

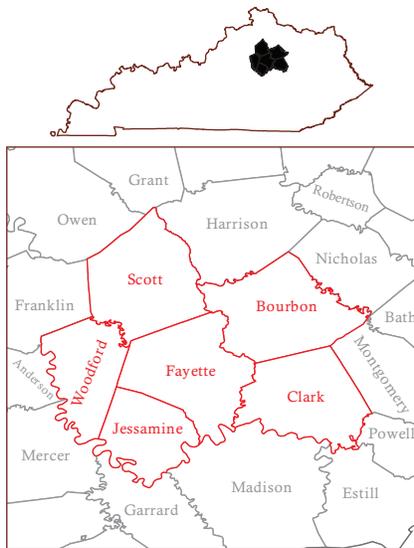


Lexington-Fayette, Kentucky

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2012



Housing Market Area



The Lexington-Fayette Housing Market Area (HMA) consists of Bourbon, Clark, Fayette, Jessamine, Scott, and Woodford Counties in the Bluegrass region of east-central Kentucky, approximately 80 miles south of Cincinnati, Ohio. The area is home to the University of Kentucky (UK) and Toyota Motor Manufacturing, Kentucky (TMMK), Inc.

Summary

Economy

The economy of the Lexington-Fayette HMA is driven by UK, which operates UK HealthCare® (UKHC), and TMMK, which together account for nearly 21,000 jobs. During 2011, average nonfarm payrolls in the HMA increased by 1,300 jobs, or 0.5 percent, to 247,300 jobs compared with the average number of jobs in 2010. During the 3-year forecast period, jobs are expected to grow by 1.7 percent annually, with an estimated 60 percent of gains likely to be in the education and health services and the professional and business services sectors.

Sales Market

The home sales market in the HMA is soft, with an estimated 2.2-percent sales vacancy rate. During the forecast period, demand is expected for 7,725 new homes, including 375 mobile homes. The 400 homes currently under construction (Table 1) and a portion of the estimated 8,500 other vacant units in the HMA will likely satisfy some of the demand.

Rental Market

The rental housing market in the HMA is somewhat soft, with an overall rental vacancy rate estimated at 7 percent, constituting an improvement from the 9.9-percent vacancy rate in April 2010. During the forecast period, demand is estimated for about 1,500 new rental housing units. The 230 units currently under construction will satisfy some of the demand (Table 1).

Table 1. Housing Demand in the Lexington-Fayette HMA, 3-Year Forecast, January 1, 2012 to January 1, 2015

	Lexington-Fayette HMA	
	Sales Units	Rental Units
Total Demand	7,725	1,500
Under Construction	400	230

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2012. A portion of the estimated 8,500 other vacant units in the HMA will likely satisfy some of the forecast demand. Includes an estimated demand for 375 mobile homes.

Source: Estimates by analyst

Market Details

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Economic Conditions

During 2011, average nonfarm payrolls in the Lexington-Fayette HMA increased by 1,300 jobs, or 0.5 percent, to 247,300 jobs compared with the average number of jobs in 2010. Table 2 presents the change in average nonfarm payrolls by sector during the past year. During 2011, employment in the education and health services sector expanded by 1,400 jobs, or 4.4 percent, from 2010 because of the expansions of local hospitals and clinics.

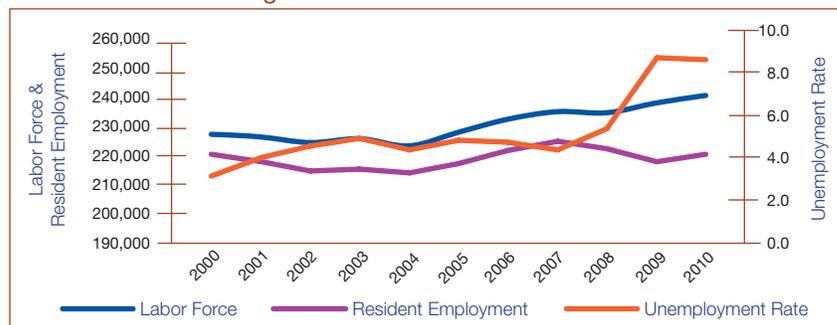
Table 2. 12-Month Average Nonfarm Payroll Jobs in the Lexington-Fayette HMA, by Sector

