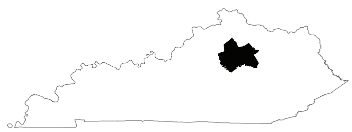
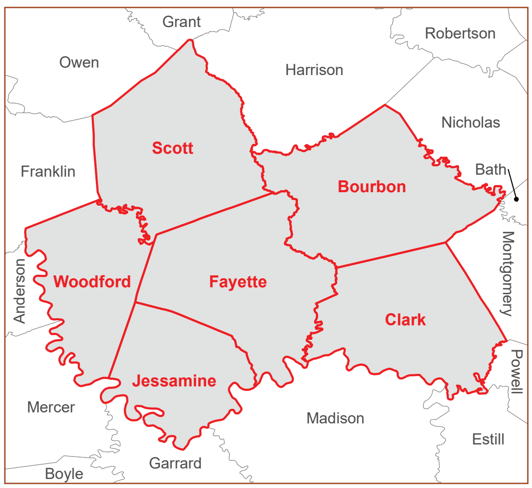
C O M P R E H E N S I V E   H O U S I N G   M A R K E T   A N A L Y S I S

Lexington-Fayette, Kentucky

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of September 1, 2018





Housing Market Area

The Lexington-Fayette Housing Market Area (hereafter, Lexington HMA) is coterminous with the Lexington-Fayette, KY Metropolitan Statistical Area and consists of Bourbon, Clark, Fayette, Jessamine, Scott, and Woodford Counties. The HMA, situated in east-central Kentucky among rolling hills and lush scenery, is best known as the Horse Capital of the World. It is also the beginning of the Bourbon Trail and home to the University of Kentucky.

Summary

Economy

The economy of the Lexington HMA has grown steadily since 2010, with nonfarm payroll increases averaging 4,400 jobs, or 1.7 percent, a year. During the 12 months ending August 2018, nonfarm payrolls increased by 2,100 jobs, or 0.8 percent, to 279,800. During the 3-year forecast period, nonfarm payrolls are expected to increase an average of 1.0 percent annually. Table DP-1 at the end of this report provides additional employment data.

Sales Market

The sales housing market in the Lexington HMA is currently balanced with an estimated vacancy rate of 1.6 percent, down from 2.8 percent in April 2010. New and existing home sales totaled 10,850 during the 12 months ending July 2018, down 890, or 8 percent, from the previous 12 months. During the forecast period, demand is estimated for 4,900 new homes (Table 1). The 750 homes currently under construction in the HMA will satisfy some of the demand.

Table 1. Housing Demand in the Lexington-Fayette HMA During the Forecast Period

	Lexington-Fayette HMA	
	Sales Units	Rental Units
Total Demand	4,900	2,825
Under Construction	750	710

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

Source: Estimates by analyst

Market Details

Rental Market

The rental housing market (including single-family homes, mobile homes, and apartments) in the Lexington HMA is currently balanced, with an overall estimated rental vacancy rate of 6.4 percent, down from 9.9 percent in April 2010. The apartment market is also balanced, with a vacancy rate of 6.4 percent, during the second quarter of 2018, up from 5.0 percent a year earlier (Reis, Inc.). During the forecast period, demand is estimated for 2,825 new market-rate rental units (Table 1). The 710 units currently under construction will meet a portion of that demand.

Economic Conditions

The Lexington HMA is known as the center of horse breeding and horse racing in Kentucky and the beginning of the Bourbon Trail, a tour featuring several signature distilleries with a 200-year history of making bourbon, Kentucky's ninth largest export (Commerce Lexington). The local economy is anchored by the government, wholesale and retail trade, and professional and business services sectors. These three sectors combined account for almost one-half of all jobs in the HMA. During the 12 months ending August 2018, nonfarm payrolls increased by 2,100 jobs, or 0.8 percent, to 279,800 (Table 2) compared with an increase of 3,600 jobs, or 1.3 percent, during the 12 months ending August 2017. The information and professional and business services sectors each declined by 200 jobs, the only payroll sectors in the HMA to lose jobs during the most recent 12 months. The economy of the Lexington HMA has grown steadily since 2010, with nonfarm payroll increases averaging 4,400 jobs, or 1.7 percent, a year. The unemployment rate in the HMA averaged 3.4 percent during the 12 months ending August 2018, down from 3.9 percent a year earlier and a recent high of 8.4 percent in 2009 (Figure 1).

