

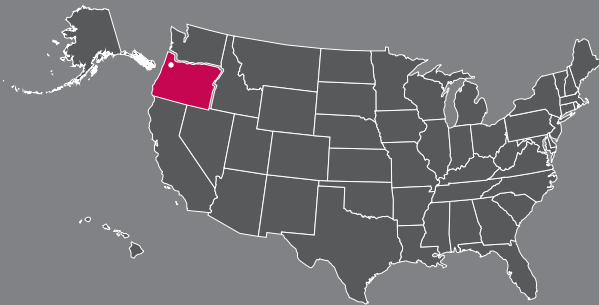
HUD PD&R Housing Market Profiles

Salem, Oregon



Quick Facts About Salem

- **Current sales market conditions: tight.**
- **Current rental market conditions: slightly tight.**
- **The Salem metropolitan area is in the center of the fertile Willamette Valley, which houses more than 500 wineries and is recognized as one of the premier pinot noir-producing areas in the world.**



By Holi Weaver | As of September 1, 2016

Overview

The Salem metropolitan area, which is coterminous with the Salem, OR Metropolitan Statistical Area, consists of Marion and Polk Counties in the Willamette Valley region of Oregon, midway between Portland and Eugene, along Interstate 5. The principal city, Salem, is also the state capital.

- As of September 1, 2016, the estimated population of the metropolitan area is 414,000, reflecting an average annual increase of 4,425, or 1.1 percent, since July 2013.
- Approximately 58 percent of population growth since 2013 has been from net in-migration to the metropolitan area, averaging 2,525 people a year. Strong employment growth and a lower cost of living compared with that of the Portland metropolitan area are driving net in-migration.
- Population growth averaged 0.9 percent, or 3,375 people, annually, from 2008 to 2013 because weak economic conditions caused a slowdown in net in-migration, which fell to 1,125 people a year, or only 34 percent of the growth (Portland State University estimates as of July 1, with adjustments by the analyst).



PD&R

Economic Conditions

The economy of the Salem metropolitan area has been expanding since 2012, and during that period, nonfarm payroll growth has averaged 2.5 percent, or 3,700 jobs, annually. The current nonfarm payroll total of 161,600 jobs surpasses the prerecession peak of 152,600 recorded in 2008 by almost 6 percent. By comparison, prolonged effects from the end of the national recession and sluggish consumer spending caused nonfarm payrolls to decline at an average annual rate of 2.4 percent, or 3,600 jobs, from 2009 through 2011.

During the 3 months ending August 2016—

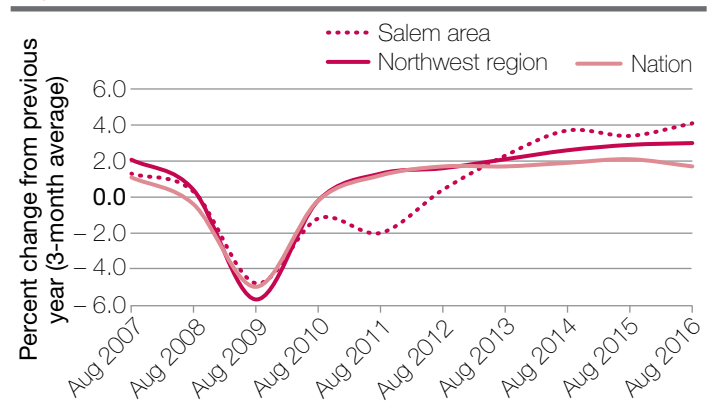
- Nonfarm payrolls increased by an average of 6,300 jobs, or 4.1 percent, from a year earlier, to 161,600 jobs, compared with an increase of 5,100 jobs, or 3.4 percent, during the previous 12-month period.
- The professional and business services sector added the most jobs of any sector in percentage and absolute terms, up 2,500 jobs, or 18.9 percent. Part of the gain can be attributed to hiring in the office administration and clerical services industry.
- The mining, logging, and construction sector (almost entirely consisting of jobs in the construction subsector), added 600 jobs, or 5.8 percent, compared with an average annual increase of 800 jobs, or 9.7 percent, from 2013 through 2015. Increased demand for new residential and commercial construction the past several years has boosted the demand for construction labor.