	12 Months Ending December 2010	12 Months Ending December 2011	Percent Change
Total Nonfarm Payroll Jobs	246,000	247,300	0.5
Goods Producing	39,150	38,100	-2.8
Mining, Logging, & Construction	9,900	9,625	-2.8
Manufacturing	29,250	28,450	-2.8
Service Providing	206,800	209,300	1.2
Wholesale & Retail Trade	36,450	36,400	-0.2
Transportation & Utilities	8,225	8,550	3.8
Information	5,475	5,900	7.8
Financial Activities	9,900	9,900	0.0
Professional & Business Services	29,350	30,450	3.8
Education & Health Services	31,300	32,700	4.4
Leisure & Hospitality	26,350	26,100	-0.9
Other Services	9,650	9,975	3.4
Government	50,100	49,300	-1.6

Notes: Based on 12-month averages through December 2010 and December 2011. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Lexington-Fayette HMA, 2000 Through 2010



Source: U.S. Bureau of Labor Statistics

Employment in the professional and business services sector expanded by 1,100 jobs, or 3.8 percent, from 2010 through 2011 and included about 850 call-center jobs that Xerox Corporation added. The manufacturing sector, which lost 800 jobs, or 2.8 percent, compared with the number of jobs in 2010, led employment declines in the HMA. Declines in the manufacturing sector resulted from reduced production by several firms that supply parts to the TMMK plant. The mining, logging, and construction sector decreased by 275 jobs, or 2.8 percent, compared with the average number of jobs in 2010, because of reduced housing production. During 2011, the average unemployment rate decreased to 8 percent from 8.6 percent during 2010. Figure 1 depicts the labor force, resident employment, and unemployment rate in the HMA since 2000.

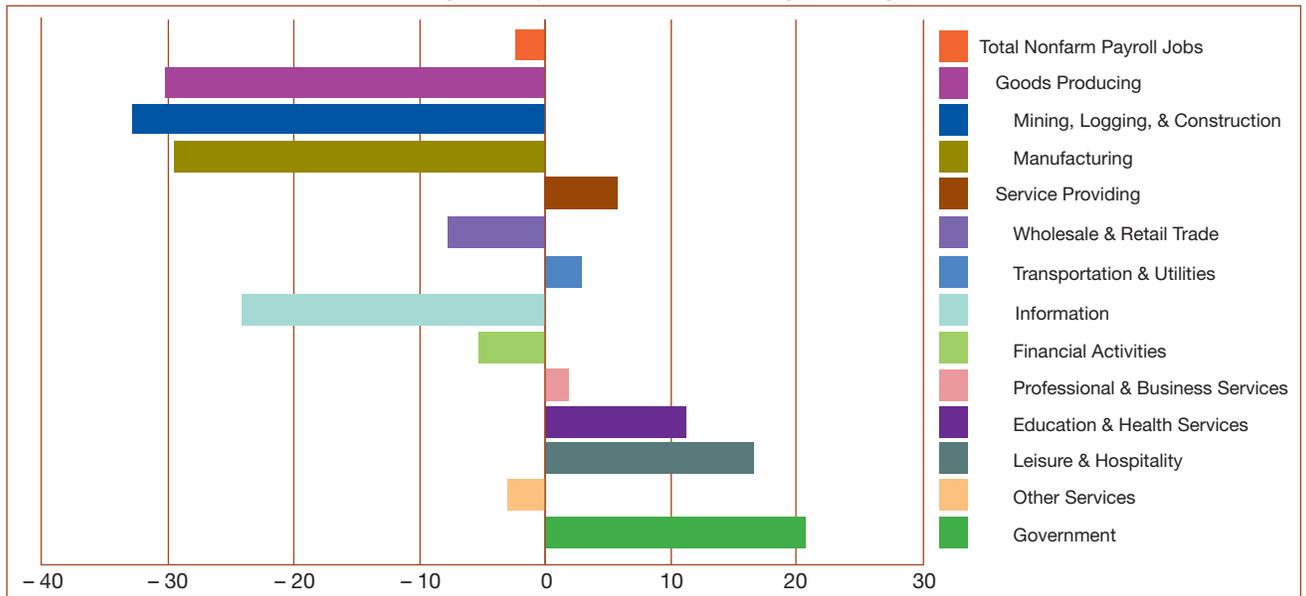
Many of the nonfarm payroll jobs added in the HMA since 2000 were lost during 2008 and 2009, except in the education and health services and the leisure and hospitality sectors. Figure 2 shows the net change in nonfarm payrolls by sector since 2000. Employment has grown in the education and health services sector because many specialized clinics and health services businesses have opened in the HMA since 2000 because of the proximity to UK and UKHC.