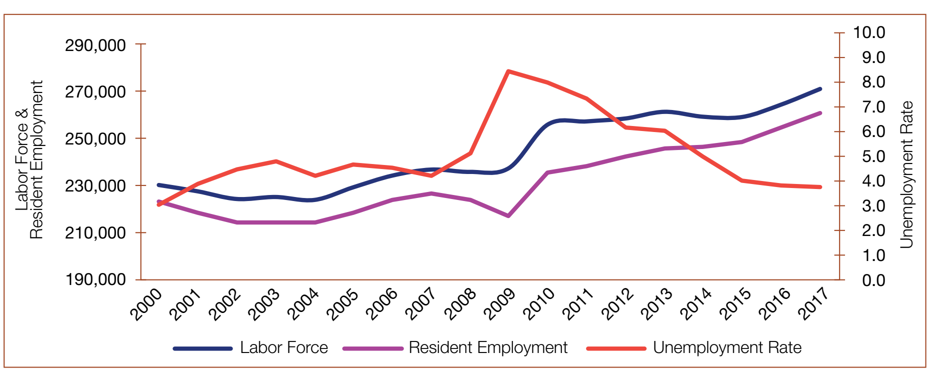
Following a dip in the economy due to the national recession in the early 2000s, the Lexington HMA, along with most of the nation, had a period of economic

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

	12 Months Ending		Absolute Change	Percent Change
	August 2017	August 2018		
Total Nonfarm Payroll Jobs	277,700	279,800	2,100	0.8
Goods-Producing Sectors	44,400	45,000	600	1.4
Mining, Logging, & Construction	13,500	13,900	400	3.0
Manufacturing	30,900	31,000	100	0.3
Service-Providing Sectors	233,300	234,900	1,600	0.7
Wholesale & Retail Trade	39,900	40,200	300	0.8
Transportation & Utilities	11,900	12,600	700	5.9
Information	2,900	2,700	– 200	– 6.9
Financial Activities	9,700	9,900	200	2.1
Professional & Business Services	40,000	39,800	– 200	– 0.5
Education & Health Services	35,700	35,700	0	0.0
Leisure & Hospitality	31,600	31,700	100	0.3
Other Services	9,500	9,600	100	1.1
Government	52,000	52,700	700	1.3

Notes: Based on 12-month averages through August 2017 and August 2018. 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 2017



Source: U.S. Bureau of Labor Statistics

growth. From 2004 through 2007, nonfarm payrolls in the HMA increased by an average of 3,700 jobs, or 1.5 percent, annually. Payroll growth during this period was widespread with most sectors adding jobs. During this period, the professional and business services sector led growth, with an average increase of 1,200 jobs, or 4.3 percent, annually, accounting for more than 32 percent of all job growth. The second largest growth sector during this period was the government sector, which increased by an average of 1,100 jobs, or 2.6 percent, annually. The two largest employers in the area, the University of Kentucky and the Kentucky State Government, with 12,800 and 11,210 employees, respectively, are in this sector (Table 3). The leisure and hospitality sector grew by an average of 700 jobs, or 2.7 percent, annually, in part, because Heaven Hill Distillery opened a Bourbon Heritage Center in 2004 that offered specialty tours and events throughout the year. The information and education and health service sectors were the only two sectors to decline during this period, falling by respective averages of 300 and 100 jobs, or 4.2 and 0.2 percent, annually.

Because of the national recession and housing crisis, nonfarm payrolls decreased by an average of 6,800 jobs, or 2.7 percent annually from 2008 through 2009 to a recent low of 241,300. Most sectors lost jobs during this period, with the highest job losses in the manufacturing sector, which fell by an average of 2,200 jobs, or 6.4 percent, annually. In 2009, Komatsu, a manufacturer of construction and mining equipment, announced it was closing its plant in the Lexington HMA, which had approximately 120 employees. The professional and business services sector, which was the fastest growing sector prior to the decline, lost an average of 1,400 jobs, or 4.5 percent, a year. The wholesale and retail trade sector declined by an average of 1,300 jobs, or 3.2 percent, annually. In 2008, Dillard's closed its store at the Turfland Mall, laying off more than 120 employees. During this time of economic downturn, the unemployment rate increased to a peak of 8.4 percent in 2009.