- The unemployment rate averaged 5.8 percent, down from 6.2 percent during the 3 months ending August 2015. The jobless rate has declined every year since the economic recovery began in 2012 and is currently the lowest rate recorded since 2007.

The government sector serves as the foundation of the economy, representing more than 25 percent of total nonfarm payrolls,

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The rate of nonfarm payroll growth in the Salem area has outpaced those of the nation and the Northwest region since the middle of 2013.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

In the Salem area, job growth occurred in all sectors of the economy except the information and manufacturing sectors.

	3 Months Ending		Year-Over-Year Change	
	August 2015 (thousands)	August 2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	155.3	161.6	6.3	4.1
Goods-producing sectors	24.5	24.8	0.3	1.2
Mining, logging, and construction	10.3	10.9	0.6	5.8
Manufacturing	14.2	14.0	-0.2	-1.4
Service-providing sectors	130.8	136.8	6.0	4.6
Wholesale and retail trade	22.1	22.4	0.3	1.4
Transportation and utilities	3.9	4.0	0.1	2.6
Information	1.0	1.0	0.0	0.0
Financial activities	6.9	7.0	0.1	1.4
Professional and business services	13.2	15.7	2.5	18.9
Education and health services	24.2	24.6	0.4	1.7
Leisure and hospitality	14.8	15.2	0.4	2.7
Other services	5.2	5.4	0.2	3.8
Government	39.5	41.6	2.1	5.3
	(percent)	(percent)		
Unemployment rate	6.2	5.8		

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics



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because of the presence of the state capital and assorted state and local agencies, including the Oregon State Hospital, Oregon State Penitentiary, the Mill Creek and Santiam correctional facilities, and the public colleges—Western Oregon University and Chemeketa Community College. The metropolitan area’s largest employer, the state of Oregon, employs approximately 22,500 people, accounting for more than one-half of all government-sector jobs. The effects of the national recession that began in 2007 did not start to negatively affect the metropolitan area until late 2008, in large part because of the relative stability of government employment. Taxable incomes increased as job growth returned to the metropolitan area in 2012, allowing increased government hiring, which further advanced the economic recovery. During the 3 months ending August 2016,

government-sector payrolls increased by 2,100 jobs, or 5.3 percent, including a gain of 1,800 jobs in the local government subsector and 300 jobs in the state government subsector.

Largest employers in the in the Salem area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Oregon	Government	22,500
Salem Heath	Education and health services	3,900
Dex Media	Professional and business services	3,000

Note: Excludes local government and school districts.
Source: Moody’s Economy.com

Sales Market Conditions

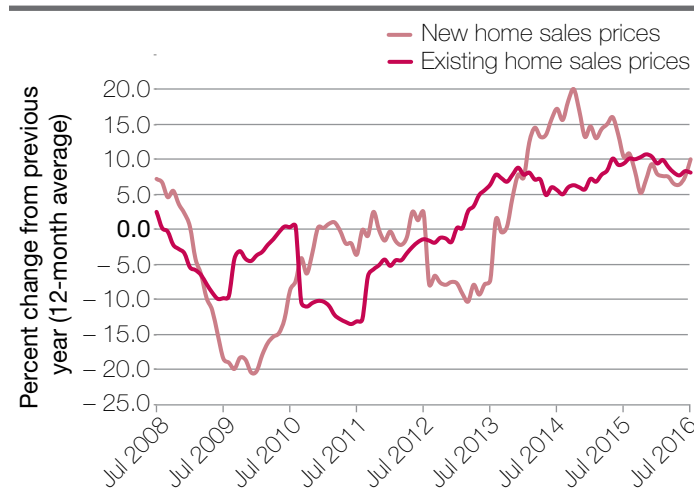
Sales housing market conditions in the Salem metropolitan area are currently tight, with an estimated sales vacancy rate of 2.0 percent, down from 2.4 percent in April 2010. The decline in vacancies reflects increased demand for homes because household finances and access to credit are improving, and much of the excess inventory that resulted from the foreclosure crisis has been absorbed. The inventory of homes for sale represented a 2.9-month supply in August 2016 compared with a 4.5-month supply in August 2015. During the same time, the number of active listings increased 36 percent, to 286, whereas the total marketing time declined from 79 to 46 days (RMLS™).

