

# June 2016 Market Trends

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June 2016 Market Trends Report

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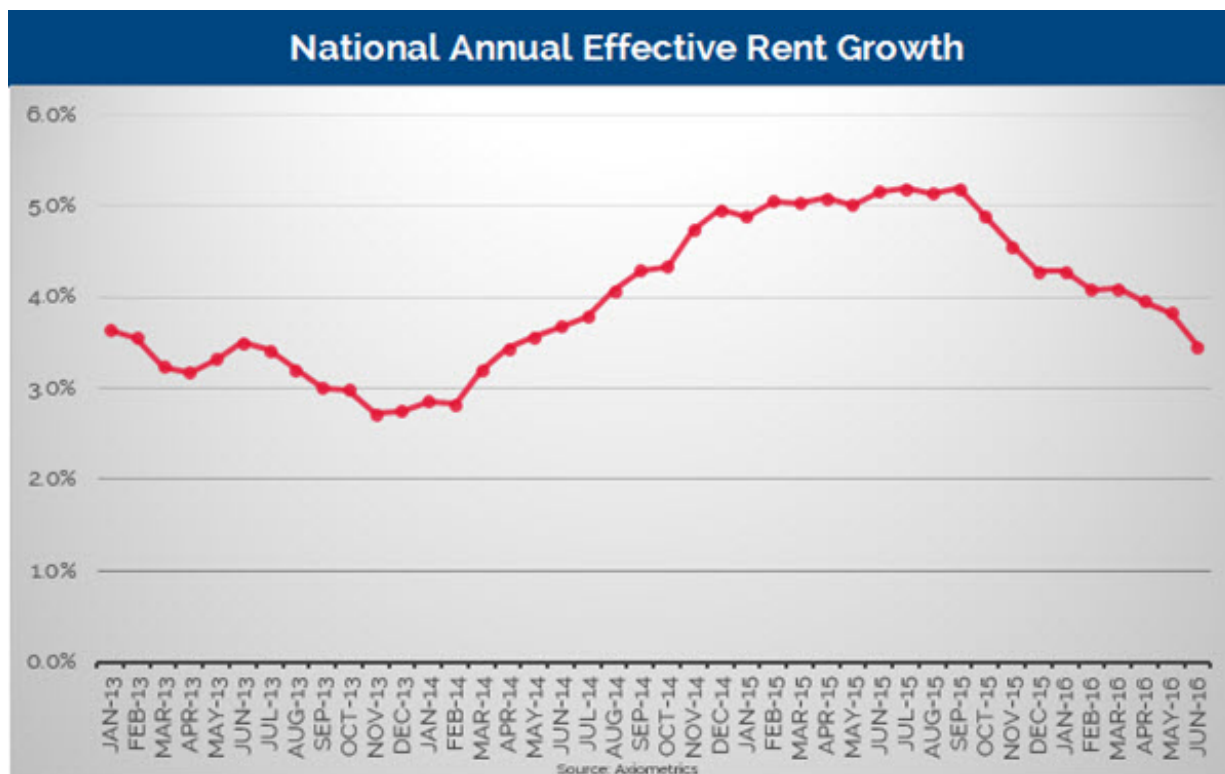
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National rent growth of 3.5% in June was the lowest since the 3.4% of April 2014 and marked a 37-basis-point (bps) decrease from the 3.8% recorded in May. June's rate was 170 bps lower than the 5.2% of June 2015 and was the eighth month of the last nine in which the rate decreased.



But the sky isn't falling.

Rent growth of 3.5% is still above the long-term average, and Axiometrics predicted the rate would slide to this level. It may go down a little farther, maybe even below the long-term average at some point. The extremely high levels of 2014 and most of 2015 were not sustainable. We expect year-end rent growth to be 3-4% in most markets, likely beginning an upward trend later in the year or early next year.

Only 12 metros among Axiometrics' top 50 markets, based on number of units, recorded increased annual effective rent growth in June from May, and just two – Sacramento and Long Island, NY, experienced increases of more than 1 full percentage point.

Washington, DC also was among the gainers. Its 2.6% rent growth was the metro's highest since July 2012, when the rate was 3.1%.

