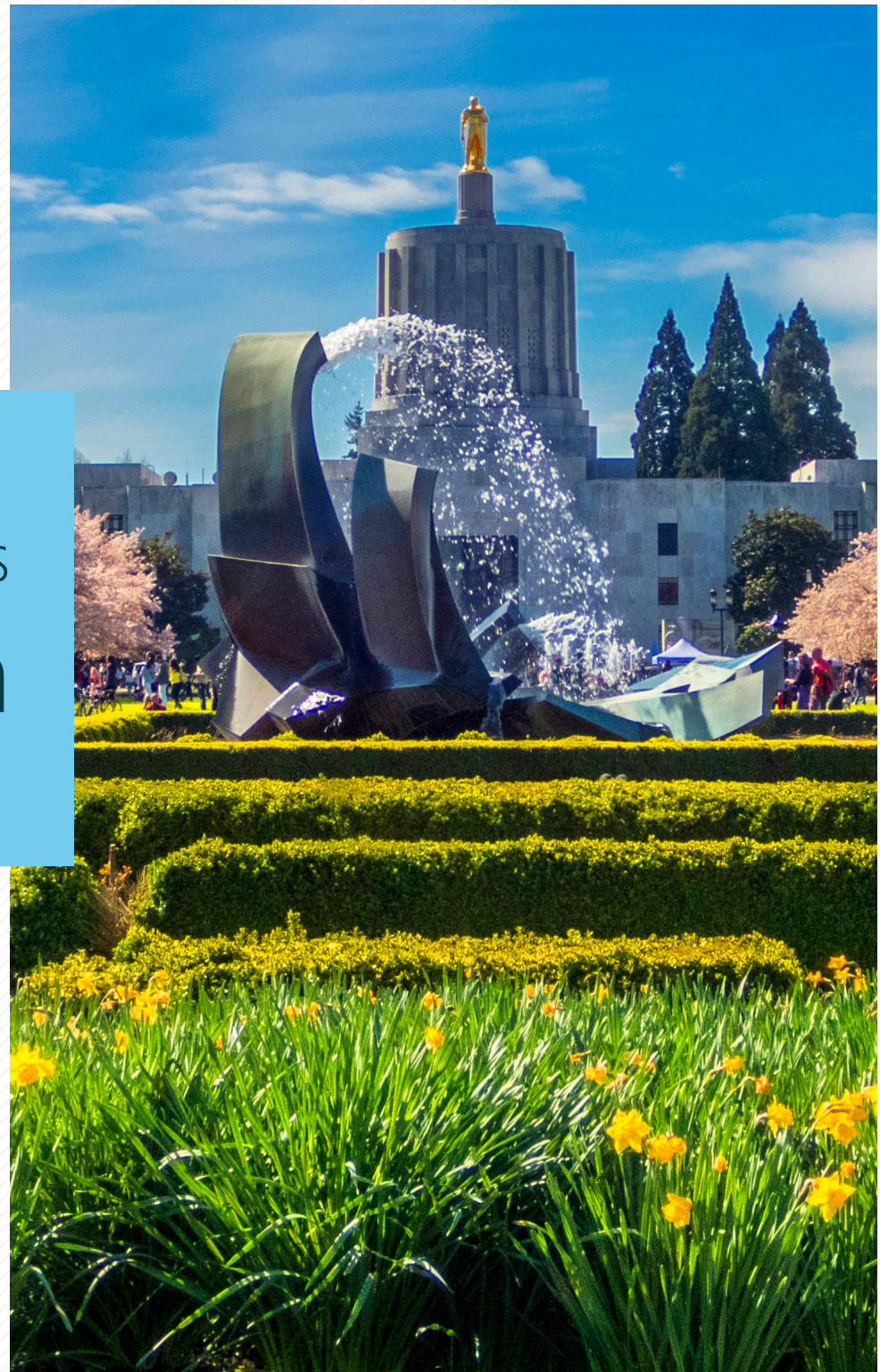


COMPREHENSIVE HOUSING MARKET ANALYSIS

# Salem, Oregon

**U.S. Department of Housing and Urban Development,**  
Office of Policy Development and Research

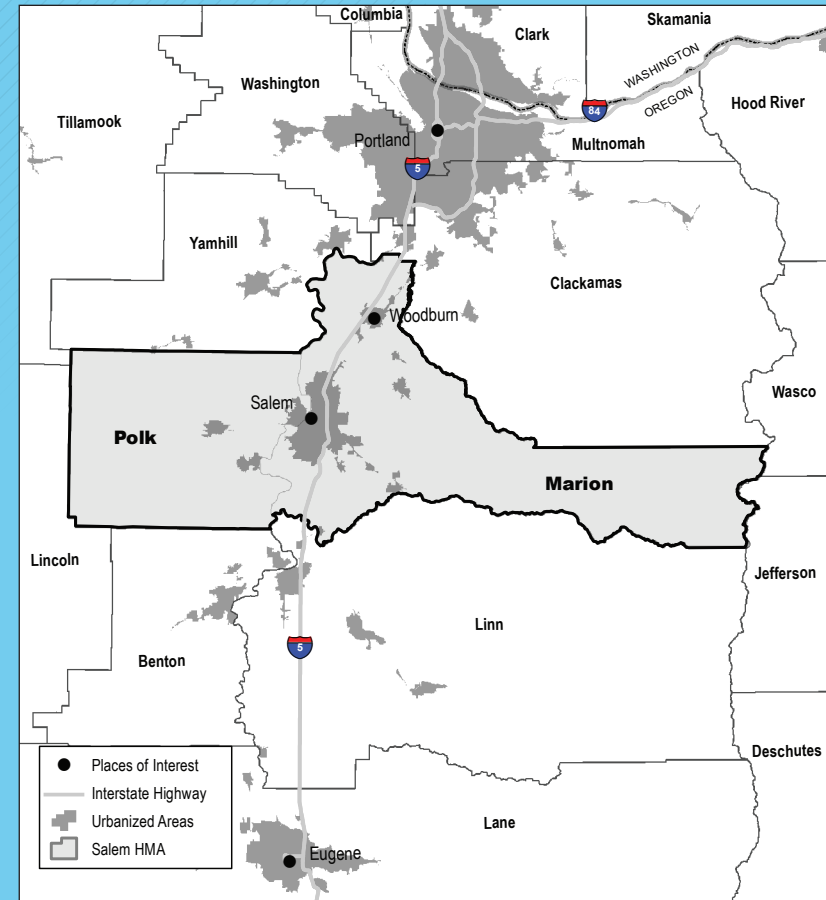
As of November 1, 2018



# Executive Summary

## Housing Market Area Description

The Salem Housing Market Area (HMA), 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, serves as the state capital, and the State of Oregon is the largest employer. As of November 1, 2018, the population of the HMA was estimated at 427,200.



## Tools and Resources

Find interim updates for this metropolitan area, and select national geographies, at PD&R's [Market-at-a-Glance tool](#). Additional data for the HMA can be found in this report's [supplemental tables](#). For information on HUD-supported activity in this area, see the [Community Assessment Reporting Tool](#).



