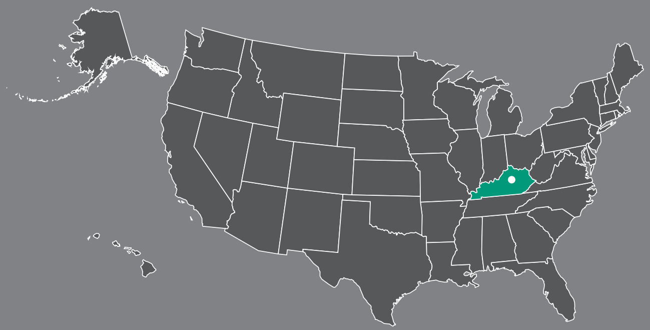
HUD PD&R Housing Market Profiles

Lexington-Fayette, Kentucky

Quick Facts About Lexington

- **Current sales market conditions: balanced**
- **Current apartment market conditions: balanced**
- **The University of Kentucky is the largest employer in the metropolitan area and the largest university in Kentucky, with 31,100 students enrolled during the fall of 2020. The university employs 16,750 workers, making up 32 percent of the government sector—the largest sector in the metropolitan area.**



By David Kelley | As of February 1, 2021

Overview

The Lexington-Fayette, KY Metropolitan Statistical Area (hereafter, Lexington metropolitan area) is located in central Kentucky and is known as "the horse capital of the world." The metropolitan area includes Clark, Bourbon, Fayette, Jessamine, Scott, and Woodford Counties in Kentucky. The Lexington metropolitan area is home to the Keeneland Racecourse and the University of Kentucky (UK) and is a popular destination for retirees because of the horse races, bourbon distilleries, and UK sports. The largest employer after UK—Toyota Motor Manufacturing, Kentucky, Inc. (Toyota)—in the city of Georgetown, is the largest Toyota production facility in the world.

- As of February 1, 2020, the population of the metropolitan area was estimated at 519,700—an average annual increase of 4,400, or 0.9 percent, since April 2010. Population growth has recently slowed, averaging an increase of just 0.4 percent annually since 2017.
- Net in-migration accounted for 57 percent of population growth from 2010 to 2017 but only 12 percent from 2017 to the current date. Contributing to the lower proportion of net

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in-migration is job losses in the professional and business services and the manufacturing sectors that occurred during this period.

- From 2015 to 2019, the 25-to-54-years age cohort increased by an average of 2,975 people, or 1.1 percent, annually, as economic conditions strengthened. The fastest growing cohort was the 65-years-and-older cohort, which increased by an average of 2,550 people, or 4.1 percent, a year from 2010 to 2019.

Economic Conditions

As a result of COVID-19-related closures and restrictions, nonfarm payrolls in the Lexington metropolitan area declined significantly in 2020. During the 3 months ending January 2021, nonfarm payrolls decreased by 15,900 jobs, or 5.6 percent, compared with an increase of 1.7 percent during the same period in 2020. Countermeasures to slow the spread of COVID-19 included the closure of nonessential businesses from March 23 until June 29, 2020. More recently, restrictions were placed on indoor establishments—such as restaurants, bars, gyms, and theaters—from November 20 until December 13, 2020, as cases of COVID-19 increased drastically during the holiday period. Nearly one-half of the jobs lost during the 3 months ending January 2021 were in the leisure and hospitality sector, which declined by 7,300 jobs, or 22.8 percent. The Keeneland Fall Meet in October 2020, which typically would provide a boost in employment, had no in-person attendance for the month-long event. All sectors except the professional and business services and transportation and utilities sectors lost jobs during the 3 months ending January 2021, many due to the impacts of the pandemic.