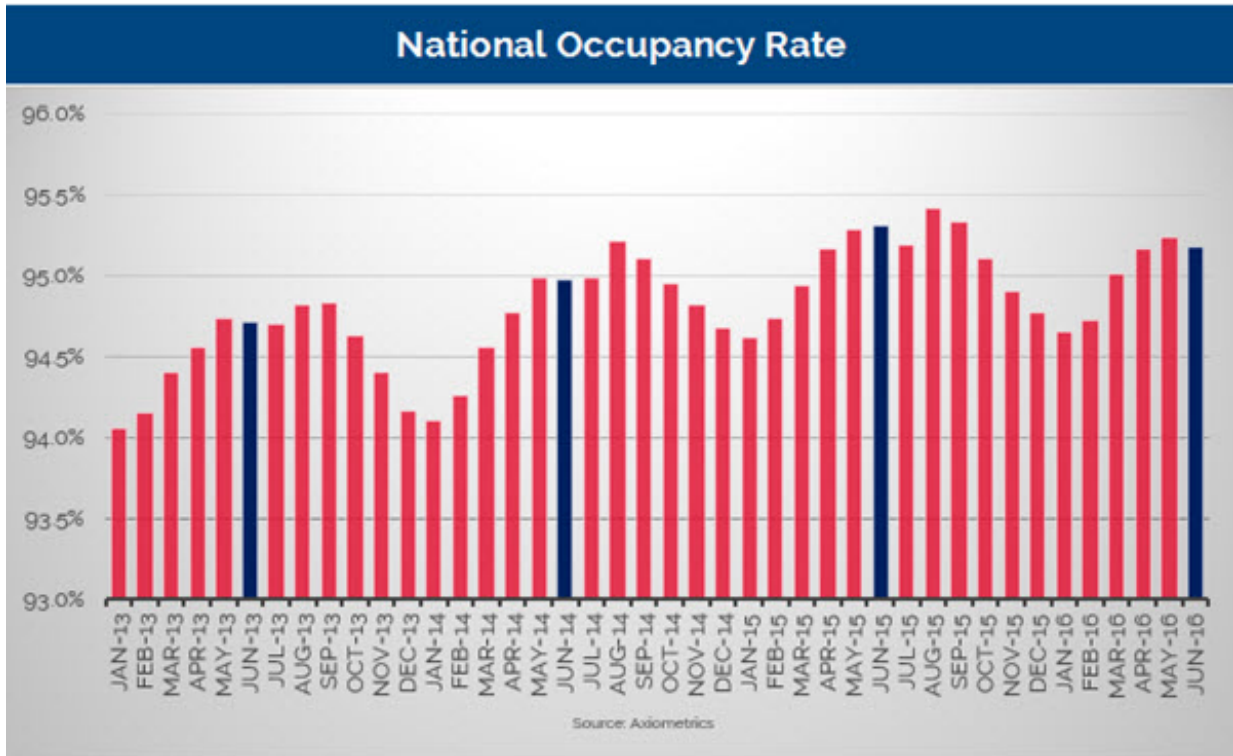
Included among the markets that experienced the highest decreases were the two metros had the highest effective rent growth in the nation each month of 2015.

- Portland, OR declined 246 bps to 5.1%, its lowest rate since March 2013, but still a very strong rate.
- Oakland's decline to 4.0% -- also a strong rate -- was the third biggest drop.
- All three Bay Area metros were among the five largest decreases.
  - San Francisco's 196-bps fall to 0.5% marked its lowest figure since May 2010.
  - San Jose decreased 106 bps to 1.0%, that metro's lowest rent growth since April 2010.