## Market Qualifiers

### Economy



Relatively strong: **Nonfarm payrolls increased 1.8%** during the 12 months ending October 2018.

Economic conditions in the Salem HMA are currently strong, but the rate of job growth has moderated during the past 2 years. Nonfarm payrolls averaged 166,600 during the 12 months ending October 2018, reflecting a 1.8-percent increase from the same time a year ago. The current rate of job growth is down from 2.1 percent during the 12 months ending October 2017 and an average annual growth rate of 3.2 percent from 2013 through 2016. The unemployment rate averaged 4.1 percent during the 12 months ending October 2018, down from 4.4 percent a year earlier. The mining, logging, and construction sector led job growth in percentage terms during the past 12 months. Jobs are expected to increase an average of 2.3 percent a year during the 3-year forecast period.

### Sales Market



Slightly tight: **The average sales price of a home increased 12%** during the 12 months ending October 2018.

Sales housing market conditions are currently slightly tight in the HMA. Strong population growth and increased demand for sales housing has resulted in low levels of for-sale inventory, putting upward pressure on home sales prices. During the 12 months ending October 2018, home sales declined 10 percent, whereas the average sales price rose 12 percent (CoreLogic, Inc., with adjustments by the analyst). Demand is expected for 2,950 new homes during the forecast period. The estimated 310 homes currently under construction will satisfy part of the demand.

### Rental Market



Slightly tight: **The average apartment rent increased 3%**, to \$884, from the third quarter of 2017 to the third quarter of 2018.

The rental housing market in the HMA is slightly tight, with an estimated vacancy rate of 3.2 percent, down from 7.0 percent in April 2010. Apartment market conditions are also slightly tight, with a 1.8-percent vacancy rate during the third quarter of 2018, compared with 1.9 percent a year earlier, and the average rent increased 3 percent, to \$884 (Reis, Inc.). During the forecast period, demand is expected for 2,025 units. Approximately 240 units that are currently under construction and an estimated 300 units expected to start construction in the next 3 years will satisfy a portion of the demand.

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### 3-Year Housing Demand Forecast

	Sales Units	Rental Units
<b>Salem HMA</b>		
Total Demand	2,950	2,025
Under Construction	310	240

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of November 1, 2018. The forecast period is November 1, 2018, to November 1, 2021.

Source: Estimates by the analyst



# Economic Conditions

**Largest sector: Government**

Nonfarm payroll growth in the HMA is strong, but the rate of job growth has moderated in the past 12 months.

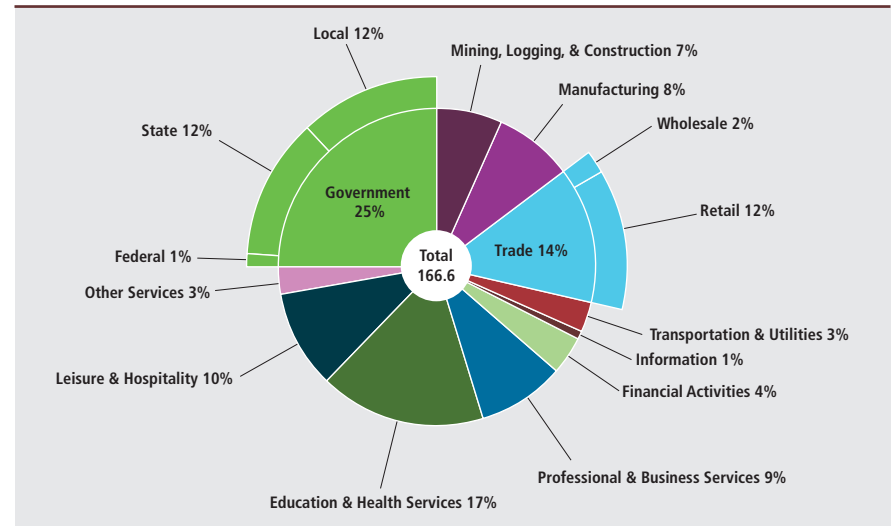
## Primary Local Economic Factors

The Salem HMA is in the heart of the fertile Willamette Valley, which was created during a series of massive ice-age floods that came from Lake Missoula in Montana. The highly fertile soil made the valley the destination of choice for those traveling west on the Oregon Trail through most of the 19th century. Today, the Willamette Valley is known for its wineries and vineyards and is one of the premier pinot noir-producing regions in the world. The growing wine industry supports manufacturing, trade, and leisure and hospitality sector jobs in the HMA through production, sales, and tourism. In addition, the HMA is home to the city of Salem, which serves as the state capital. The government sector is the largest sector in the HMA, contributing one-fourth of all nonfarm payrolls (Figure 1).

## Nonfarm Payroll Trends – Overview

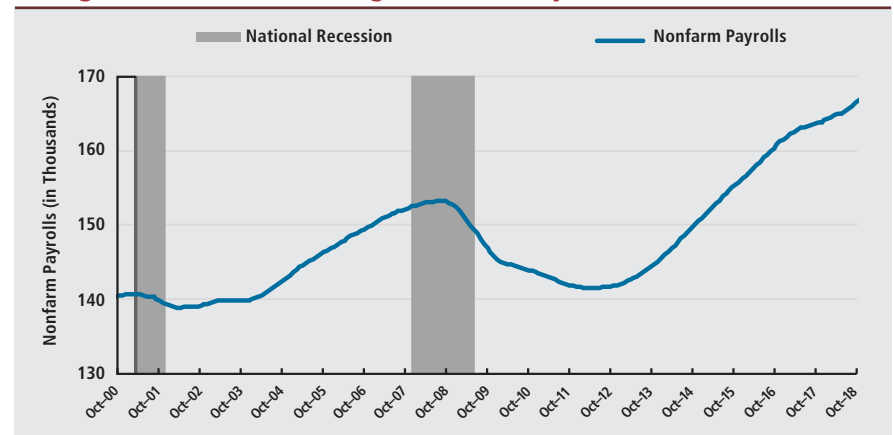
The economy of the Salem HMA has improved considerably since the Great Recession and has added jobs every year since 2012, but the rate of job growth slowed recently. In 2001, the HMA lost 1,400 jobs, or 1.0 percent, because of job losses in goods-producing sectors stemming from the effects of the dot-com recession (Figure 2). Recovery was slow, with payrolls increasing by an average of 300 jobs, or 0.2 percent, from 2002 through 2003, with job gains in most service-providing sectors offsetting continued job losses in goods-producing sectors. Job growth accelerated, and from 2004 through 2007, payroll gains averaged 3,100 jobs, or 2.2 percent, annually. All payroll sectors added jobs or remained stable during the expansion, with more than 60 percent of the growth coming from gains in the mining, logging, and construction;

**Figure 1. Current Nonfarm Payroll Jobs in the Salem HMA, by Sector**



Notes: Total nonfarm payroll is in thousands. Numbers may not add to 100 percent due to rounding.  
Source: U.S. Bureau of Labor Statistics

**Figure 2. 12-Month Average Nonfarm Payrolls in the Salem HMA**



Note: 12-month moving average.  
Source: U.S. Bureau of Labor Statistics

professional and business services; and wholesale and retail trade sectors. Although average annual payroll growth continued in 2008, growth slowed to 200 jobs, or 0.1 percent. The effects of the Great Recession caused nonfarm payrolls to decline by an average of 3,700 jobs, or 2.5 percent, annually, from 2008 through 2011, with nearly 50 percent of the losses occurring in goods-producing sectors. Economic recovery had a slow start in 2012, adding only 200 jobs, or 0.1 percent. Subsequently, the recovery gained momentum, with notable job growth in all sectors, and payroll growth averaged 4,800 jobs, or 3.2 percent, annually, through 2016, recouping all jobs lost during the Great Recession by the end of 2015. Payroll growth continued in 2017, but the rate of growth slowed, averaging a gain of 2,700 jobs, or 1.7 percent.