- During the 12 months ending July 2016, approximately 6,850 existing single-family homes sold, up 17 percent from the 6,000 existing homes that sold during the previous 12 months. By comparison, existing home sales averaged 8,175 during the buildup of the housing boom from 2003 through 2007. The average sales price increased 8 percent during the 12 months ending July 2016, to \$225,300, surpassing the prerecession peak of \$213,400 reached in 2007 by 3 percent (CoreLogic, Inc., with adjustments by the analyst).
- Approximately 570 new homes sold during the 12 months ending July 2016, reflecting an increase of almost 20 percent from a year ago and marking the most new home sales since 2008. During the same time, the average sales price increased 10 percent, to \$272,100, still 3 percent less than the prerecession peak of \$280,500 in 2008 (CoreLogic, Inc., with adjustments by the analyst).
- The percentage of home loans in the metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status was 2.8 percent in July 2016, down from 4.1 percent in July 2015 and well below a high of 6.5 percent in December 2012 (CoreLogic, Inc.).

- As a result of weak economic conditions and the foreclosure crises, REO home sales accounted for almost one-fourth of existing home sales from 2008 through 2013; however, REO sales comprised only 10 percent of existing home sales during the 12 months ending July 2016. The average sales price of an REO home sale was \$162,600, almost 30 percent less than the average sales price of a regular resale home (CoreLogic, Inc., with adjustments by the analyst).
- Single-family home construction, as measured by the number of single-family homes permitted, reached a 20-year low in 2011, when only 320 homes were permitted in response to decreased demand for new homes as a consequence of the national recession. Beginning in 2012, however, builders responded to the improving sales market by increasing new home construction.
- During the 12 months ending August 2016, 400 single-family homes were permitted, a decline of almost 5 percent compared with the preceding 12-month period; however, the level of single-family permitting during that period was the highest level of permitting since 2007 before the housing market collapse (preliminary data).
 - New home construction is occurring throughout the metropolitan area, with a higher concentration in the southeast portion of the city of Salem. Examples of larger communities currently under construction include Cottonwood Lakes Phase III and Bailey Ridge Phase II. Cottonwood Lakes comprises 102 lots, with homes ranging from 1,425 to 2,300 square feet and listed at an average price of \$352,300. Bailey Ridge consists of 159 lots; Phase 2 is under construction, with 5 homes available for purchase with an average list price of \$432,500 and 10 homes to become available within the coming year.
 - An estimated 260 single-family homes currently are under construction in the metropolitan area.

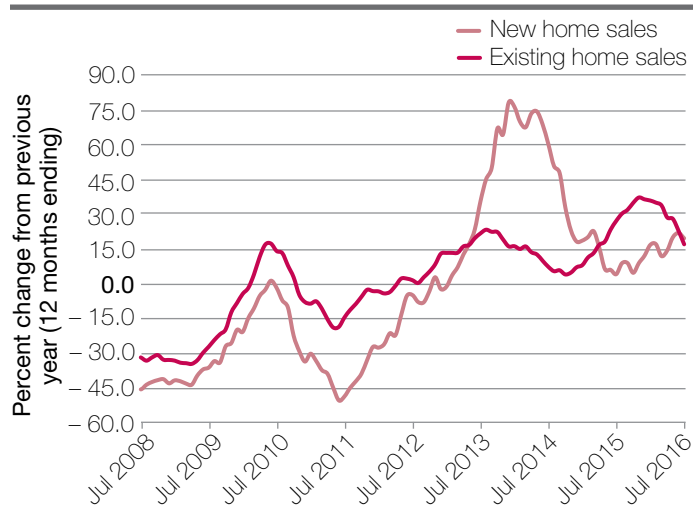


Record low levels of for-sale inventory continue to put upward pressure on home sales prices in the Salem area.