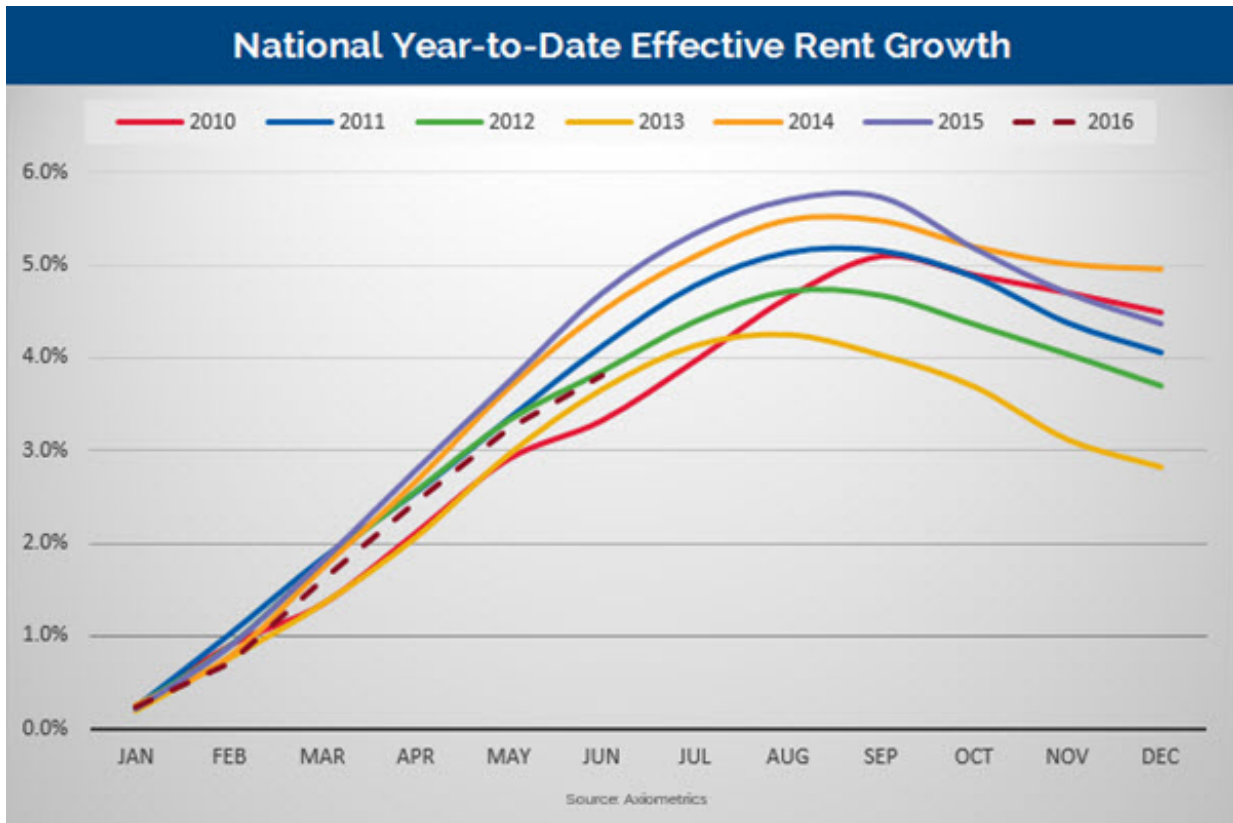
Meanwhile, Houston's rent-growth woes continued, falling to -2.1% in June. Oversupply is still a big issue, and though oil prices have stabilized at around \$50 per barrel, the oil industry has yet to regain the point at which hiring will resume.