### Current Conditions – Nonfarm Payrolls

During the 12 months ending October 2018, nonfarm payrolls in the Salem HMA increased by 3,000 jobs, or 1.8 percent, compared with the previous 12 months, to 166,600 jobs (Table 1). All payroll sectors except government added jobs during the period; however, nearly all government jobs lost during the past 12 months resulted from the reclassification of home healthcare workers to the education and health services sector. By comparison, from the 12 months ending October 2016 to the same 12-month period in 2017, payrolls increased by an average of 3,300 jobs, or 2.1 percent.

### Current Conditions – Unemployment

The unemployment rate, which peaked at 10.9 percent in 2010, averaged 4.1 percent during the 12 months ending October 2018, down from 4.4 percent a year earlier. For comparison, during the same period the national unemployment rate declined from 4.4 to 4.0 percent. Employment growth far outpacing growth in the labor force has contributed to the declining unemployment rates, both in the HMA and at the national level. Figure 3 shows trends in the unemployment rate from 2000 to the current date.

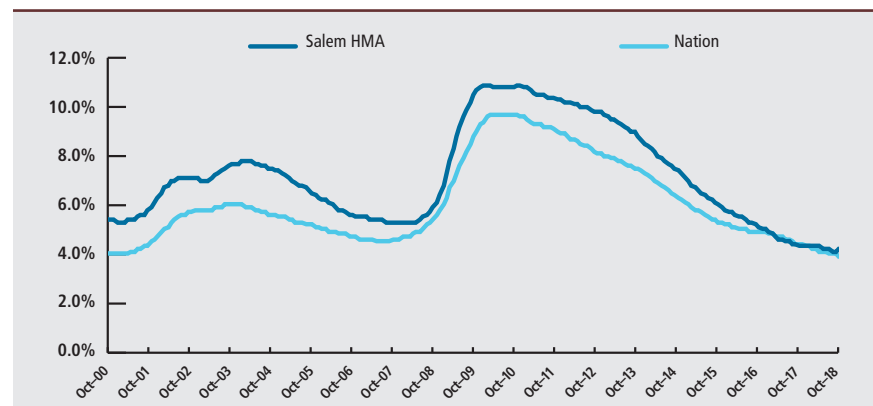
**Table 1. 12-Month Average Nonfarm Payroll Jobs in the Salem HMA, by Sector**

	12 Months Ending October 2017	12 Months Ending October 2018	Absolute Change	Percentage Change
<b>Total Nonfarm Payroll Jobs</b>	163.6	166.6	3.0	1.8
<b>Goods-Producing Sectors</b>	23.9	25.3	1.4	5.9
Mining, Logging, & Construction	10.6	11.5	0.9	8.5
Manufacturing	13.3	13.8	0.5	3.8
<b>Service-Providing Sectors</b>	139.7	141.3	1.6	1.1
Wholesale & Retail Trade	23.0	23.3	0.3	1.3
Transportation & Utilities	4.9	5.1	0.2	4.1
Information	1.2	1.2	0.0	0.0
Financial Activities	7.0	7.1	0.1	1.4
Professional & Business Services	14.1	14.6	0.5	3.5
Education & Health Services	26.0	27.5	1.5	5.8
Leisure & Hospitality	15.1	15.9	0.8	5.3
Other Services	5.4	5.5	0.1	1.9
Government	43.0	41.1	-1.9	-4.4

Notes: Based on 12-month averages through October 2017 and October 2018. Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics

**Figure 3. 12-Month Average Unemployment Rate in the Salem HMA and Nation**



Source: U.S. Bureau of Labor Statistics

## Economic Sectors of Significance

### Government

The government sector serves as the foundation of the economy due to the presence of the Oregon State Capitol and assorted state and local agencies, including the Oregon State Hospital, Oregon State Penitentiary, Mill Creek Correctional Facility, Santiam Correctional Institution, and the Tribal government-owned Spirit Mountain Casino and Chinook Winds Casino Resort. Also included in the government sector are public colleges Western Oregon University and Chemeketa Community College, which during the 2016–2017 school year had enrollments of 6,250 and 18,100 students, respectively, and employed 880 and 1,075 workers, respectively. The HMA’s largest employer, the State of Oregon (Table 2), employs an estimated 19,900 people, roughly one-half of all government sector jobs in the HMA. The effects of the Great Recession that began in 2007 did not start to negatively affect the HMA until 2009, in large part because of the relative stability of employment in the government sector, which added an average of 900 jobs, or 2.3 percent, a year from 2007 through 2009 before declining by an average of 900 jobs, or 2.0 percent, annually from 2010 through 2011. Taxable incomes increased as job growth returned to the HMA in 2012, allowing increased government hiring, which further advanced the economic recovery. During the 12 months ending October 2018, government sector payrolls declined by 1,900 jobs, or 4.4 percent, but nearly all the losses were because home healthcare workers were reclassified under education and health services payrolls. The government sector is expected to continue providing stability to the HMA, with moderate but consistent hiring, as economic conditions remain strong.

### Education and Health Services

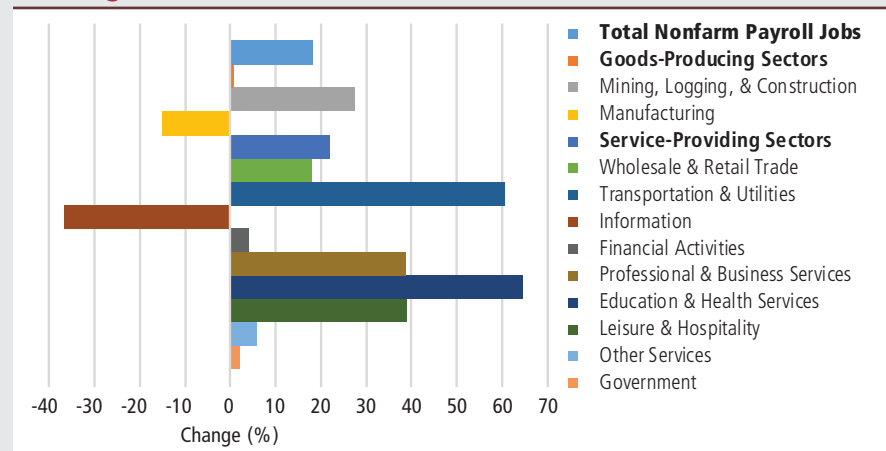
The education and health services sector has grown the most of any sector since 2000 (Figure 4) and currently accounts for 27,500 jobs, or 17 percent of total nonfarm payrolls. During the 12 months ending October 2018, payrolls increased by 1,500 jobs, or 5.8 percent, compared with a gain of 600 jobs, or 2.5 percent,