In 2010, the local economy stabilized and began to recover, and through 2016, nonfarm payrolls rose an average of 4,800 jobs, or 1.9 percent, annually. Growth was widespread with only the information sector losing jobs. In 2012, Lexmark International Inc., a global leader in imaging and output technologies, announced it was reducing its workforce in the HMA by 350 jobs. From 2010 through 2016, the professional and business service sector added the most jobs with an average increase of 1,500 jobs, or 4.6 percent, annually, in part, because Toyota Motor Manufacturing North added approximately 300 jobs in engineering and research and development to the HMA. In addition, the leisure and hospitality sector grew largely because of the increased

Table 3. Major Employers in the Lexington-Fayette HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of Kentucky	Education & Health Services	12,800
Kentucky State Government	Government	11,210
Toyota Motor Manufacturing	Manufacturing	10,019
Lexington-Fayette Urban County Government	Government	2,945
Amazon.com	Wholesale & Retail Trade	2,500
Conduent	Professional & Business Services	2,500
Veterans Medical Center	Education & Health Services	2,086
Baptist Health	Education & Health Services	1,852
KentuckyOne Health	Education & Health Services	1,847
Lexmark International, Inc.	Manufacturing	1,500

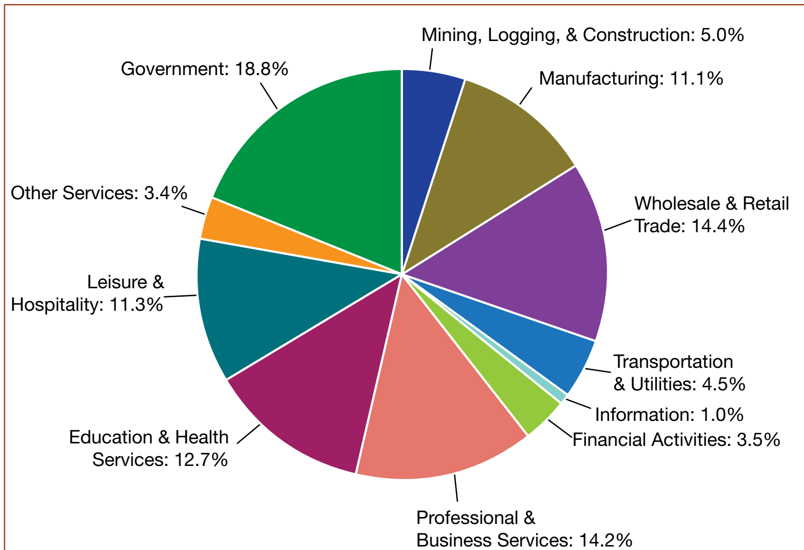
Note: Excludes local school districts.
Source: The Greater Lexington Chamber of Commerce, Inc.

popularity of the bourbon distilleries, the popularity of University of Kentucky basketball, and, in 2015, the hosting of the Breeders Cup by Keenland racetrack, which brought horses and people from around the world to the HMA. The sector rose by an average of 700 jobs, or 2.4 percent, annually. In response to strong economic growth, the unemployment rate in the HMA declined to 3.8 percent by 2016.

During the 12 months ending August 2018, the transportation and utilities sector was tied with the government sector for most job growth in the HMA, expanding to 12,600 jobs, an increase of 700 jobs, or 5.9 percent. This increase followed a gain of 200 jobs, or 1.8 percent, during the previous 12 months. The sector is one of the smaller sectors in the HMA but has been growing and adding jobs since 2009. During the past year, Amazon.com, one of the top ten employers in the HMA with 2,500 jobs, added a fulfillment center in Fayette County, which added approximately 600 jobs. The Lexington HMA is within a 600-mile radius of most of the nation's manufacturing employment, retail sales, and population (Commerce Lexington). Two major interstates in the HMA provide an excellent transportation network: I-75, a major north-south corridor, and I-64, a major east-west connector.