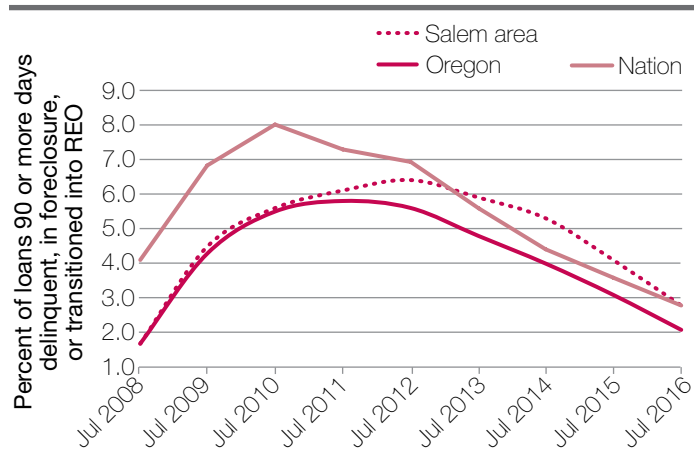
Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

Improving household finances and access to credit resulting from a strong economic recovery have contributed to increased home sales in the Salem area.



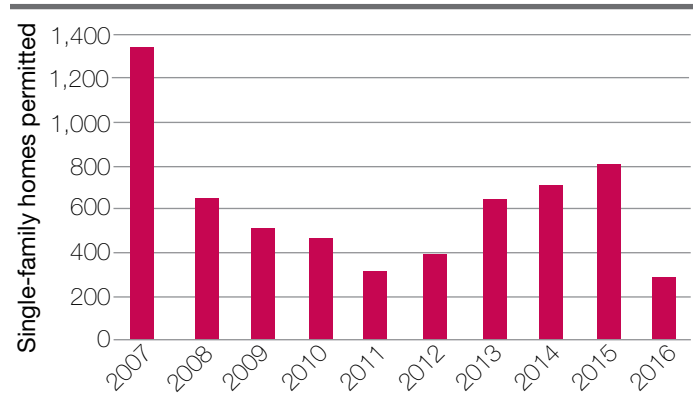
Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst

The percentage of seriously delinquent loans and REO properties in the Salem area has fallen every year since mid-2012 and is now equal to the national rate.



REO = real estate owned. Source: CoreLogic, Inc.

Single-family homebuilding in the Salem area has increased every year since 2011 as developers responded to increasing home sales and prices.



Note: Includes preliminary data from January 2016 through August 2016. Source: U.S. Census Bureau, Building Permits Survey

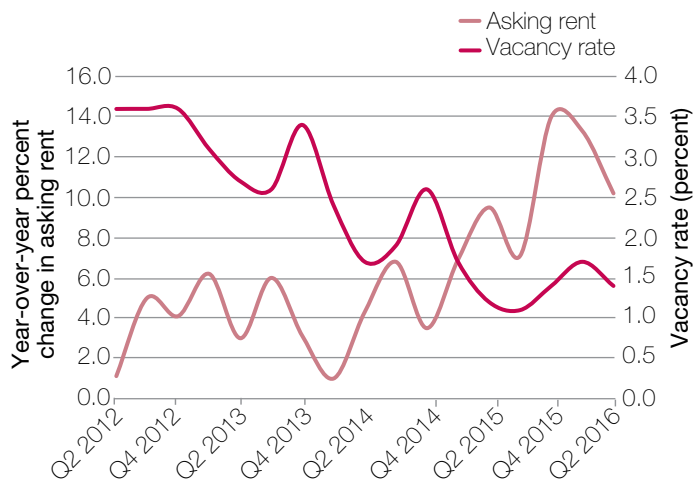
Rental Market Conditions

Rental housing market conditions in the Salem metropolitan area have tightened considerably since 2010, largely because the foreclosure crisis caused a shift in household preferences toward renting, and the rate of new apartment construction and conversion of single-family homes to rentals has not kept up with the rate of renter household growth.