Table 2. Major Employers in the Salem HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
State of Oregon	Government	19,900
Salem Health	Education & Health Services	4,600
DexYP	Professional & Business Services	3,000
Association of Salem Keizer Education Support Professionals	Education & Health Services	2,100
Fred Meyer, Inc.	Wholesale & Retail Trade	1,710
Spirit Mountain Casino	Government	1,500
NORPAC Foods, Inc. (seasonal)	Manufacturing	1,500
Kaiser Permanente	Education & Health Services	1,200
SAIF Corp.	Financial Activities	992
Walmart Stores Inc.	Wholesale & Retail Trade	833

Note: Excludes local government and school districts.  
Source: Moody's Analytics

Figure 4. Sector Growth in the Salem HMA, 2001 to Current



Source: U.S. Bureau of Labor Statistics

during the 12 months ending October 2017. Most of the gains during the past 12 months were offset by losses in the government sector because of the reclassification of home healthcare workers; however, growth during the previous period was due to increased hiring in the sector. Typical job gains in the sector are credited to increased demand for health services as the population continues to grow and age; from 2010 to 2017, the population of residents age 62 years and older was the fastest growing cohort in the HMA. In addition, Salem Health, the HMA's second largest employer, opened a new temporary, 2,800-square-foot modular clinic in Woodburn, approximately 15 miles north of Salem, in May 2018, which will serve the community while a permanent, 31,000-square-foot larger clinic is under construction. The new clinic is expected to be complete in 2019 and will likely employ 70 people. Unlike the cyclical nature of other sectors, the education and health services sector has added jobs every year since 2000, increasing by an average of 500 jobs, or 2.6 percent, annually from 2001 through 2017. The sector is expected to continue growing at a healthy rate during the forecast period, as the healthcare industry expands to meet the increasing need for services as a result of strong population growth and an aging population.

## Leisure and Hospitality

Leisure and hospitality has been the third-fastest growing payroll sector in the HMA since 2000 and has added an average of 500 jobs, or 4.0 percent, annually, from the start of the economic recovery in 2012 through 2016. During the 12 months ending October 2018, leisure and hospitality sector payrolls increased by 800 jobs, or 5.3 percent, compared with a gain of 400 jobs, or 3.0 percent, during the previous 12 months. Part of this growth is due to the growing wine industry in the Willamette Valley. The economic impact in 2016 of the wine industry in the Willamette Valley included more than \$880 million in indirect and induced revenues, \$611 million in wages, and more than 17,150 employees, up from \$746.7 million, \$419.9 million, and 13,200 employees, respectively, in 2013 (oregonwine.org). In the HMA specifically, the economic impact of tourism increased almost 5 percent from 2016 to 2017, to \$593.1 million, compared with

average annual growth of 3 percent since 2010 (travelsalem.com). Also, nearly 40 new businesses in the leisure and hospitality industry opened in Salem during the past year (qualityinfo.org). Leisure and hospitality payrolls are highly sensitive to economic conditions, which influence consumer spending habits. From 2009 through 2010, payrolls declined by an average of 400 jobs, or 3.2 percent, annually, compared with average annual growth of 200 jobs, or 1.4 percent, from 2001 through 2008.

## Employment Forecast

During the 3-year forecast period, nonfarm payrolls are expected to increase at an average annual rate of 2.3 percent, with job growth occurring in all sectors of the economy. The expectation is for economic conditions to remain strong and for job growth to accelerate compared with growth in the past 12 months; however, growth is anticipated to moderate to a more sustainable pace than during the 2013-through-2016 period. Labor shortages will also suppress job growth from reaching previous highs. Modest job growth in the government sector will continue to provide stability to the economy of the HMA during the next 3 years. In addition, strong economic conditions region-wide will continue to support growth in the tourism industry, which will sustain job growth in the leisure and hospitality sector. Other service-providing sectors—including education and health services, wholesale and retail trade, and professional and business services—are expected to add jobs as the population continues to grow and age. The mining, logging, and construction sector will contribute to job gains, as elevated net in-migration leads to increased demand for housing. Expected job creation figures are unavailable, but the Woodburn City Council recently approved a 150-acre residential development, Smith Creek, that will employ dozens—if not hundreds—of construction workers. The development is expected to take 8 years to complete and will include more than 800 residential units, including 600 single-family homes, 100 townhomes, and 100 multifamily units. Construction on phase one, which will include approximately 160 single-family homes, is anticipated to start as early as the spring of 2019.

# Population and Households

Current population: 427,200

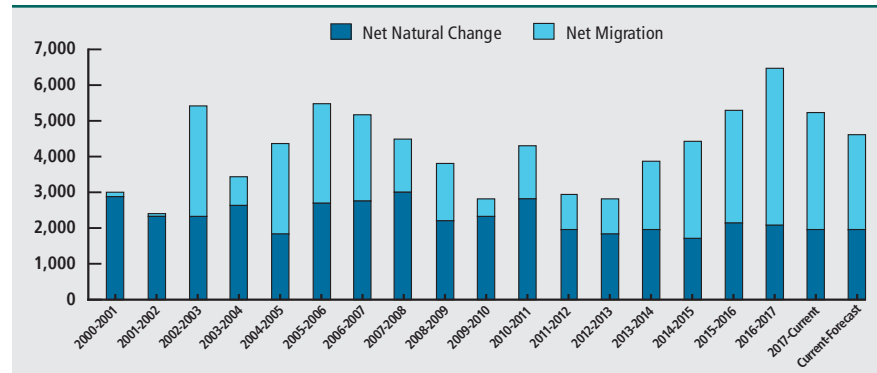
Population growth since 2014 has matched the rate of growth during the economic expansion before the Great Recession.

## Population Trends

Population growth in the HMA is mainly driven by migration patterns, which tend to lag behind turning points in the economy by a year or two but follow the same trend. Conversely, net natural change (resident births minus deaths) has been relatively stable, averaging 2,325 people annually since 2000, accounting for 54 percent of population growth in the HMA (Figure 5).

