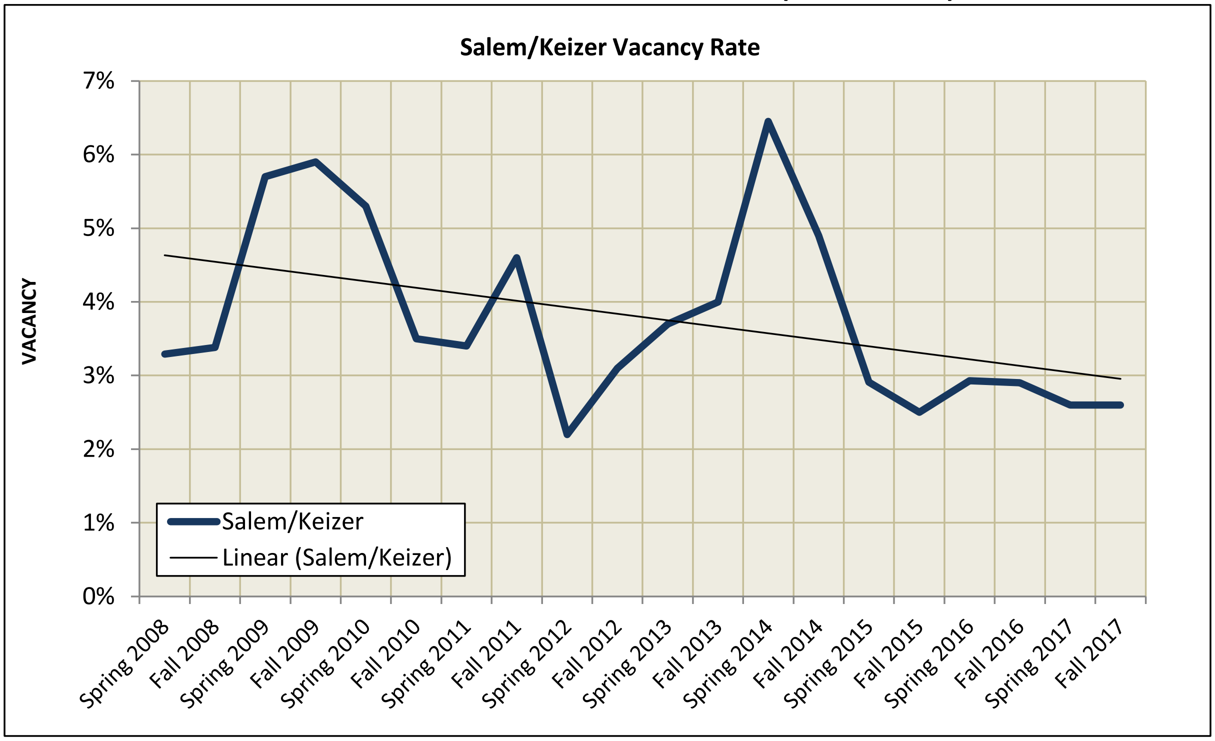


Source: Multifamily NW, Johnson Economics

Average vacancy rates in the local market has been erratic, but generally very low. At 5% vacancy is generally considered to be fully-leased, meaning that some vacancy is expected due to normal turnover, and to allow some selection of units on the rental market. The Salem metro market has averaged well below 5% vacancy over the last decade and is now estimated to have a vacancy rate of less than 3%. This represents a very tight rental market, which provides landlords with pricing power to raise rents. (See following figure)