The government sector tied the transportation and utilities sector for the largest number of jobs added in the HMA during the past 12 months. During the 12 months ending August 2018, this sector expanded to 52,700 jobs, an increase of 700 jobs, or 1.3 percent. This increase followed a gain of 800 jobs, or 1.6 percent, during the previous 12 months. The sector is the largest payroll sector in the HMA, accounting for 18.8 percent of nonfarm jobs (Figure 2). Payroll growth in the government sector has been relatively constant since 2004, increasing in all but 1 year; the sector is currently 32 percent higher than the recent low of 40,000 jobs in 2004. Three of the four largest employers in the HMA are in the government sector, including the University

Figure 2. Current Nonfarm Payroll Jobs in the Lexington-Fayette HMA, by Sector



Notes: Based on 12-month averages through August 2018. Numbers may not add to 100 percent due to rounding.

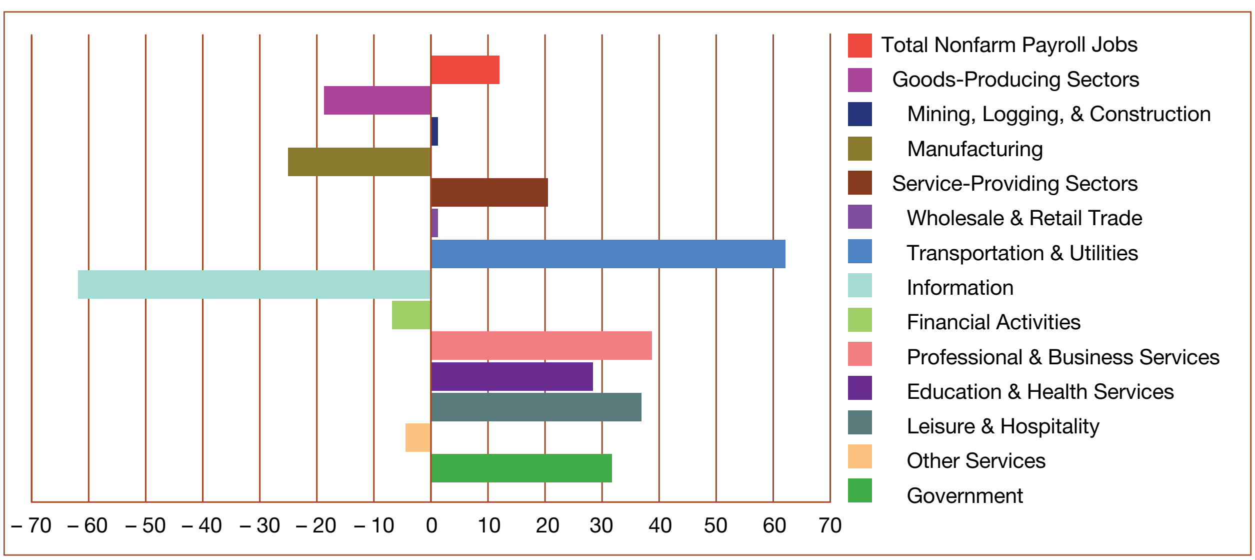
Source: U.S. Bureau of Labor Statistics

of Kentucky, which is the largest employer. Enrollment at the university has increased nearly 1.5 percent annually since 2000 to 30,500 students in 2017. Currently, the annual economic impact of the University of Kentucky on the state of Kentucky is estimated at $2.7 billion (University of Kentucky). Figure 3 shows nonfarm payroll changes by sector from 2000 to current.

The mining, logging, and construction sector added the third largest number of jobs during the 12 months ending August 2018. The sector increased by 400 jobs, or 3.0 percent, to 13,900, the highest level since 2001. The increase followed a gain of 800 jobs, or 6.2 percent, from a year earlier. Payrolls in this sector have benefitted from increased building activity of single-family homes, apartments, and hotels, including the TownePlace Suites Lexington Keeneland/Airport, a 95-room hotel that opened in the first quarter of 2018. Despite recent gains, payrolls in the goods-producing sectors, which includes the mining, logging, and construction and the manufacturing sectors, are nearly 25 percent below the level in 2000. In 2011, Trim Masters, Inc, a manufacturer of automotive interior trim and components, announced it was laying off 134 employees. Since 2012, the manufacturing sector has stabilized and started to slowly add jobs. In 2018, Zelios, a manufacturer of hemp oil extract, announced an expansion that will add 44 jobs.