- Rental market conditions in the Salem metropolitan area currently are slightly tight, with an estimated 4.5-percent vacancy rate for all rental units (including single-family homes, manufactured homes, and apartment units) as of September 1, 2016, down from 7.0 percent in April 2010, when market conditions were soft.
- The apartment market, which comprises 65 percent of the rental market, was very tight during the second quarter of 2016, with an estimated vacancy rate of 1.4 percent, up slightly from 1.2 percent a year prior (MPF Research).
- The average apartment rent increased more than 10 percent, to \$854, from the second quarter of 2015 to the second quarter of 2016, despite a slight uptick in the vacancy rate.
- The average monthly apartment rents by bedroom count were \$651, \$700, \$871, and \$1,078 for studio, one-bedroom, two-bedroom, and three-bedroom units, respectively.

Multifamily construction activity, as measured by the number of units permitted, generally has improved since the 2009-through-2011 period, when permitting was lower than during any other 3-year period since the late 1980s.

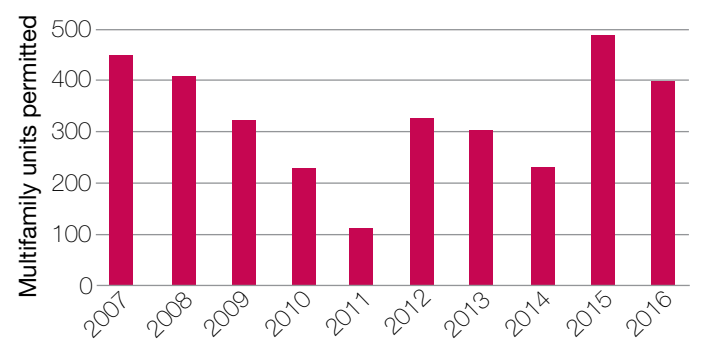
Despite an increase in apartment construction in the Salem area since 2011, rent growth has remained high and the vacancy rate has remained low.



Source: MPF Research

- Approximately 460 multifamily units were permitted in the metropolitan area during the 12 months ending August 2016 compared with 110 units permitted during the previous 12 months (preliminary data).
- An average of 460 multifamily units were permitted annually from 2000 through 2008, equal to the current rate of multifamily construction. By comparison, 220 units were permitted annually from 2009 through 2011 before permitting increased to an average of 290 a year from 2012 through 2014.
- An estimated 520 multifamily units currently are under construction, 200 of them in assisted-living facilities.
- The most recent apartment complex to open was the 108-unit Encore Apartments in January 2016 in downtown Salem. Rents start at \$900 for one-bedroom units, \$1,015 for two-bedroom units, and \$1,325 for three-bedroom units. The leasing manager was unavailable to comment on absorption rates.
- The 115-unit South Block Apartments opened in August 2015 in downtown Salem. The property began preleasing in May 2015 and was fully occupied by December 2015, averaging an absorption rate of 16 units per month. Monthly rents by number of bedrooms range from \$995 to \$1,300 for studios, \$1,100 to \$1,400 for one-bedroom units, and \$1,300 to \$2,500 for two-bedroom units and start at \$2,000 for three-bedroom units.
- Phase 2 of South Block Apartments is under construction and will consist of 63 units when complete in December 2016. Unit rents are the same as those for Phase 1, and 75 percent of the units have been released.

Apartment construction in the Salem area generally has increased since 2011 in response to tightening rental market conditions.



Note: Includes preliminary data from January 2016 through August 2016. Source: U.S. Census Bureau, Building Permits Survey