Increases in state government subsector employment, including UK and UKHC, and in leisure and hospitality sector employment—which added 3,800 jobs from 2005 to 2007—largely drove employment gains from 2005 to 2006. Since 2000, growth in the state government subsector employment has averaged about 350 jobs, or 1.6 percent, each year.

The employers with the largest effect on the economy in the HMA are UK and TMMK. Table 3 lists other large employers in the HMA. UK, located in Lexington, is a public university that enrolls about 27,000 students, employs 12,800 workers, and has an annual budget of \$2.7 billion. Enrollment at UK has increased by approximately 3 percent each year since 2000 and is expected to continue increasing, reaching about 29,500 by 2015. In 2008, UK began expanding

its on-campus research and UKHC facilities and built the 735-acre Coldstream Research Campus to attract biotechnology and pharmaceutical research and development companies to the Lexington HMA. The state government subsector represents about 11 percent of total nonfarm payroll jobs in the HMA. Figure 3 depicts the composition of nonfarm payrolls by sector in the HMA during 2011. The UKHC organization, which operates under UK, includes

Figure 2. Sector Growth in the Lexington-Fayette HMA, Percentage Change, 2000 to Current



Note: Current is based on 12-month averages through December 2011.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Lexington-Fayette HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of Kentucky	Government	12,800
Toyota Motor Manufacturing, Kentucky, Inc.	Manufacturing	7,900
Baptist Healthcare System	Education & Health Services	2,500
Saint Joseph Health System	Education & Health Services	2,300
Xerox Corporation	Information	2,100
Wal-Mart Stores, Inc.	Wholesale & Retail Trade	2,000
Lockheed Martin Corporation	Manufacturing	1,750
The Kroger Co.	Wholesale & Retail Trade	1,700
Lexington Veterans Affairs Medical Center	Government	1,500
Lexington Clinic	Education & Health Services	1,300

Note: Excludes local school districts.

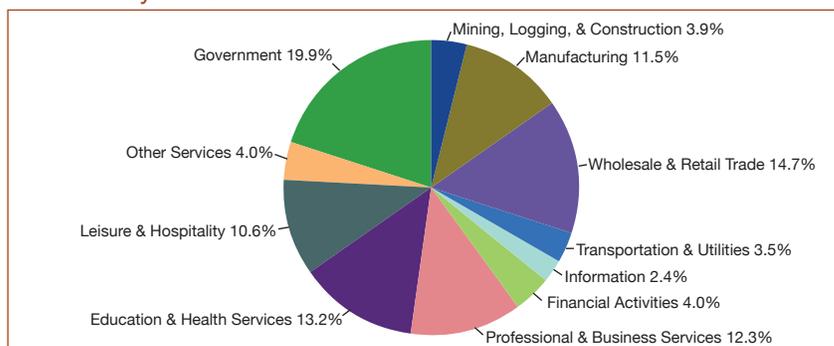
Sources: Commerce Lexington; Kentucky Business & Industry Information Systems; estimates by analyst

Kentucky Children's Hospital, UK Chandler Hospital, and UK Good Samaritan Hospital within the HMA. Statewide, UKHC operates 80 specialized clinics, oversees more than 140 outreach programs, and employs about 6,000 healthcare workers.

The TMMK factory in Georgetown, in Scott County, employs about 10,000 people, including about 7,900 TMMK employees and 2,000 to 3,000 employed by temporary staffing agencies. Although the major earthquake and tsunami in Japan in March 2011 caused interruptions in Toyota Motor Corporation's supply chain, resulting in a reduction of vehicle production at the factory, TMMK did not furlough any employees. About 25 percent of TMMK's U.S. suppliers are located in Kentucky. Employment in the manufacturing sector in the HMA decreased from 2010 to 2011 because TMMK reduced orders for parts while the plant was idle. The TMMK factory returned to full production in September 2011 and added about 250 new employees to compensate for reduced output after the earthquake and tsunami.