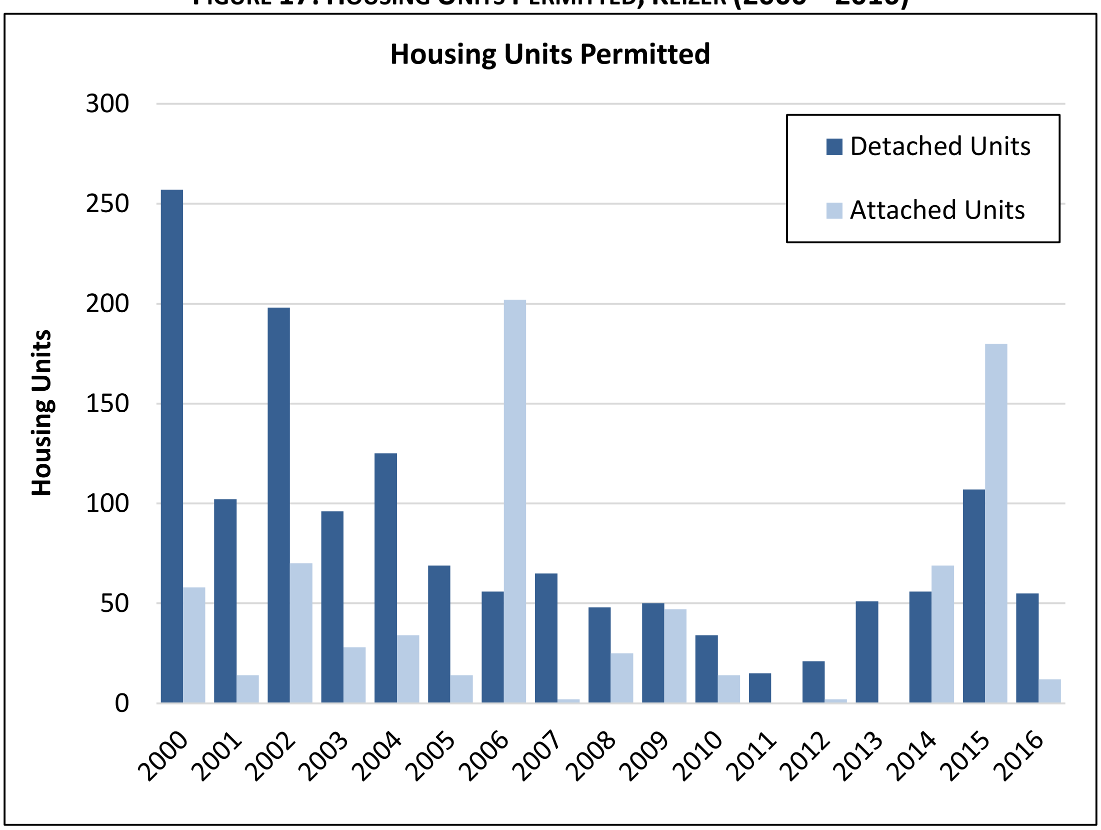
Since 2000, there have been an estimated 2,100 units permitted in Keizer. Of these, a little more than a third, or 770 units were attached housing units. Many of these units are found in Hawks Ridge (2008) and Keizer Station (2016) apartment developments.

FIGURE 16: RENTAL HOUSING, VACANCY RATE (2007 – 2017)



Source: Multifamily NW, Johnson Economics

FIGURE 17: HOUSING UNITS PERMITTED, KEIZER (2000 – 2016)



Source: Multifamily NW, Johnson Economics

Ownership Housing Market Trends

The following table presents average home sales statistics for 2017. The city averaged 216 sales, or 18 per month. Most homes are three or four bedroom homes, and small number are condominium units.

The median sale price of $273,000 is roughly 26% higher than a decade prior. North Keizer accounted for the most sales and higher average prices. South Keizer had 11% of total sales, and a median sale price that was 20% lower.

FIGURE 18: HOME SALES, KEIZER (2017)

	2 Bedroom	3 Bedroom	4+ Bedroom	Condo	TOTAL
# of Sales:	11	141	60	4	*216*
Share of Sales:	5%	65%	28%	2%	*100%*
Median Price:	$178,455	$253,113	$340,500	$256,725	*$273,652*
Avg. Price:	$169,636	$266,830	$334,700	$252,225	*$280,463*

Source: RMLS, Johnson Economics

An estimated 1,400 detached homes have been permitted since 2000, or roughly 85 per year. However, the current rate of homebuilding remains lower than that seen prior to the recession.

The RMLS listing services currently identifies 17 active listings in the Keizer area, which represents roughly one month of for-sale inventory. Realtors would consider this a very tight inventory entering the prime sales season. An inventory of six months is considered more well-balanced.