During the 3 months ending January 2021—

- The government sector decreased by 2,100 jobs, or 3.9 percent—a strong reversal from the 2,000-job, or 3.9-percent, increase from a year earlier. Many of the jobs lost in this sector were due to layoffs from the local government.
- The education and health services sector declined by 2,500 jobs, or 6.7 percent. A reduction in consumer willingness to visit healthcare facilities because of the risk for COVID-19 transmission led to the sector decline.
- Payrolls in the manufacturing sector declined by 1,800 jobs, or 6.0 percent, due mostly to plant closures. Trane Technologies plc, a producer of commercial HVAC systems, closed its local plant in mid-2020, laying off 660 workers.
- Professional and business services was the only sector to add jobs, increasing by 100 jobs, or 0.3 percent. Surges in ecommerce sales due to the pandemic helped keep temporary workers employed at companies such as Amazon.com, Inc.

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All but two sectors in the Lexington metropolitan area declined during the 3 months ending January 2021.

	3 Months Ending		Year-Over-Year Change	
	January 2020 (Thousands)	January 2021 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	282.4	266.5	-15.9	-5.6
Goods-Producing Sectors	43.8	41.6	-2.2	-5.0
Mining, Logging, & Construction	13.8	13.4	-0.4	-2.9
Manufacturing	30.0	28.2	-1.8	-6.0
Service-Providing Sectors	238.6	224.9	-13.7	-5.7
Wholesale & Retail Trade	41.0	39.9	-1.1	-2.7
Transportation & Utilities	12.3	12.3	0.0	0.0
Information	2.7	2.6	-0.1	-3.7
Financial Activities	10.1	9.9	-0.2	-2.0
Professional & Business Services	39.2	39.3	0.1	0.3
Education & Health Services	37.2	34.7	-2.5	-6.7
Leisure & Hospitality	32.0	24.7	-7.3	-22.8
Other Services	10.3	9.7	-0.6	-5.8
Government	53.8	51.7	-2.1	-3.9
Unemployment Rate	3.2%	4.6%		

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

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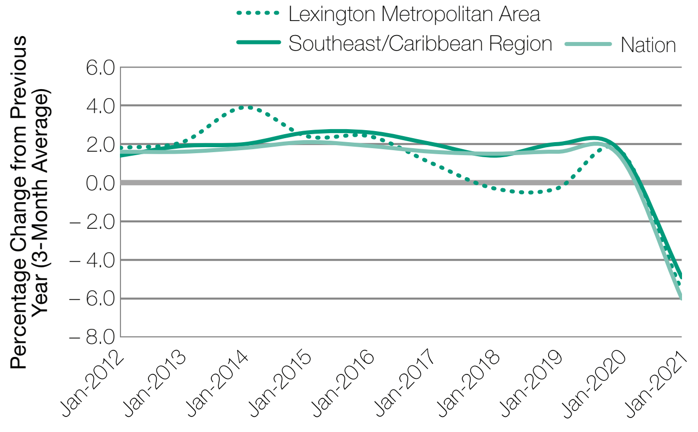
As vaccines are distributed and the number of COVID-19 cases decline, the countermeasures that are still in place to slow the spread of the virus are anticipated to be gradually lifted. Restrictions on building capacity is expected to increase to 60 percent in March 2021. The Keeneland Racecourse is expected to host the Breeders' Cup in 2022, helping the leisure and hospitality sector recover from the impacts of the pandemic and subsequent countermeasures. In addition, Baptist Healthcare System Inc. is building a new medical campus in eastern Lexington, which will create 700 new jobs and is expected to be completed by 2023.

Largest Employers in the Lexington Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of Kentucky	Government	16,750
Toyota Motor Manufacturing, Kentucky, Inc.	Manufacturing	9,700
Amazon.com, Inc.	Transportation & Utilities	3,300

Note: Excludes local school districts.
Source: Commerce Lexington, Inc.; Kentucky Cabinet for Economic Development

The number of nonfarm payrolls in the Lexington metropolitan area declined more sharply than that of the Southeast/Caribbean Region but less sharply than that of the nation during the 3 months ending January 2021 due to the pandemic.



Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

The sales housing market in the Lexington metropolitan area is currently balanced. The average existing home sales price increased 9 percent during 2020, to $232,700. Existing home sales price growth has accelerated recently because of a reduction in the months' supply of homes for sale, which is currently low, at 1.7 months in December 2020—down from 2.9 months a year ago (CoreLogic, Inc., with adjustments by the analyst). The decrease in supply has been related to a decline in listings of homes for sale as homeowners have shown reluctance to list and show their homes due to the pandemic. Before the pandemic, the average existing home sales price increased to $214,000, or by 3 percent, in 2019 from $208,200 in 2018. During 2020, existing home sales declined by 50 homes sold, or 1 percent, to 10,800 as the inventory of homes for sale declined. By comparison, existing home sales increased in 2019 by 800 homes, or 8 percent, to 10,850 homes sold.

- The months' supply of homes for sale in the Lexington metropolitan area has declined nearly every year since the Great Recession, apart from 2018, when job growth slowed. The supply increased slightly, from 3.2 months during December 2017 to 3.4 months during December 2018, before declining to 2.9 months in December 2019.
- During 2020, new home sales increased by 120 homes, or 16 percent, to 890 homes sold. New home sales growth has accelerated since mid-2019, as economic conditions had improved before the pandemic, and the supply of existing homes has declined.
- New home sales prices increased by $3,000, or 1 percent, during 2020, to an average of $300,500. Price growth slowed significantly from the recent high of 11 percent during the 12 months ending June 2019, as the number of single-family homes permitted increased in 2020.
- The percentage of home loans that were 90 or more days delinquent, in foreclosure, or transitioned into real estate owned (REO) status increased from 1.0 percent in December 2019 to 2.7 percent in December 2020. The increase occurred because the number of mortgages that were 90 or more days delinquent increased by 179 percent from December 2019 to December 2020 as a result of the pandemic.

Homebuilding activity, as measured by the number of homes permitted, increased by 40 homes, or 3 percent, from a year earlier, to 1,425 homes permitted during the 12 months ending January 2021. Since the Great Recession, retirees moving into the metropolitan area have kept homebuilding activity relatively stable, despite slower population growth.

- Homebuilding activity in Fayette County increased by 130 homes, or 14 percent, to 700 homes permitted during the 12 months ending January 2021. That increase accounted for 95 percent of the increase in homes permitted in the metropolitan area during the period compared with a year earlier.

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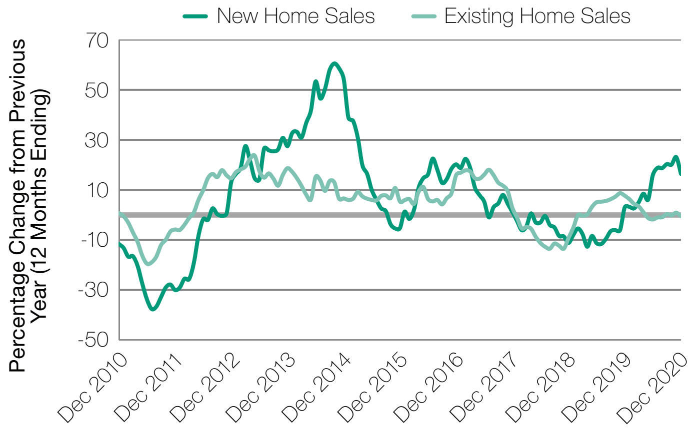
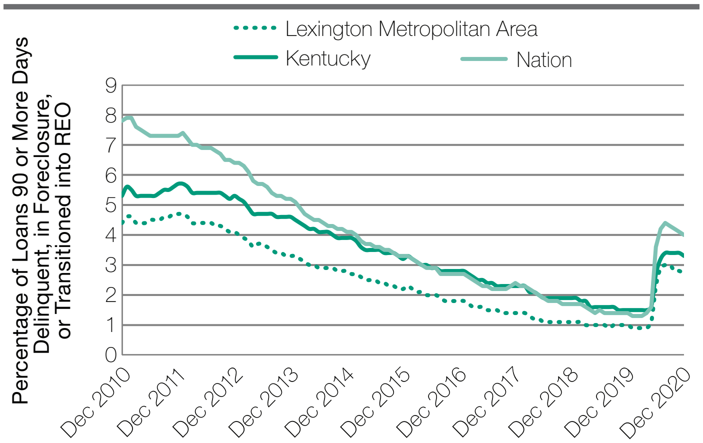
- In Scott County, homebuilding declined by 70 homes, or 18 percent, during the 12 months ending January 2021, to 320 homes. Scott County was the fastest growing area in the metropolitan area from 2012 to 2017, partly because hiring at the Toyota plant encouraged jobseekers to move to the area. The number of homes permitted in the county increased by an average of 13 percent annually from 2012 through 2017, to 425 homes permitted in 2017.
- The Ethington Heights development, currently under construction in the city of Lexington, will include 33 townhomes and 38 single-family homes alongside retail and restaurant space. A short drive from the airport and Keeneland Racecourse, homes at The Brownstones at Ethington Heights will start in the low $300,000s, and units will range from 3,000 to 3,500 square feet.