Nonfarm payrolls are expected to grow by about 1.7 percent annually through the forecast period. In 2010, Central Baptist Hospital in Lexington began a \$200 million expansion, scheduled for completion by 2013, but has not announced how many new jobs the expansion will create. In 2010, Bluegrass Community and Technical College broke ground on its Newtown Campus, located on the former site of the Eastern State Hospital. The first building encompasses 90,000 square feet of classroom space, and classes at the new facility will begin in January 2013; the number of new jobs created is unknown. The \$500 million, 48-acre campus will include up to 17 buildings and is expected to be complete by 2030. Construction also began in 2010 on the Kentucky-Argonne National Battery Manufacturing Research and Development Center, which will develop advanced battery technologies for many applications, including the auto industry, and is funded in part by an \$11.8 million federal stimulus grant. The manufacturing of battery cells and modules is expected to begin by 2013, but the number of new jobs that will be created is unknown. The UK Coldstream Research Campus currently includes about 1,000 employees of several companies; by the end of 2012, however, that number is expected to increase to 2,200, because several companies have announced plans to locate facilities there. Current construction on the Coldstream Research Campus includes the new \$129 million, 239-bed Eastern State Hospital that is scheduled to be complete by late 2012.

Figure 3. Current Nonfarm Payroll Jobs in the Lexington-Fayette HMA, by Sector



Note: Based on 12-month averages through December 2011.

Source: U.S. Bureau of Labor Statistics

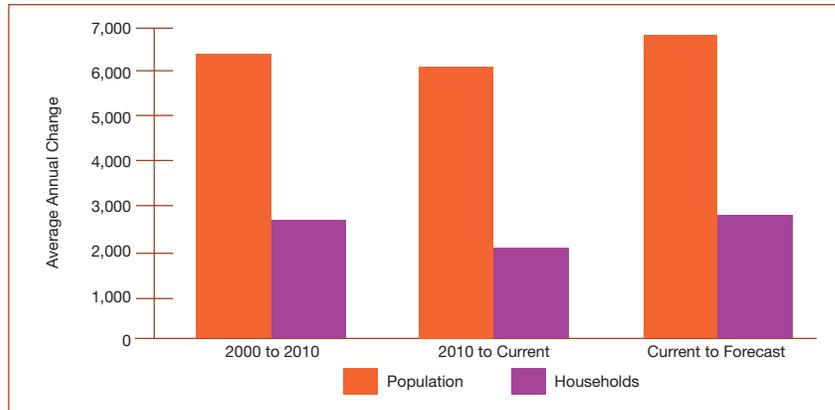
Population and Households

As of January 1, 2012, the Lexington-Fayette HMA had an estimated population of 482,800 and an estimated 193,800 households. Figure 4 shows population and household

growth in the HMA from 2000 through the forecast period. From 2000 to 2010, both population and the number of households in the HMA increased annually by an average of about 1.5 percent. Annual population growth in the HMA remained consistent from year to year, except for the 2005-to-2006 period, when the population grew by 2 percent, or 8,750, coinciding with a robust period of average nonfarm payroll growth of about 1.6 percent, or 4,000 jobs.

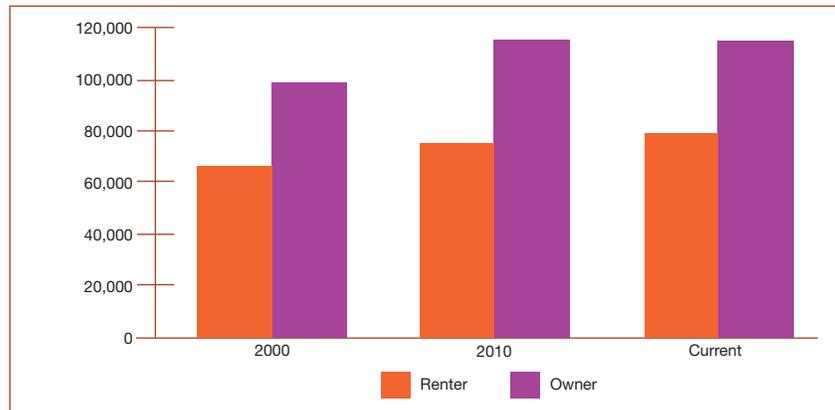
Since 2010, the population has grown by about 1.3 percent annually, or 6,125, and the number of households has grown by 1.1 percent annually, or 2,100 households. Through the forecast period, both the population and the number of households are expected to grow at an average rate of about 1.4 percent annually, with the population reaching 503,200 and the number of households increasing to 202,000. Employment growth and enrollment at local institutions of higher education are expected to drive population growth. About 58 percent of the new households formed are expected to be owner households, slightly less than the current 59-percent estimated homeownership rate. Figure 5 shows the number of households by tenure in the HMA from 2000 to the current date, Figure 6 depicts the components of population change from 2000 through the forecast period, and Table DP-1 (at the end of this report) provides details on population and households from 2000 to the current date. Since 2000, about 55 percent of population growth has been attributed to net in-migration driven by job growth in the HMA.