### Occupancy and Year-to-Date Rent Growth

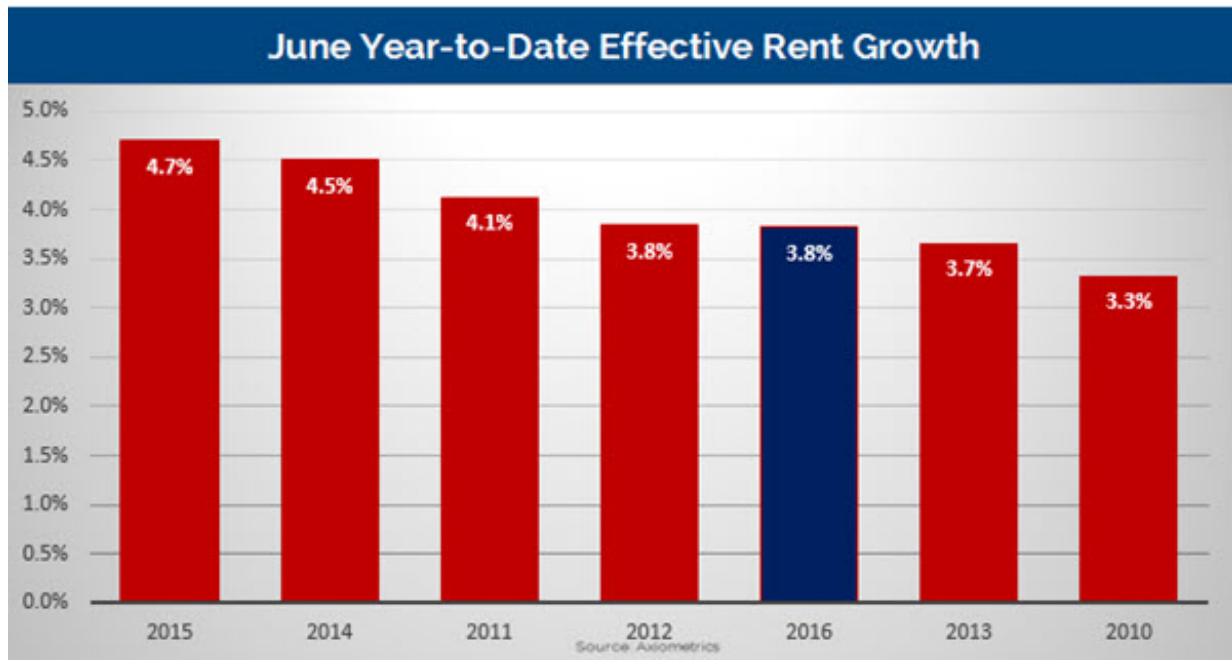
June's occupancy rate of 95.2% was, when extended two decimal points, a slight decrease from May. The figure also represented a 13-bps decrease from the 95.3% of June 2015.



Year-to-date (YTD) rent growth increased 49 bps to 3.8% in June, the third-lowest June result since the end of the Great Recession. The latest rate was 17 bps below the post-recession June average of 4.0%.



The chart below depicts the post-recession June YTD performance.



### Riverside Rent Growth Surging

Effective rent growth in the Riverside, CA metro area has been robust in 2016, with year-to-date (YTD) rent growth at 5.5% as of June. This places Riverside as the 19<sup>th</sup> ranked metro within the Axio Top 50 for 2016 YTD rent growth. While 19<sup>th</sup> place may not seem overly impressive at first glance, a deeper, dive into the data reveals why Riverside’s recent boom is certainly newsworthy.

Riverside’s notable rent growth in 2016 becomes a little more evident when comparing the area to similarly sized metros nationwide. The Riverside-San Bernardino-Ontario Metropolitan Statistical Area has a population of approximately 4.49 million, according to 2015 Census estimates. For the purpose of this analysis, Axiometrics analyzed metropolitan areas within ± 1 million people.

Compared to their post-recession June averages (2010-2015), Riverside has performed better than other similarly sized metros so far in 2016. The plus-289 basis points (bps) difference for Riverside is more than 100 bps greater than the second-ranking market, Seattle.

	Population	Avg. Effective Rent Growth June 2010-2015	2010-2015 Rent Growth Rank*	YTD Effective Rent Growth June 2016	YTD Difference from 2010-15 Average
Riverside	4,489,159	2.6%	46	5.5%	289 bps
Seattle	3,733,580	7.8%	2	9.6%	174 bps
Phoenix	4,574,531	3.0%	41	4.7%	173 bps
Minneapolis-St. Paul	3,524,583	3.6%	31	4.4%	87 bps
Atlanta	5,710,795	3.8%	26	4.3%	53 bps
Boston	4,774,321	6.1%	6	5.4%	-66 bps
San Francisco	4,656,132	7.3%	4	0.7%	-654 bps