Office Market Trends

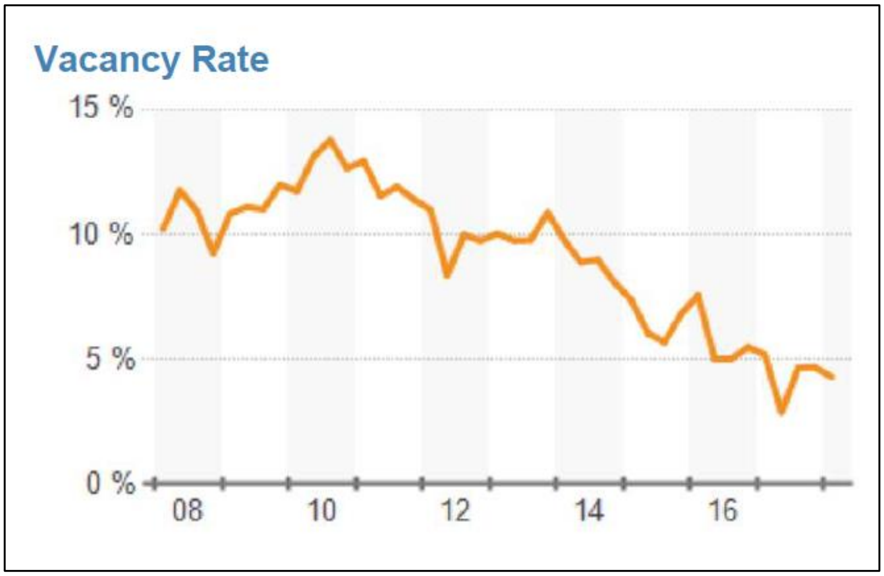
The Keizer market has experienced modest office development in the last decade, while average rent levels have remained fairly stable. While showing a lot of seasonality, full-service commercial rents been trending upwards since the recession to over $19/s.f./year.

FIGURE 19: AVERAGE OFFICE RENTS, KEIZER

Source: CoStar

Average office space vacancy climbed during the recession to nearly 14%, and took some time to recover, but has fallen in recent years well below 10%. Generally, commercial properties plan for a higher vacancy rate of up to 10%, so current levels are not considered elevated.

FIGURE 20: AVERAGE OFFICE VACANCY, KEIZER



Source: CoStar

Retail Market Trends

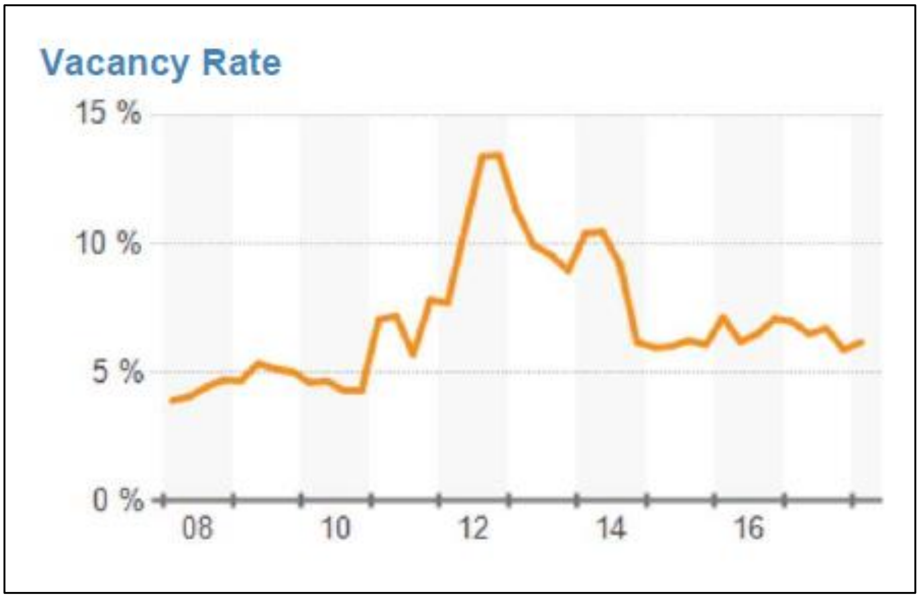
The Keizer retail market has experienced steadily rising rent levels since bottoming in 2012. However, at $14/s.f./year NNN, they remain fairly modest.