Figure 4. Population and Household Growth in the Lexington-Fayette HMA, 2000 to Forecast



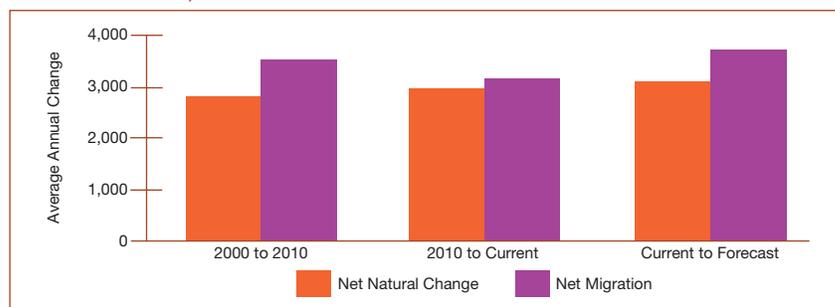
Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Number of Households by Tenure in the Lexington-Fayette HMA, 2000 to Current



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

Figure 6. Components of Population Change in the Lexington-Fayette HMA, 2000 to Forecast



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

Housing Market Trends

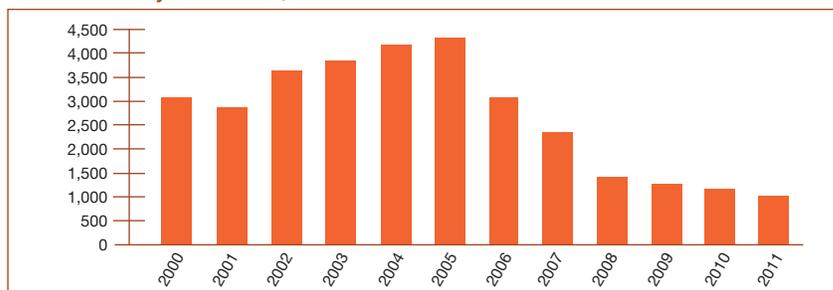
Sales Market

The sales housing market in the Lexington-Fayette HMA is soft, with a current estimated sales vacancy rate of 2.2 percent compared with a 2.8-percent rate in April 2010. According to the Lexington-Bluegrass Association of REALTORS®, during 2011, about 6,650 new and existing single-family homes sold, a 1-percent decline from 2010. The median price of a home sold in 2011 was \$137,900, a 3-percent decrease from 2010. About 475 condominiums and townhomes sold, a 14-percent decrease from 2010. The median price of a condominium or townhome sold during 2011 decreased 1 percent from 2010, to \$118,000. Condominiums and townhomes represent a decreasing share of the sales market in the HMA; about 7 percent of housing units sold during 2011 were condominiums or townhomes compared with 8 percent during 2010. During the past 3 years, in the HMA, new condominium and townhome developments represented less than 10 percent of all multifamily units permitted compared with an estimated 25 percent in 2008. Foreclosures have not significantly affected the HMA. According to LPS Applied Analytics, in December 2011, the percentage of loans 90 or more days

delinquent, in foreclosure, or in REO (Real Estate Owned) in the HMA decreased to 4.9 percent of all loans recorded compared with 5 percent in December 2010.

Homebuilding activity in the area has decreased in response to decreased home sales activity. Based on preliminary data, during 2011, the number of building permits issued for single-family homes in the HMA decreased by 16 percent, to about 1,000 homes permitted compared with the number of homes permitted in 2010 (Figure 7). Single-family construction activity peaked during 2005, when 4,300 single-family homes were permitted. An average of 2,000 single-family homes was permitted each year from 2006 through 2009. Single-family homebuilding activity in Fayette County, in the center of the HMA, is limited by an urban services boundary beyond which water and sewer services do not extend, the minimum lot size for a new home is 40 acres, and zoning is primarily for agriculture. The Planning Commission of the Lexington-Fayette Urban County Government voted not to expand the urban services boundary in its 2012 comprehensive 5-year land use plan. Lexington city officials estimate about 4,500 acres are available within the boundary and designated for residential use. According to local home builders, the land within the urban services boundary can cost up to 40 percent more than comparable land in other counties. New market-rate housing in the HMA includes The Reserve at Bryant Oak in east Lexington, in Fayette County, which has developed about one-half of the