The economic outlook for the HMA is positive. During the 3-year forecast period, the economy is expected to have modest growth, with nonfarm payrolls increasing an average of 1.0 percent annually. The manufacturing and professional and business service sectors are expected to continue to strengthen during the forecast period. Toyota Motor Manufacturing is expected to contribute to the growth during the forecast period. In 2017, the company invested $1.3 billion in a new facility to allow it to begin producing vehicles using Toyota's New Global Architecture, making it the first facility to have this capability in North America. The number of jobs to be created by this investment

Figure 3. Sector Growth in the Lexington-Fayette HMA, Percentage Change, 2000 to Current



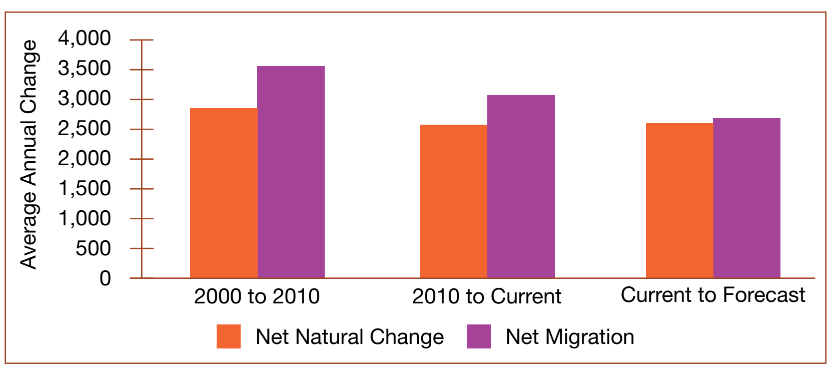
Note: Current is based on 12-month averages through August 2018.
Source: U.S. Bureau of Labor Statistics

has not been announced yet. In Fayette County, sunroof and roof systems manufacturer Webasto Roof Systems is expanding its current facility and adding a new production line. The $15 million expansion is expected to create an additional 180 new positions. In 2018, AgTech Scientific, LLC, a manufacturer of industrial hemp products, announced plans to move its existing facility to Bourbon County, which will result in the creation of more than 270 new jobs in the next 3 years. In 2017, Alltech, Inc. announced a $21 million expansion of its corporate headquarters, which is expected to create 100 new positions. In the same year, Enerblu, Inc., a high-power technology company focused on innovative new energy solutions for utility, military, transport, and commercial applications, announced it was moving its headquarters and research and development facility to the HMA, building a $5 million facility and adding an additional 110 research-and-development and professional positions. The facility is expected to open in 2019. The University of Kentucky is expected to open a new 300,000-square-foot biomedical research facility in the fall of 2018 and employ 500 scientists, private researchers, and university students.

Population and Households

The current population of the Lexington HMA is estimated at 519,400 as of September 1, 2018, reflecting an average annual increase of 5,625, or 1.1 percent, since 2010. By comparison, the population grew by an average of 6,375, or 1.5 percent, annually from 2000 to 2010. Average annual net in-migration of 3,550 people during the 2000s and of 3,050 people from 2010 to the current date accounted for 55 percent of the population increase during both decades (Figure 4). Fayette County, which includes the city of Lexington, currently has a total population of 322,000, or nearly 63 percent of the total population in the HMA. Jessamine and Scott Counties, the next two largest counties, account for just over 21 percent. The remaining three counties of Bourbon, Clark, and Woodford account for the

Figure 4. Components of Population Change in the Lexington-Fayette HMA, 2000 to Forecast