FIGURE 21: AVERAGE OFFICE RENTS, KEIZER

Source: CoStar

Average retail space vacancy also climbed during the recession, and took some time to recover, but has since fallen to well below 10%. At 6%, average vacancy is healthy despite the presence of some prominent vacancies in the River Road market.

FIGURE 22: AVERAGE OFFICE VACANCY, KEIZER



Source: CoStar

Real Estate Market Trends Conclusions

In general, the Keizer market has been characterized by a modest rate of new real estate development along the River Road corridor. Growth for key metrics including households, household spending, and employment have all been healthy since the recession and have now experienced years of a positive uptrend.

The underlying demand for all major categories of real estate uses is strong, and is currently met with relatively low supply and low vacancy. This creates a good atmosphere for new development, however modest pricing levels are likely to remain a challenge for new retail and rental housing development. Achievable office rents and home prices are more supportive of new development.

The following section discusses types of development likely under current market conditions.

VI. Feasible Development Forms

This section discusses the development forms that are currently the most feasible for new market-driven development in the Study Area. *The development forms discussed here do not reflect the impact of public policies, funding tools, and design initiatives which might result from this planning process, and might influence the density and design of what is ultimately developed at the site.*

Low-Rise vs. Mid-Rise Development

The density of development forms is driven by achievable pricing/rent levels at the site in question. In a metro area, the highest rents and land values are typically found in the center of the largest city. Not coincidentally, this is where the most density occurs in the built environment. The central city is where high-rises, full-site coverage buildings, and parking garages are found. In short, the higher rent levels achievable in the city center justify the cost of more intense use of the land.

As one moves away from the central city, towards the suburban environment, achievable rents and land values tend to decrease steadily. In most suburban environments, achievable rent levels will support low-rise construction. (“Suburban” in this context means anything outside of Downtown Salem.)

Low-rise development is typically limited to two-to-four stories, and utilizes wood frame construction. The shift from four to five stories often includes switching to concrete and steel frame construction, which adds substantial cost. Unless achievable rents also rise, a building that is feasible with low-rise construction can become infeasible by adding a single story.

Major factors which increase the cost for denser development can include materials (i.e. steel), structured parking, specialized labor and equipment, building elements such as elevators and firewalls, and costs of entitlement and the approval process. Because of this dynamic, most locations outside of a dense central city face difficulty in achieving a built form over three-to-four stories in height without subsidy.

The currently achievable rent levels in the Study Area will limit some of the development types that the market is likely to bring to the area. However, in an environment where most existing uses are single-story with ample surface parking, significant changes in density and design can be achieved while still relying on “low-rise” wood construction to control costs. Low-rise buildings, perhaps with reduced parking and other design considerations, can greatly increase the intensity of land use, without necessitating the higher construction costs of concrete and steel mid-rise buildings.

Likely Residential Forms

Currently, the prevalent multi-family rental development type in Keizer is a two-to-three story walk-up garden apartment, served by surface parking. Such properties are wood construction, with apartment flats and occasionally two-story townhome units. Such properties generally feature an FAR of .75 or less, and commonly no more than 0.5 FAR. The achieved density may be anywhere from 14 to 30 dwelling units per acre.

The following table presents examples of two common suburban development forms.

FIGURE 23: LOW-RISE RESIDENTIAL DEVELOPMENT FORMS

Garden Apartment or Condominiums with Surface Parking	Typically wood frame construction with surface parking, carports or stand-alone garages. Construction is usually two to three stories high, with a density approaching 30 units per acre. This is a predominant form outside the central city.	
Attached Duplex/ Townhomes	Also typically wood frame, these units often have parking under the unit from street or back alley. Projects can be fee simple or with condominium ownership of the ground. 15 to 22 units per acre.	

Source: Johnson Economics LLC

Attached ownership condos become rarer as one moves away from the central city. Typically, if condos are found in a smaller market it is in a specialized environment such as on a golf course, or in a retirement village. During the heated real estate market of a decade ago, condo development began to spread from its traditional location in the central city, driven by high demand and pricing. This market has softened considerably.

JOHNSON ECONOMICS believes it is unlikely that the market will deliver condos to suburban communities in any great number for the foreseeable future. This is because houses in these areas remain relatively affordable in comparison to the pricing level of a new-construction condo unit. As the Study Area develops with attractive amenities over time, condominium development may become more likely.