Figure 7. Single-Family Building Permits Issued in the Lexington-Fayette HMA, 2000 to 2011



Notes: Includes townhomes. Includes data through December 2011.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

160 available lots, with prices starting at \$179,900, but has announced no completion date on the rest. In 2009, the Lexington Housing Authority (LHA) partnered with the Home Builders Association of Lexington to develop 102 affordable single-family homes at Equestrian View in central Lexington, on the former site of the Bluegrass-Aspendale public housing development. Lots at Equestrian View were sold to home builders, who will develop new homes for qualified households; prices will start at \$105,800. About 80 homes

have been built and the subdivision is expected to be complete by the end of 2013.

During the next 3 years, demand is estimated for approximately 7,350 new homes and 375 mobile homes throughout the HMA (Table 1). Demand is expected to be strongest during the second and third years of the forecast period, with 1,900 units needed in the first year, 2,700 in the second year, and 2,750 in the third year. Table 4 shows an estimated distribution of new market-rate sales demand by price range.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Lexington-Fayette HMA, January 1, 2012 to January 1, 2015

Price Range (\$)		Units of Demand	Percent of Total
From	To		
100,000	139,999	1,700	23.0
140,000	179,999	1,700	23.0
180,000	249,999	2,425	33.0
250,000	299,999	880	12.0
300,000	499,999	510	7.0
500,000	and higher	150	2.0

Notes: The 400 homes currently under construction and a portion of the estimated 8,500 other vacant units in the HMA will likely satisfy some of the forecast demand. Excludes mobile homes.

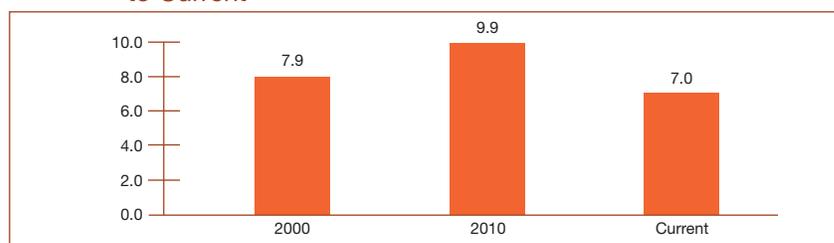
Source: Estimates by analyst

Rental Market

Rental housing market conditions in the Lexington-Fayette HMA are somewhat soft, but improving, because a portion of the vacant inventory has been absorbed and multifamily building activity has remained low during the past 2 years.

Figure 8 shows that the overall rental market vacancy rate has decreased to an estimated 7.0 percent from 9.9 percent in April 2010. The overall rental market includes all units offered for rent, including single-family homes, condominiums, and townhomes, which collectively make up about one-half of the rental market in the HMA, according to the 2006 to 2010 American Community Survey 5-year estimates. According to MPF Research, during the fourth quarter of 2011, the apartment vacancy rate was 5.2 percent compared with 7 percent during the fourth quarter of 2010. The average apartment rent during

Figure 8. Rental Vacancy Rates in the Lexington-Fayette HMA, 2000 to Current



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

Housing Market Trends

Rental Market *Continued*

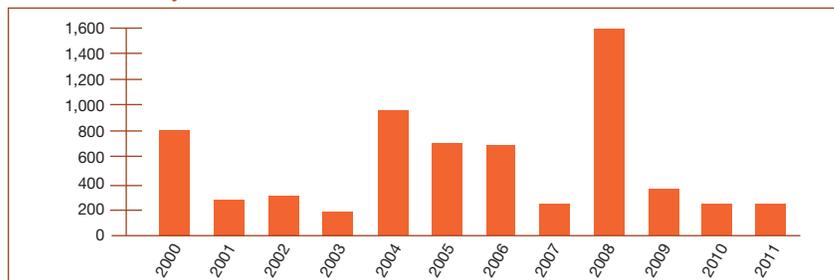
the fourth quarter of 2011 increased by about 2 percent, to \$717, compared with the average apartment rent in the fourth quarter of 2010. Average apartment rents for one-, two-, and three-bedroom units during the fourth quarter of 2011 were \$608, \$738, and \$1,129, respectively.