Population growth averaged 3,225 people, or 0.9 percent, from 2000 to 2002, with net in-migration accounting for less than 20 percent of the increase, consistent with the weak economic conditions during the period resulting from the dot-com recession (Portland State University July 1 estimates, with adjustments by the analyst). Net in-migration increased from 2002 to 2007 in response to stronger economic growth, averaging 2,350 people annually, contributing to an average annual population growth of 4,825 people, or 1.3 percent. From 2007 to 2009,

**Figure 5. Components of Population Change in the Salem HMA, 2000 Through the Forecast**



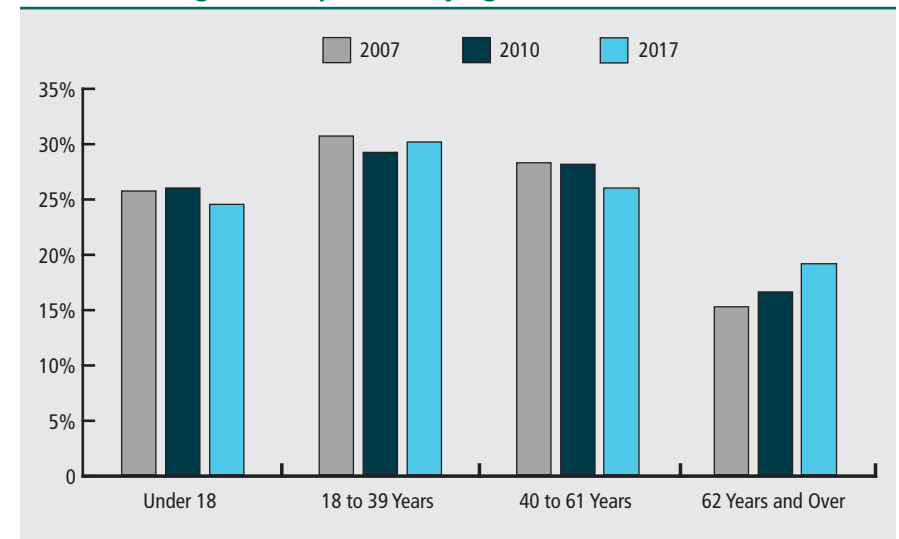
Note: Net natural change and net migration totals are average annual totals over the time period. Sources: U.S. Census Bureau; Portland State University; and analyst estimates

net in-migration remained elevated but was on a downward trend, mirroring a slowdown in economic growth during the period; net in-migration averaged 1,575 people a year, and average annual population growth declined to 4,200 people, or 1.1 percent. From 2009 to 2010, a year after the largest decline in nonfarm payrolls during the Great Recession, net in-migration fell to 480 people, and population growth declined to 2,825 people, or 0.7 percent. Net in-migration has generally trended up since economic recovery began and accelerated as the recovery transitioned to an expansion. From 2010 to 2014, population growth averaged 3,525 people, or 0.9 percent, annually, with net in-migration accounting for 38 percent of the increase. Since 2014, net in-migration has averaged 3,375 people a year, resulting in average annual population growth of 5,375, or 1.3 percent.

## Age Cohort Trends

The largest age cohort in the HMA is residents 18 to 39 years of age, and it has remained the largest segment back to 2007, constituting more than 30 percent of the total population in 2017 (Figure 6). Residents 62 years of age and older represent the fastest growing age cohort in the HMA, increasing at an average

**Figure 6. Population by Age in the Salem HMA**



Source: American Community Survey, 2007, 2010, and 2017, 1-year data





annual rate of 3.3 percent from 2007 to 2017, making up 19.2 percent of total population in 2017, up from 16.6 and 15.3 percent in 2010 and 2007, respectively. Growth in this age cohort will support job growth in the healthcare industry.

### Population Forecast

Population growth is expected to continue during the 3-year forecast period but at a slower rate than the 2014-to-current period because of moderating economic growth. The population of the HMA is estimated to reach 441,200 people by November 1, 2021, reflecting average annual growth of 4,650 people, or 1.1 percent (Table 3). Approximately 57 percent of growth will come from net in-migration.

### Household Trends

Household growth in the HMA remains below the average growth rate from 2000 to 2010 but has increased since the late 2000s. As of November 1, 2018, an estimated 152,300 households reside in the HMA, reflecting an average annual increase of 1,300 households, or 0.9 percent, since 2010. By comparison, from 2000 to 2010, households increased by an average of 1,650, or 1.3 percent, a year. An estimated 59.1 percent of current households, or 90,050 households, are homeowners; the remaining 62,200 are renter households (Figure 7). The homeownership rate has decreased since 2010, when 62.1 percent of households were homeowners, because of the prolonged effects of the Great Recession, which resulted in stricter lending practices and a shift in household preferences toward renting.

### Household Forecast

As economic conditions and net in-migration remain strong, households in the HMA are expected to increase by an average of 1,475, or 1.0 percent, annually during the next 3 years, reaching 156,700 by November 1, 2021 (Table 3). Nearly 60 percent of the additional households are expected to be homeowners, which is similar to the current homeownership rate.

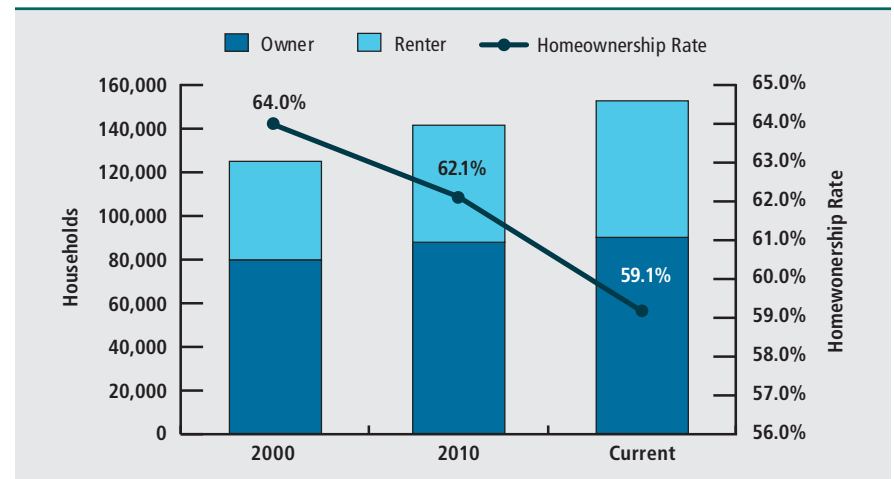
Table 3: Salem HMA Quick Facts

	2010	Current	Forecast	
<b>Population Quick Facts</b>	<b>Population</b>	390,738	427,200	441,200
	Average Annual Change	4,350	4,250	4,650
	Percentage Change	1.2%	1.0%	1.1%
<b>Household Quick Facts</b>	<b>Households</b>	141,245	152,300	156,700
	Average Annual Change	1,650	1,300	1,475
	Percentage Change	1.3%	0.9%	1.0%

Note: Average annual changes and percentage changes are based on averages from 2000–2010, 2010 to current, and current to forecast.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

Figure 7. Households by Tenure and Homeownership Rate in the Salem HMA



Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

# Home Sales Market Conditions

Market Conditions: Slightly tight

Home sales prices continued to increase during the 12 months ending October 2018 despite total home sales declining.

## Current Conditions

The sales housing market in the HMA is currently slightly tight, as job growth, increased net in-migration, and low levels of new home construction have contributed to the absorption of the excess inventory created during the buildup to the housing market crash and the Great Recession. As of November 1, 2018, the sales vacancy rate is estimated at 1.8 percent (Table 4), down from 2.4 percent in 2010. New and existing home sales prices continued to increase during the 12 months ending October 2018, furthering a 6-year trend; however, the total home sales (including new and existing homes sold) during the past 12 months declined. The decline in home sales is largely attributable to low levels of for-sale inventory; in October 2018, 3.1 months of supply was available, up from 2.3 months in October 2017 (Redfin). Approximately 6 months' worth of inventory is indicative of a balanced market in the HMA; the last time more than 6 months of supply was for sale was January 2014.