Ownership townhomes are a more viable development form in outer locations than condo flats. As recent trends show, attached single-family units (i.e. attached townhomes on separate tax lots) are an increasingly common form of ownership housing in Oregon markets. Townhomes can achieve a density of 16 to 22 units per net acre. Denser housing forms are more likely to be built as rental apartments than condo units in this submarket.

Likely Commercial Forms

Low-rise commercial buildings are the most likely development type. Standalone retail is almost always single-story outside of an enclosed mall environment. Typical FAR for suburban retail is 0.2 to 0.3 to allow for ample parking. Standalone office development in the area will likely be one to two stories, served by surface parking.

It should also be noted that available parking is important to retail success. Parking needs to be convenient, but can be formatted in different ways – for instance, public parking lot or shared parking for a district. Storefront businesses with ample on-street parking or perhaps a lot within convenient walking distance may not require surface parking of their own.

For the time being, the most feasible forms of commercial development in the Study Area will remain auto-oriented strip development similar to today's pattern. New multi-tenant shopping centers will seek one medium to large business to anchor the project. Smaller shopping centers without a strong anchor are less likely to be built speculatively. The corridor will remain attractive to convenience businesses such as gas stations and fast food restaurants.

Planning efforts such as this one have the potential to alter development patterns in the future and encourage different business types and more walkable environment.

Mixed Uses

There is potential to achieve a limited amount of vertical mixed-use in a well-planned suburban environment. This usually entails two stories of residential or office space above a retail ground floor. While generally served by surface parking, the parking ratio may be lower, with lots located to the side or rear of buildings. Trying to focus mixed use development in a limited geography (i.e. a town center) can help build a self-reinforcing sense of place, and allows the greater density of uses to support each other. Spread across the Study Area in a disjointed way, isolated mixed use development is less likely to be successful.

Achieving mixed-uses in the Study Area may be challenging from a feasibility standpoint. The greatest barrier is often higher development costs than low-rise single-use buildings, which requires higher achievable rents to justify. Some additional costs associated with mixed uses include the logistics of separating the uses, and increased design, construction and entitlement costs associated with developing a more complex and unfamiliar building type.

The following is an example of low-rise suburban mixed-use development.

FIGURE 24: LOW-RISE MIXED USE DEVELOPMENT FORMS

The development forms discussed here do not reflect the impact of public policies, funding tools, and design initiatives which might result from this planning process, and might influence the density and design of what is ultimately feasible in the Study Area.

VII. DEVELOPMENT CONSIDERATIONS

This section provides a general discussion of factors which impact the pace of development or redevelopment in a neighborhood. There is a perception that redevelopment, of commercial properties in particular has been slow in the Study Area.

Drivers of Development

Risk: At the most basic level the pace of development will be driven by perceived demand for real estate in a market and the achievable pricing. If demand and pricing are known to be strong, the perceived risk is reduced for developers, property owners, lenders and investors.

Unproven areas will have higher perceived risk, as will development forms that have not yet been tried in that market. When perceived risk of development is elevated, developers and investors demand a higher level of return from the project to compensate for the increased risk. If there is not a higher rate of return, the developer will pursue safer, more proven markets.

There are many areas of risk in real estate development including the following:

- ***Scale and Time*** *– Most development projects beyond building a single home require a significant amount of capital to realize, often in the millions of dollars. Loans are most often required which represent a large and binding obligation for the developer. At the same time, commercial development projects may take multiple years to complete, requiring upfront investment in a project that is unprofitable until completion, and entails carrying costs during the process.*

- ***Entitlement*** *– Securing entitlements for development is often an uncertain and time consuming portion of the development process. Even when the proposed development represents an outright allowed use under the code, a project may be subject to issues such as design review requirements and neighborhood outreach which may impact entitled uses and/or add time to the process.*

- ***Financing*** *– Financial commitments can be fluid during the development process, with lenders and/or equity partners backing out of deals or renegotiating terms mid-development. These players can also limit flexibility. In addition, financing commitments are subject to appraisal, which always carries risk.*