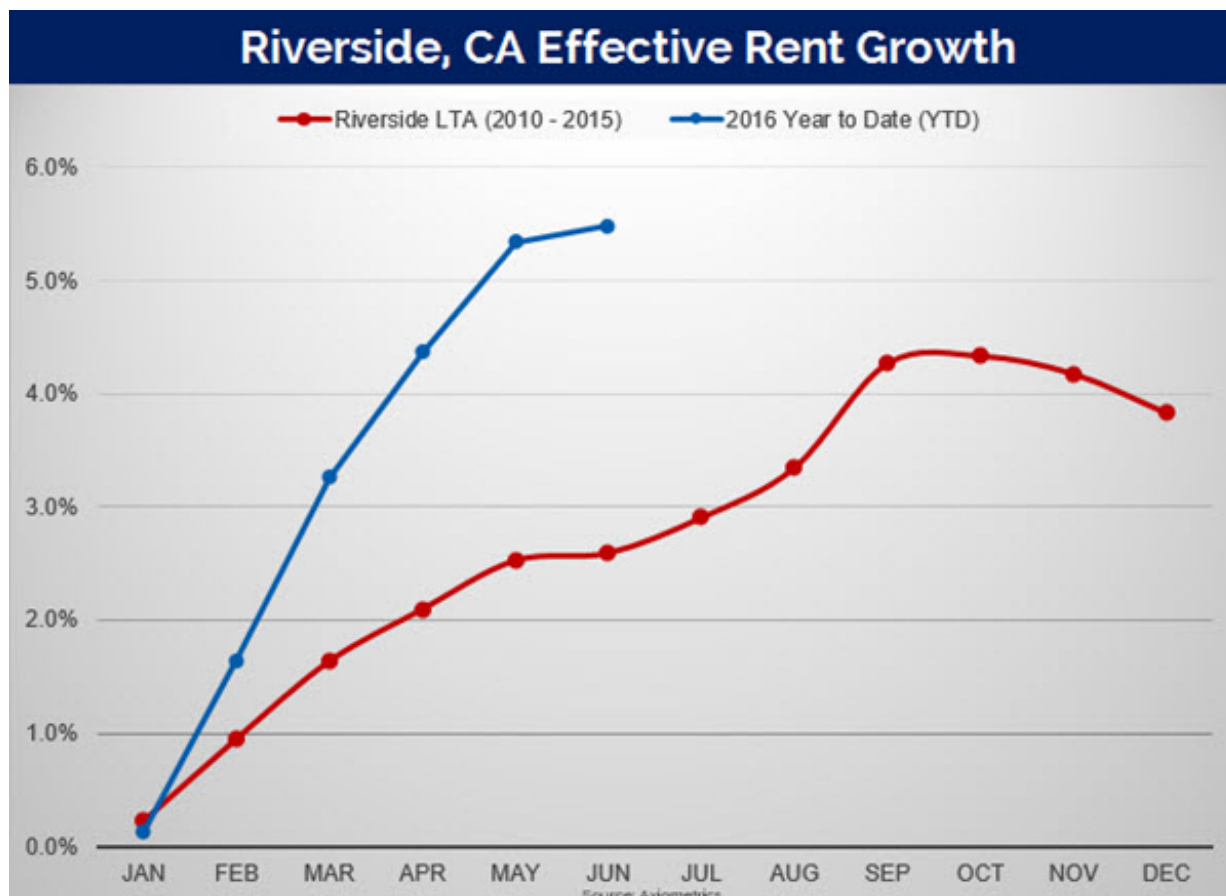
\*2010-2015 ERG Rank is ranked based among other Axio Top 50 markets  
Source: Axiometrics

Seattle stands out as another strong rent-growth metro, but given its strong performance in the current cycle, the Emerald City’s 2016 YTD rent growth of 9.6% through June is not as much of a departure from its post-recession average for the month as Riverside’s. Phoenix has also enjoyed strong rent growth

numbers in 2016, but even its 173-bps increase in June average is still well below Riverside's impressive growth this year.

Taking a closer look at Riverside and its historical long-term average performance, we see the late summer and early fall months as the time when Riverside has seen the largest rent growth, before moderating slightly in November and December.

What is interesting about the 2016 YTD growth through June is that the spring and early summer months have outperformed historical averages. Whereas the Riverside post-recession average rent growth in June was 2.6%, we've seen that the 2016 rate has swelled to 5.3%.



What is it that could be causing this rent-growth swell in the first half of this year? Additionally, will Riverside maintain such an impressive performance in the coming months?