Table 4. Home Sales Quick Facts in the Salem HMA

	Salem HMA	Nation
<b>Vacancy Rate</b>	1.8%	NA
<b>Months of Inventory</b>	3.1	3.2
<b>Total Home Sales</b>	7,750	6,148,000
1-Year Change	-10.2%	-1.0%
<b>Average Price-New</b>	\$325,100	\$381,400
1-Year Change	1.8%	1.8%
<b>Average Price-Existing</b>	\$277,600	\$288,100
1-Year Change	13.3%	5.5%
<b>Mortgage Delinquency Rate</b>	1.0%	1.7%

NA = data not available.

Notes: Vacancy rate is as of the current date; home sales and prices are for the 12 months ending October 2018; and months of inventory and mortgage delinquency data are as of November 2018.

Sources: Months of inventory is from Redfin; home sales, prices, and delinquency rates are from CoreLogic, Inc.

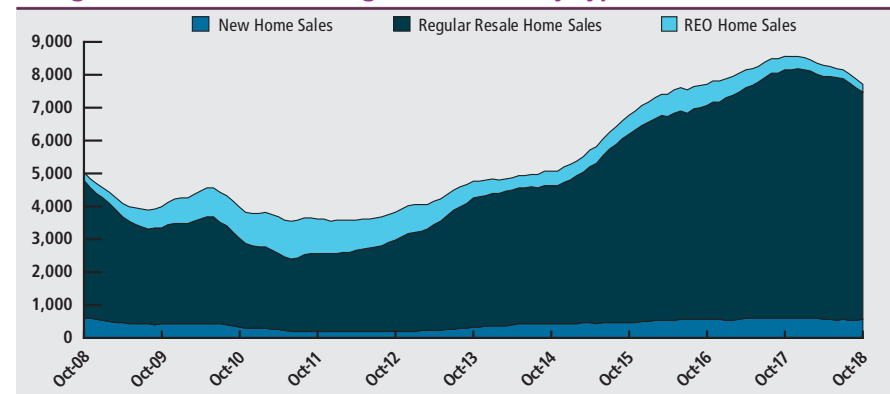
## New Home Sales

Approximately 570 new homes sold in the HMA during the 12 months ending October 2018, down 9 percent from the 630 homes sold during the previous 12 months (CoreLogic, Inc., with adjustments by the analyst). Sales averaged 1,275 from 2001 through 2007, during a period of strong economic growth, but declined at an average annual rate of 26 percent through 2012 to a low of 220 because of the housing market collapse. Sales improved in stride with the economy, increasing at an average annual rate of 23 percent from 2013 through 2017.

## Existing Home Sales

Existing home sales (including regular resale and real estate owned [REO] home sales) totaled 7,175 in the HMA during the 12 months ending October 2018, down 10 percent from the previous 12-month period, and REO properties accounted for less than 4 percent of the total (CoreLogic, Inc., with adjustments by the analyst). Home sales peaked from 2004 through 2006, averaging 8,550 a year, of which REO sales constituted 3 percent. From 2007 through 2011, home sales declined at an average annual rate of 15 percent, to a low of 3,625. REO sales began increasing a couple years after the onset of the housing market crash, and from 2009 through 2011, they made up nearly one-fourth of all existing home sales in the HMA (Figure 8). The market for existing home sales improved as the economy began to recover, and from 2012 through 2017, sales increased at an average annual rate of 14 percent; REO home sales declined, accounting for 11 percent of the existing home sales.

Figure 8. 12-Month Average Total Sales by Type in the Salem HMA



Source: CoreLogic, Inc., with adjustments by the analyst



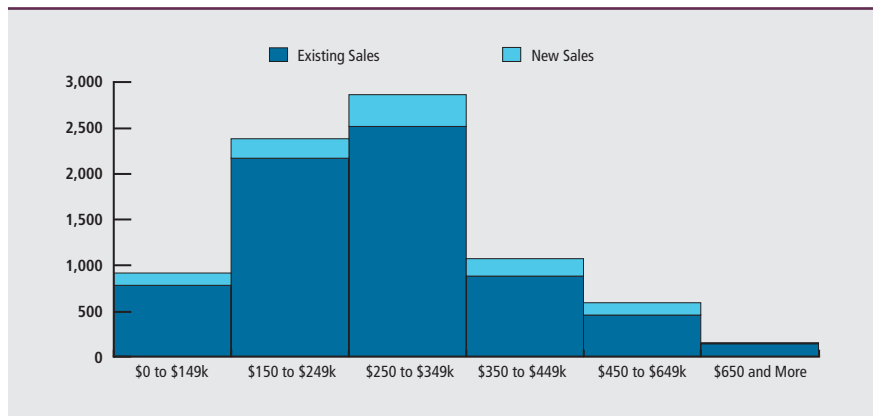
## Delinquent Mortgages

The rate of seriously delinquent home loans and REO properties in the Salem HMA peaked in December 2012 at 6.5 percent, compared with a 5.3-percent statewide rate and a 6.4-percent nationwide rate (CoreLogic, Inc.). The delinquency rate in the HMA has fallen consistently since 2012 and was 1.0 percent in October 2018, compared with 0.9 percent statewide and 1.7 percent nationwide.

## New Home Sales Prices

The average sales price of a new home was \$325,100 during the 12 months ending October 2018, up 2 percent from a year ago. The current price is 22 percent greater than the prerecession peak and 69 percent greater than the postrecession trough. During the past 12 months, sales were greatest among new homes priced from \$250,000 through \$349,000 (Figure 9). New home prices increased at an average annual rate of 12 percent from 2002 through 2006 while the economy was expanding, but price growth slowed to 2 percent a year from 2007 through 2008—leading up to the crash—to a peak of \$266,600. The recession caused new home prices to fall an average of 8 percent a year from 2009 through 2012, to a low of \$192,800. As the economic recovery transitioned to economic expansion,

**Figure 9. Sales by Price Range During the 12 Months Ending October 2018 in the Salem HMA**



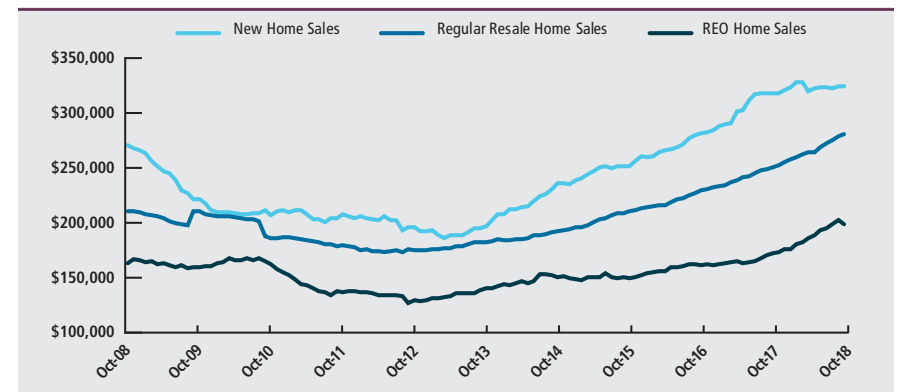
Source: Metrostudy, A Hanley Wood Company

the demand for homes improved, and the average price increased 11 percent annually through 2017.