The 22,000 UK students who reside off campus significantly affect the local rental market. UK estimates that about 15,000 undergraduate students live off campus or commute. In the Downtown/University submarket, as defined by MPF Research, in the fourth quarter of 2011, average apartment rents were \$779, a 10-percent increase from the fourth quarter of 2010. The apartment vacancy rate for the Downtown/University submarket was 6.1 percent, unchanged from the fourth quarter of 2010. Many students occupy single-family rental homes and single-family homes that have been converted to multiroom rental properties in neighborhoods surrounding UK. In 2010, in response to residents' concerns about safety and congestion in neighborhoods near UK, the Lexington-Fayette Urban County Council enacted a moratorium on permits to remodel existing single-family homes near UK into multiroom rental units.

In November 2011, UK announced plans to convert the 86-unit University Lofts Apartments from student housing to classroom space for the fine arts in 2013. UK's student housing consists of about 5,200 dormitory beds in buildings with an average age of 44 years and nearly 800 student apartments with an average age of 48 years. In December 2011, UK selected Education Realty Trust (EdR) to operate its existing student housing and, over the next 10 years, create plans to replace the 6,000 existing beds and student apartments and develop about 3,000 new beds, for a total of 9,000 beds. In April 2012, EdR will begin construction of a new 600-bed, on-campus dormitory that will be complete by August 2013.

Multifamily building activity in the HMA decreased during the past 2 years as builders curtailed construction in response to the softer rental market conditions. Building permits were issued for about 225 multifamily units during 2011, relatively unchanged from 2010. Figure 9, however, shows that, during 2008, about 1,600 multifamily units were permitted compared with an average of about 475 units permitted each year from 2001 to 2007. In 2008, about 1,000 multifamily units, or 66 percent of those permitted, were student apartments, many leased by the room. Since 2009, nearly all multifamily units permitted have been apartments built for general renter occupancy. Recent completions include the 360-unit, market-rate Forty 57 at Glasford apartments, located in southern Lexington, which has one-, two-, and three-bedroom units renting for \$749, \$869, and \$1,012, respectively. The LHA recently completed 92 affordable multifamily units in central Lexington.

Figure 9. Multifamily Building Permits Issued in the Lexington-Fayette HMA, 2000 to 2011



Notes: Excludes townhomes. Includes data through December 2011.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Housing Market Trends

Rental Market *Continued*

During the forecast period, demand is estimated for about 1,500 new rental housing units (Table 1). Currently, 230 units are under construction.

Table 5 provides an estimated distribution of new market-rate rental demand by price range.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Lexington-Fayette HMA, January 1, 2012 to January 1, 2015

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
700 or more	290	850 to 1,049	740	1,000 to 1,199	380
		1,050 or more	65	1,200 or more	25
Total	280	Total	810	Total	400

Notes: The 230 units currently under construction will satisfy some of the estimated demand. Numbers may not add to totals because of rounding.

Source: Estimates by analyst

Data Profile

Table DP-1. Lexington-Fayette HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total Resident Employment	221,062	221,129	225,200	0.0	1.8
Unemployment Rate (%)	3.1	8.6	8.0		
Nonfarm Payroll Jobs	253,100	246,000	247,300	- 0.3	0.5
Total Population	408,326	472,099	482,800	1.5	1.3
Total Households	163,854	190,142	193,800	1.5	1.1
Owner Households	98,054	114,660	115,000	1.6	0.2
Percent Owner (%)	59.8	60.3	59.3		
Renter Households	65,800	75,482	78,800	1.4	2.5
Percent Renter (%)	40.2	39.7	40.7		
Total Housing Units	175,262	209,138	210,800	1.8	0.5
Owner Vacancy Rate (%)	1.3	2.8	2.2		
Rental Vacancy Rate (%)	7.9	9.9	7.0		
Median Family Income	\$48,800	\$65,000	\$65,500	2.9	0.8

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through December 2011. Median family incomes are for 1999, 2009, and 2010.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census

2010: 4/1/2010—U.S. Decennial Census

Current date: 1/1/2012—Analyst's estimates

Forecast period: 1/1/2012–1/1/2015—Analyst's estimates

Demand: 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.

Other Vacant Units: In HUD's analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all 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.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_LexingtonFayetteKY_12.pdf.

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (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.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. 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.

For additional reports on other market areas, please go to
www.huduser.org/publications/econdev/mkt_analysis.html.