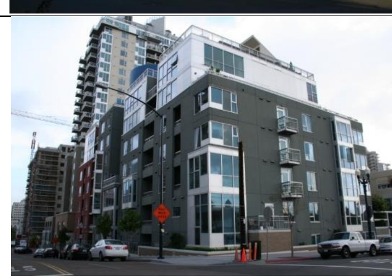
- ***Construction*** *– There are many risk factors associated with construction. The cost of materials can fluctuate significantly, timing delays can impact contractor availability windows, unforeseen problems may emerge during site-work, etc.*

- ***Market** – Actual achievable rent levels and/or sales prices may be significantly different than assumed at the time development was initiated. In addition, capitalization rates (a measure of value set by the market) can shift significantly, which has a pronounced impact on income properties.*

Cost of Construction: Cost to develop is a key determinant on final development forms. As a general rule, the higher density development forms have a higher cost per square foot to construct. This is offset by a greater achievable density (units/acre), which has value when the achievable price is higher than the cost of construction excluding land.

However, when achievable pricing is below construction costs, there is no marginal value associated with the increase in density and development forms.

FIGURE 25: DEVELOPMENT FORMS FROM LESS TO MORE DENSITY

Development Form	Description	Example Photo
Duplex/Townhomes	Also typically wood frame, these units often have parking under the unit, from the front or an alley. Projects can be fee simple or with condominium ownership of the land and common area elements.	
Type V (wood-framed) Construction with Surface	Typically wood frame construction with surface parking, carports or stand-alone garages. Construction is usually two to three stories high, with a density approaching 30 units per acre. This is the predominant multi-family form in most suburban communities.	
Type V (wood-framed) Construction over Concrete Podium	Wood frame and/or steel stud construction over a single story concrete podium. This construction type is more common than mid-rise in communities where achievable pricing is somewhat lower. It is seen often on infill sites in larger metro areas, and is more common in suburban environments than mid-rise development.	
Mid-Rise	Steel and concrete construction, limited in height to 4-7 stories. In Oregon, these are mostly seen in inner Portland neighborhoods, in areas in which a high-rise solution is considered too large or costly in scale. This form is sometimes done by an institutional user such as a hospital or university in a market where it might not otherwise occur.	

Highest and Best Use: There are many considerations on whether a property or area is providing its "best use" in a general sense, including planning goals, social goals, equity, neighborhood fabric, etc. But for the purposes of this discussion, a developer considering redevelopment of a property will usually seek to determine the "highest and best use" in the economic sense.

This term has a particular meaning in real estate development, which is the use that provides the best economic return, which leads to the highest value for the underlying land. The value of the underlying land is referred to as the "residual land value".

For instance, under an obsolete use, a parcel may have a value of X. However, for a new use with a higher achievable rent and perhaps increased density, the developer may be willing to pay 2X for the parcel (i.e. for the buildable land). Under the new, more productive use, the land itself is literally worth more than the existing property (land and building) is worth under its current use.

Challenges to Redevelopment

Often a property or area may not be attracting redevelopment activity despite appearing to be a good candidate for new uses. What most often happens in these cases is that the existing property, while it may seem obsolete or in poor condition, still retains enough total value under its existing use (land and building) that it would cost too much to purchase as a building site for a new use.

While the new use would be able to achieve higher rents and be more economically productive, it is not *enough* of an improvement to overcome the remaining value in the existing use.

Another factor may be costs in addition to land purchase, which may mean site clean-up costs, liens, or entitlement issues. These costs should be, but are not always, reflected in the purchase price as a discount. The high cost and risk of preparing the site for redevelopment are why defunct gas station, dry cleaners and other potentially contaminated sites often sit vacant for very long periods.

For these reasons, areas which seem like good candidates for redevelopment can persist for some time if the underlying land has not become valuable enough to justify new uses.

Redevelopment in the Study Area: From this analysis, it appears that achievable pricing in the Study Area may be high enough to attract some redevelopment and infill development of residential uses, both ownership and rental. This will differ from site to site based on the age and condition of the existing use, the size of the parcel and how many new units it can accommodate. As discussed in the previous section, the most likely residential forms are likely to remain low-rise attached buildings of three stories or less.