## Existing Home Sales Prices

The average sales price of an existing home was \$277,600 during the past 12 months, up more than 13 percent from the 12 months ending October 2017. The largest concentration of home sales during the past 12 months has been for homes priced from \$150,000 through \$349,000. Prices increased at an average annual rate of 11 percent from 2003 through 2006, during a period of strong economic growth and looser lending practices. Price growth fell to 7 percent in 2007, precipitating an average annual decline of 6 percent from 2008 through 2011, as the recession hit and demand for homes fell sharply. Part of the decline in the sales price was a result of the increase in REO sales during the period, which sold at a discount of 10 to 20 percent (Figure 10). The average sales price declined less than 1 percent in 2012, as the economy began to recover, and price growth resumed in 2013 at an average annual rate of 9 percent through 2017.

**Figure 10. 12-Month Average Sales Price by Type of Sale in the Salem HMA**



Source: CoreLogic, Inc., with adjustments by the analyst

## Sales Permit Activity

Permitting of homes for sale has trended upward since 2011 but remains well below the high levels reached during the housing boom of the mid-2000s (Figure 11). During the 12 months ending October 2018, 740 homes were permitted, a 48-percent increase from the 500 homes permitted during the previous 12 months (preliminary data, with adjustments by the analyst). For context, an average 1,650 homes a year were permitted from 2000 through 2007, during the previous economic expansion. The recession caused sales permitting to fall to an average of 470 from 2008 through 2012, with a low of 320 in 2010. An average 760 homes were permitted annually from 2013 through 2017.

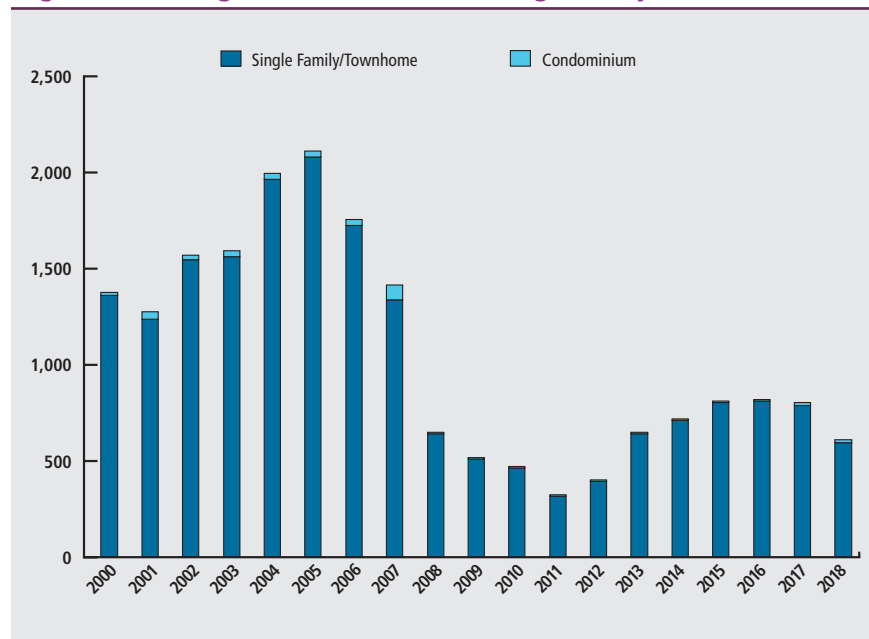
## New Construction

New home construction is occurring throughout the HMA, but subdivisions are concentrated in the city of Salem. D.R. Horton, a common homebuilder in the HMA, has two new subdivisions under construction: Windance and Whispering Heights, in south and west Salem, respectively. Windance will consist of 92 homes when complete, and 75 are currently sold. Prices start at \$240,000 for a 1,260-square-foot home. Whispering Heights has 13 move-in-ready homes for sale, starting at \$315,995 for a 1,807-square-foot home. Stafford Homes & Land Inc. has a 25-lot subdivision under construction in south Salem, Whispering Winds, with seven move-in-ready homes and two more under construction. Prices start at \$446,900 for a 2,248-square-foot home.

## Forecast

Based on current and anticipated economic growth and the current slightly tight sales market conditions in the HMA, demand is estimated for 2,950 new homes during the next 3 years, with demand evenly distributed each year of the forecast (Table 5). The 310 homes currently under construction are expected to meet a portion of demand during the first year of the forecast.

Figure 11. Average Annual Sales Permitting Activity in the Salem HMA



Notes: Includes single-family, townhomes, and condominiums. 2018 includes data through October 2018. Sources: U.S. Census Bureau, Building Permits Survey; 2000–2017 final data and estimates by the analyst; 2018 preliminary data and estimates by the analyst

Table 5. Demand for New Sales Construction Units in the Salem HMA, During the Forecast Period

Sales Units	
<b>Demand</b>	2,950 Units
<b>Under Construction</b>	310 Units

Source: Estimates by the analyst

# Rental Market Conditions

## Market Conditions: Slightly tight

Rent growth has recently slowed in response to elevated apartment construction since 2015.

## Current Conditions and Recent Trends

Overall rental housing market conditions in the HMA are currently slightly tight, with an overall estimated rental vacancy rate of 3.2 percent, down from 7.0 percent in 2010 (Table 6). Relatively slow multifamily construction in the late 2000s and increased rental household growth spurred by the housing crisis contributed to declining vacancy rates and rising rents. Recently, however, increased multifamily construction has eased some of the strain on the market (Figure 12). Approximately 43 percent of renter-occupied households in the HMA live in single-family homes, townhomes, and mobile homes, up from 39 percent in 2014 (American Community Survey, 2014 and 2017 1-year data). Approximately 17 percent of renters live in apartment buildings with two to four units, and 40 percent live in larger buildings with five or more units.

During the third quarter of 2018, the apartment vacancy rate was estimated at 1.8 percent, down slightly from 1.9 percent during the third quarter of 2017 (Reis, Inc.). Since 2014, the apartment vacancy rate has remained below 3 percent except during the second quarter of 2014, when it peaked at 3.2 percent. Average rents increased 3 percent to \$884 from the third quarter of 2017 to the third quarter of 2018. By comparison, rent growth averaged more than 6 percent annually from the third quarter of 2014 through the third quarter of 2017.