Some of the rent-growth rise in ERG can be explained by the increasing demand for Riverside apartment units. Los Angeles and Anaheim have become increasingly expensive, and workers in those cities may be opting for a longer drive from Riverside to save some money on their monthly rent. Whereas rent cost you \$2,004 in Anaheim in June and \$2,228 in Los Angeles, Riverside residents expected to pay \$1,454 in rent.

To answer the second question, the YTD rent growth ERG in May was 5.3%, increasing only 20 bps in June. This may hint that the Riverside market – although still hot – could be moderating slightly. Keep an eye on Riverside to see if the typical rise in rent growth that occurs in the late summer months still holds true in 2016.

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### **Sacramento No. 1; Oakland Falls off Chart**

This month's list of the 17 metros among the Axio Top 50 with the highest annual effective rent growth isn't so notable for the market at the top of the chart – Sacramento, for the fourth straight month – but for the metro that fell off the table.

Oakland, which spent more than a year at No. 1 in 2014 and 2015 was, as mentioned above, one of the markets with the highest rent-growth decrease from May to June. That sent the East Bay off this chart. The other No. 1 of 2015, Portland, fell from No. 4 in May to No. 15 in June.

Meanwhile, Sacramento maintained its leading position with 10.9% rent growth in June, 299 bps above No. 2 Seattle, which recorded 7.9% growth. Riverside, CA – the Inland Empire market – jumped from fifth to third, while Phoenix, May's No. 2, went to fourth.

		Annual Effective Rent Growth		Occupancy Rate		Revenue Growth	
Rank	MSA	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16
1	Sacramento, CA	9.4%	10.9%	96.0%	96.1%	9.3%	11.0%
2	Seattle, WA	7.7%	7.9%	96.2%	96.3%	7.4%	8.0%
3	Riverside, CA	7.5%	7.2%	95.7%	95.5%	8.0%	7.1%
4	Phoenix, AZ	7.2%	7.1%	94.3%	94.6%	8.1%	7.4%
5	Salt Lake City, UT	4.0%	6.7%	95.4%	96.1%	3.9%	7.4%
6	San Diego, CA	6.3%	6.5%	95.3%	96.3%	5.1%	7.5%
7	Fort Worth, TX	6.3%	6.2%	95.8%	95.7%	7.2%	6.2%
8	Tampa, FL	6.2%	6.2%	95.6%	95.3%	7.1%	5.9%
9	Orlando, FL	6.4%	6.1%	95.7%	95.7%	7.1%	6.1%
10	Las Vegas, NV	6.8%	6.1%	94.4%	94.5%	8.0%	6.2%
11	Nashville, TN	6.6%	5.8%	96.0%	96.2%	6.6%	5.9%
12	Atlanta, GA	7.4%	5.6%	94.7%	94.5%	8.0%	5.4%
13	Dallas, TX	6.4%	5.5%	95.6%	95.7%	7.1%	5.7%
14	West Palm Beach, FL	5.6%	5.1%	94.9%	93.4%	5.2%	3.6%
15	Portland, OR	13.8%	5.1%	97.0%	95.6%	14.7%	3.7%
16	Charleston, SC	5.9%	5.0%	95.2%	95.2%	5.4%	4.9%
17	Anaheim, CA	5.4%	4.9%	95.9%	96.1%	5.4%	5.1%
	<b>National</b>	<b>5.2%</b>	<b>3.5%</b>	<b>95.3%</b>	<b>95.2%</b>	<b>5.5%</b>	<b>3.3%</b>
<b>Selected Other Markets</b>							
1	Colorado Springs, CO	5.4%	11.4%	94.8%	96.2%	4.8%	12.7%
2	Reno, NV	9.2%	11.0%	96.7%	96.8%	8.3%	11.0%
4	Salinas, CA	8.4%	10.7%	98.4%	97.0%	11.8%	9.2%
5	Tacoma WA	7.6%	9.0%	96.4%	97.3%	9.2%	9.9%
7	Fresno, CA	1.9%	7.7%	95.0%	95.6%	3.1%	8.3%

\*Rank is based on annual effective rent growth in June 2016 for Axiometrics' Top 50 Markets. Selected other markets are based on Axiometrics' Top 120 Markets. Axio tracks properties in more than 500 MSAs throughout the country.

Source: Axiometrics

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