In the Lexington metropolitan area, existing home sales growth has been flat since the pandemic, whereas new home sales growth has accelerated steadily since mid-2019.



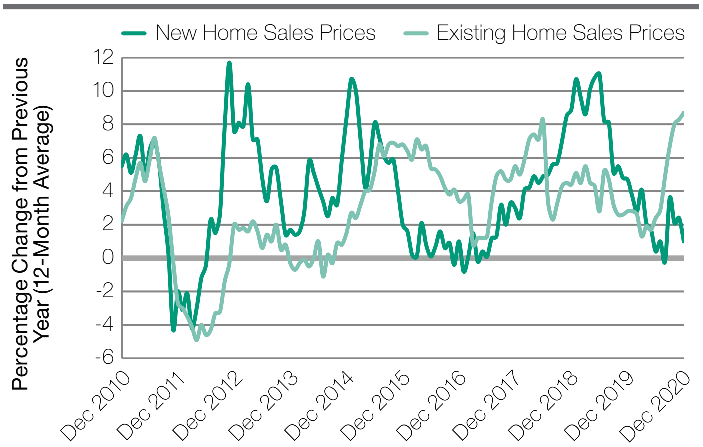
Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc.

In the Lexington metropolitan area, the percentage of mortgages 90 or more days delinquent, in foreclosure, or recently transitioned to REO status has remained below both the state and national averages.



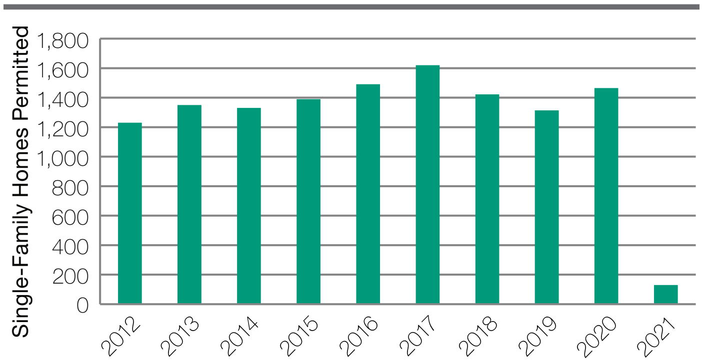
REO = real estate owned.
Source: CoreLogic, Inc.

Existing home sales price growth in the Lexington metropolitan area has accelerated rapidly since May 2020, and new home sales price growth has slowed since mid-2019.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc.

Single-family home permitting in the Lexington metropolitan area slowed along with economic conditions after 2017 but began to increase during 2020.



Note: Includes preliminary data from January 2020 through January 2021.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

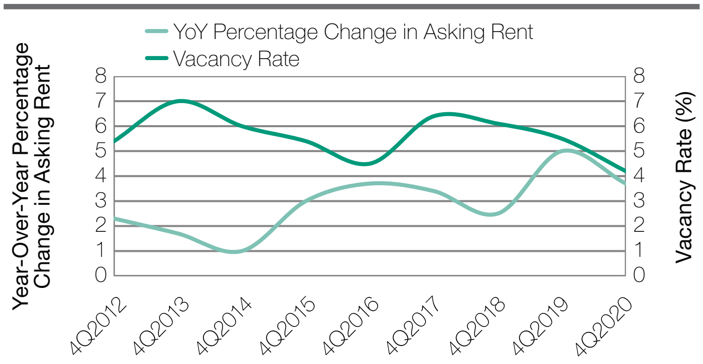
The apartment market in the Lexington metropolitan area is currently balanced. Despite the slowdown in economic activity during 2020, increasing enrollment at UK and the federal moratorium on evictions since the pandemic began have kept vacancy rates from increasing during 2020.