## Rental Permit Activity

The permitting of rental units has generally increased since the 2010-through-2011 period, when permitting was lower than during any other 2-year period since the

Table 6. Rental and Apartment Market Quick Facts in the Salem HMA

Rental Market Quick Facts	2010	Current	
	Rental Vacancy Rate	7.0%	3.2%
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	38%	39%
	Multifamily (2-4 Units)	21%	17%
Multifamily (5+ Units)	38%	40%	
Other (including Mobile Homes)	4%	4%	

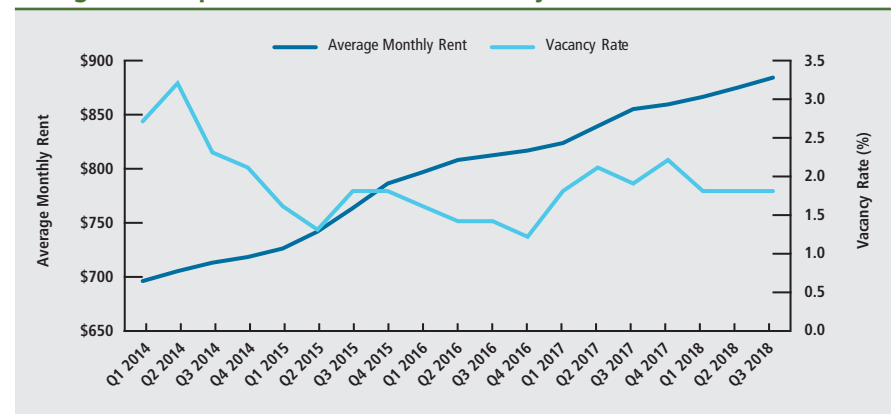
Apartment Market Quick Facts	Current	YoY Change	
	Apartment Vacancy Rate	1.8%	-0.1
	Average Rent	\$884	3%
	Studio	\$683	-
	One-Bedroom	\$753	-
	Two-Bedroom	\$905	-
Three-Bedroom	\$1,150	-	

YoY = year-over-year.

Notes: The current date is November 1, 2018. Current data for "occupied rental units by structure" are American Community Survey, 2017 1-year data. Apartment data are Reis, Inc.

Sources: American Community Survey, 1-year data; Reis, Inc.

Figure 12. Apartment Rents and Vacancy Rates in the Salem HMA



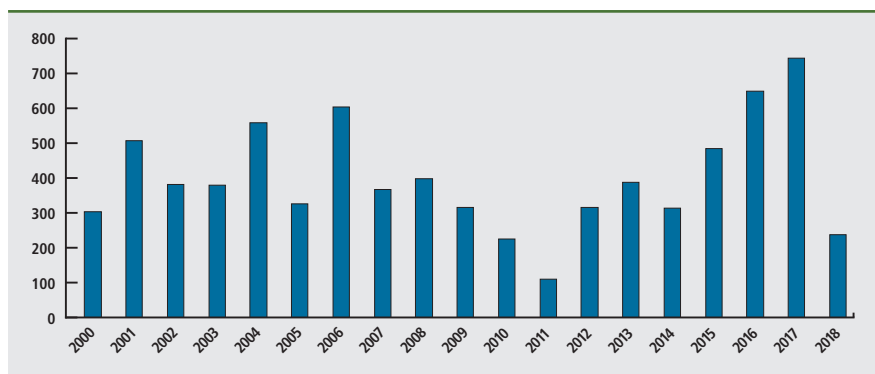
Source: Reis, Inc.



mid-1980s (Figure 13). Approximately 280 rental units were permitted in the HMA during the 12 months ending October 2018, compared with 710 units permitted during the previous 12 months, as developers reduced construction activity in response to record levels of rental permitting in 2016 and 2017 (preliminary data, with adjustments by the analyst). The units that have been completed thus far have started to ease the previously very tight market conditions and will likely do so for the next year.

An average 430 rental units were permitted annually during the dot-com recession and the ensuing economic expansion, from 2000 through 2008 (Figure 13). The effects of the national recession and the housing market collapse caused rental permitting to decline at an average annual rate of 35 percent from 2009 through 2011, to a low of 110 rental units permitted. During that time, financing for new construction was difficult to obtain, despite increased demand for rental units brought on by the foreclosure crisis. This obstacle resulted in a very limited supply of new apartments, which, coupled with increased demand, caused apartment market conditions to tighten. As lenders became increasingly confident in the economic recovery, financing returned and builders increased apartment construction by an average of

**Figure 13. Average Annual Rental Permitting Activity in the Salem HMA**



Notes: Includes apartments and units designed for rental occupancy. 2018 includes data through October 2018. Sources: U.S. Census Bureau, Building Permits Survey; 2000–2017 final data and estimates by the analyst; 2018 preliminary data and estimates by the analyst

90 rental units, or 19 percent, a year from 2012 through 2017, exceeding prerecessionary levels in 2016 and 2017.

An estimated 240 rental units are currently under construction in the HMA, with an additional 300 units expected to start construction within the next 3 years. Currently, the 40-unit The Court Yard apartments are under construction in downtown Salem, scheduled for completion in early 2019. Monthly rents will start at \$1,088 for studios, \$1,375 for one-bedroom units, and \$1,845 for two-bedroom units.

### Recently Completed Rental Properties

The majority of new rental construction in the HMA is concentrated in the city of Salem. Two of the larger developments completed in 2018 include the 260-unit Reserve at Hawk’s Ridge and the 122-unit The Summit at Red Leaf. Rents are similar at both properties, ranging from \$1,125 to \$1,149 for one-bedroom units, \$1,249 to \$1,399 for two-bedroom units, and \$1,475 to \$1,600 for three-bedroom units. An example of a smaller development is Cappella Apartments, which opened 88 units in 2017, with rents starting at \$1,035 for studios, \$1,145 for one-bedroom units, and \$1,295 for two-bedroom units.

### Forecast

During the 3-year forecast period, demand is estimated for 2,025 apartments in the HMA (Table 7). Demand is expected to be evenly distributed among all years of the forecast period. The 240 units currently under construction and the 300 additional planned completions during the period will meet a portion of the forecast demand.

**Table 7. Demand for New Rental Construction Units in the Salem HMA, During the Forecast Period**

Rental Units	
<b>Demand</b>	2,025 Units
<b>Under Construction</b>	240 Units

Source: Estimates by the analyst



# Terminology Definitions and Notes

## A. Definitions

<b>Demand</b>	The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.
<b>Building Permits</b>	Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
<b>Distressed Sales</b>	Short sales and real estate owned (REO) sales.
<b>Seriously Delinquent Mortgages</b>	Mortgages 90+ days delinquent or in foreclosure.
<b>Home Sales/ Home Sales Prices</b>	Includes single-family, townhome, and condominium sales.

<b>Rental Market/ Rental Vacancy Rate</b>	Includes apartments and other rental units, such as single-family, multifamily, and mobile homes.
<b>Forecast Period</b>	11/1/2018–11/1/2021—Estimates by the analyst

**B. Notes on Geography**

1.	The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.
2.	Urbanized areas are defined using the U.S. Census Bureau’s 2010 Census Urban and Rural Classification and the Urban Area Criteria.
3.	The Census Tracts referenced in this report are from the 2010 Census.

**C. Additional Notes**

1.	This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.
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2.	The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.
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**D. Photo Credit**

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For additional data pertaining to the housing market for this HMA, go to [huduser.gov/portal/ushmc/chma\\_archive.html](http://huduser.gov/portal/ushmc/chma_archive.html).