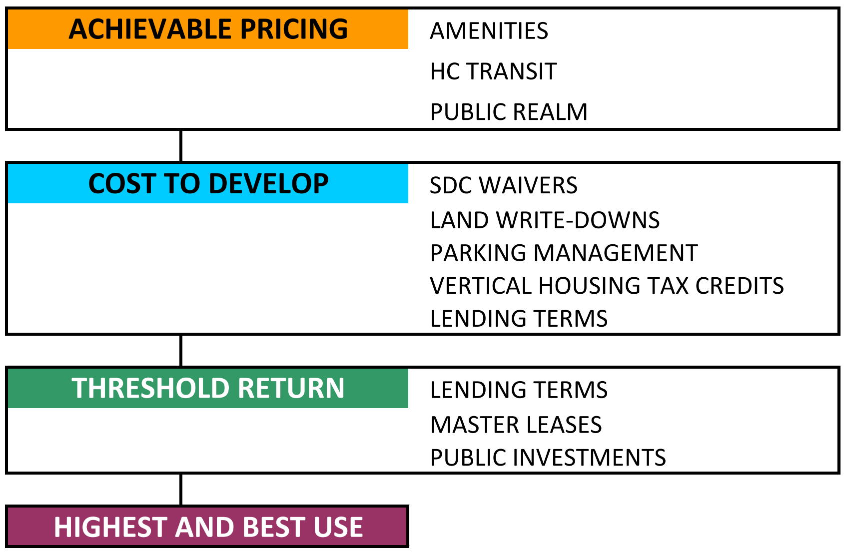
Currently, redevelopment of commercial properties along the Highway may remain more of a challenge. This is because achievable commercial lease rates are still modest enough that they will not justify the cost of redevelopment of most sites. However, it is possible that office rent levels may justify redevelopment of low-value parcels into new office or office/retail mixed properties over time.

Commercial lease rates are typically higher at larger shopping centers with an anchor tenant, such as a grocery or department store. A new shopping center may be a potential user of new development. However, finding a parcel of sufficient size or assembling a collection of smaller parcels presents a challenge as this strip is largely built out.

Categories of Public Intervention

There are areas in which public policy can impact the primary components of a highest and best use determination. The following categories reflect some policy-sensitive variables and/or market interventions that can impact the highest and best use determination. These levers can either raise achievable pricing, reduce the cost to develop, or improve the financial returns through lending terms of public partnership:

FIGURE 26: DEVELOPMENT FORMS FROM LESS TO MORE DENSITY



- **Ensure Code Consistency with Public Goals:** Because development codes are complex and multi-faceted, it is often possible for some provisions in the code to be working at cross purposes with the community's vision for the development types it would like to see. Often developers themselves, or planning projects such as this, can identify individual provisions which may be complicating or even preventing some development types.

- **Pre-Development Assistance:** This may include modest grants or loans to assist with pre-development soft costs such as project feasibility studies, design and engineering documents, site and environmental studies. This assistance can help smaller developers and property owners decide if development is feasible.

- **Streamlined Permitting and Review Process:** Any efforts to reduce the time it takes for public review of projects reduces costs to the developer. Clear and objective standards help developers design permit-ready projects from the outset and avoid delays. Pre-application conferences with knowledgeable staff can also help expedite the process.

- **SDC and Fee Waivers/Subsidy:** This is one of the most direct ways that local jurisdictions can reduce the costs of new development and the viability gap. System Development Charges (SDC's) and other permitting and process fees can add up to a significant expense to the developer.

- **Land Acquisition and Control:** Land acquisition ensures that a public agency has control over the site and that it will be used to meet public goals. Control of the land allows the agency to dictate what will occur there, and is a valuable asset which can be used as an incentive for developers.

- **Equity Gap Financing:** Gap financing usually takes the form of grant or loan that is directly applied to help overcome the viability gap, most commonly for affordable housing. Demonstration of local funding commitment can also help non-profits secure tax credits or other state funding. A source of funding must be identified to provide this financing, and amounts may need to be sizable in order to make a difference on large projects.

- **Tax Exemptions:** Tax exemptions provide an on-going reduction in operating costs in return for meeting specified public goals. Affordable housing projects can utilize tax savings to help defray the often increased cost of staffing at these properties. The trade-off is that in an Urban Renewal Area, the project will generate lower or no tax increment during the abatement period.

Future phases of this project will discuss in more detail the public programs and policies which will impact future development in the Study Area.