- During the fourth quarter of 2020, the apartment market had an average vacancy rate of 4.2 percent—a decrease from 5.5 percent during the same period a year ago (Moody's Analytics REIS).
- The average vacancy rate increased to 6.4 percent in 2017 due to the increased construction of multifamily units during the year before. The average vacancy rate has been declining since then, despite multifamily permitting being above average for the decade.
- The average apartment rent increased to $859 during the fourth quarter of 2020—an average increase of 4 percent annually from $697 in 2014.
- Student housing at UK has been at full occupancy since new residence halls were completed in 2017, with priority given to incoming freshmen. The lack of available beds on campus led to the median rent paid by students in Fayette County increasing 14 percent, to $1,155, compared with a 5-percent increase for all other renters during 2019 (IPUMS USA ACS 2018 and 2019 1-year data).

Multifamily construction activity, as measured by the number of units permitted, increased from 2014 to 2016, as economic conditions improved and enrollment in UK increased. During that period, multifamily construction activity increased from 300 units permitted in 2013 to 1,250 units permitted in 2016. As job growth, net in-migration, and enrollment at UK declined during 2017, the number of units permitted declined to 710 units. The average apartment vacancy rate also increased, from 4.5 percent in 2016 to 6.4 percent in 2017. Despite job growth and enrollment at UK still in decline, the average apartment vacancy rate declined to 6.1 percent and multifamily construction activity increased to 1,350 units permitted in 2018. Multifamily construction activity slowed again during 2019, to 930 units permitted. Net in-migration slowed further during 2019, but multifamily construction remained above 2017 levels as enrollment at UK began increasing and the average apartment vacancy rate continued to decline.

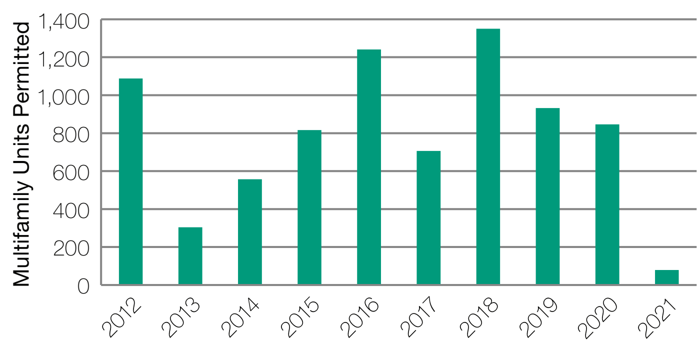
- During the 12 months ending January 2021, 760 units were permitted—a 26-percent decrease from the 12 months ending January 2020. Approximately 81 percent of the units built since 2010 have been in Fayette County.
- UK has invested more than $450 million in 14 new residence halls since 2013, the last of which was completed in 2017. Although some of those residence halls are replacements for older dormitories, the construction includes 6,850 beds and has resulted in every residence hall on campus being less than 15 years old (UK).
- Recently completed properties include the Hub Lexington, a 190-unit complex with a Target department store on the ground floor. The property, completed in 2019, includes two-, three-, and four-bedroom apartments with rents starting at $850, $825, and $725 per bed, respectively.
- South of campus, the Hub Lexington Limestone is a 161-unit apartment complex that was completed in 2020, with retail and restaurant space on the ground floor. Two-, three-, and four-bedroom apartment rents start at $920, $769, and $724 per bed, respectively.

The change in average rent in the Lexington metropolitan area has been positive every year since 2012, and vacancy rates have declined every year since 2017.



4Q = fourth quarter. YoY = year-over-year.
Source: Moody's Analytics REIS

Multifamily permitting in the Lexington metropolitan area slowed slightly during 2020, despite decreasing vacancy rates.



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