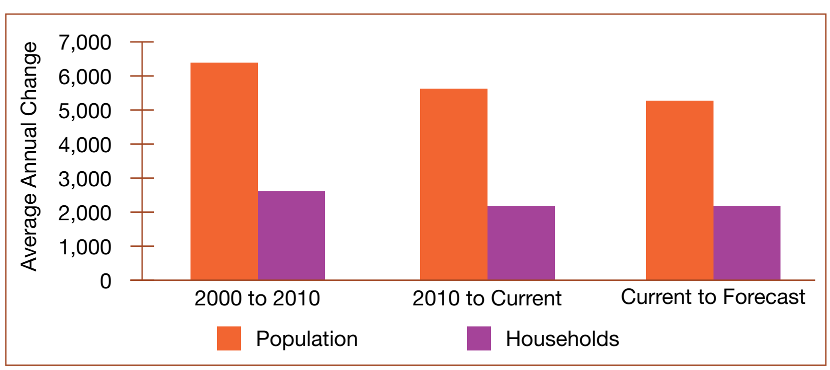
Notes: The current date is September 1, 2018. The forecast date is September 1, 2021.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

remaining 16 percent of the total HMA population. Figure 5 shows population and household growth in the HMA from 2000 to the forecast date.

From 2000 to 2002, payrolls in the Lexington HMA declined, and only the government and education and health services sectors had modest gains. During this period, the population increased by an average of 4,250, or 1.0 percent, annually, with net in-migration averaging 1,825 people a year. From 2002 to 2009, during the national housing boom, and despite job declines that began in 2008, the HMA had its highest period of population growth since 2000. As a result, population gains in the HMA during this period averaged 6,975 people, or 1.6 percent, annually, with net migration averaging 4,050 people a year. The economic downturn along with the national housing crisis slowed population growth in the HMA. Following the downturn, jobs increased slowly but did not reach the previous pre-recessionary high of 2007 until 2013, resulting in lower population growth in the HMA. From 2009 to 2014, population growth slowed to 5,350 people, or 1.1 percent a year, and net in-migration fell to an average of 2,650 annually. The economic downturn slowed net in-migration, but not to the levels in the early 2000s because the Lexington HMA has a diversified employment base and because of the stability provided by employment in the government sector. In response to improving economic conditions, net migration to the HMA has risen to an average of 3,600 a year since 2014, and population growth has increased to an average of 6,075, or 1.2 percent, annually. During the next 3 years, the population of the Lexington HMA is expected to grow by an average of 5,275, or 1.0 percent, annually.

Household growth in the HMA has followed a similar pattern to population growth, with higher rates in the early-to-mid 2000s that slowed in the late 2000s. The current number of households in the HMA is estimated at 208,500, an average increase of 2,175, or 1.1 percent, annually since 2010. By comparison, from 2000 to 2010, the number of households increased from 163,854 to 190,142, an average annual increase of 2,625, or 1.5 percent. Renter households have accounted for approximately 52 percent of net household formations since 2010 compared with 37 percent during the 2000s. The homeownership

Figure 5. Population and Household Growth in the Lexington-Fayette HMA, 2000 to Forecast



Notes: The current date is September 1, 2018. The forecast date is September 1, 2021.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst rate in the HMA is currently estimated at 59.2 percent, down from 60.3 percent during 2010, whereas the homeownership rate for the United States in the second quarter of 2018 was 64.3 percent (U.S. Census Bureau). During the 3-year forecast period, the number of households is expected to increase by an average of 2,175, or 1.0 percent, annually. Figure 6 depicts the number of households by tenure from 2000 through the current date. Household growth and economic growth are expected to remain stable during the 3-year forecast period.

Figure 6. Number of Households by Tenure in the Lexington-Fayette HMA, 2000 to Current

Note: The current date is September 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Sales Market

The sales housing market in the Lexington HMA is currently balanced with an estimated vacancy rate of 1.6 percent, down from 2.8 percent in April 2010. The decline in the vacancy rate reflects improvement in the sales market. Single-family home construction levels, which are lower than the early-to-mid 2000s, coupled with increasing demand from owner household growth and the shift of owner units to rental use have contributed to the absorption of much of the excess inventory from foreclosures during the national recession. During September 2018, a 3.6-month supply of inventory was on the market, up from a 3.5-month supply a year earlier and below the 12.4 months of supply in 2010. (Lexington-Bluegrass Association of Realtors®).

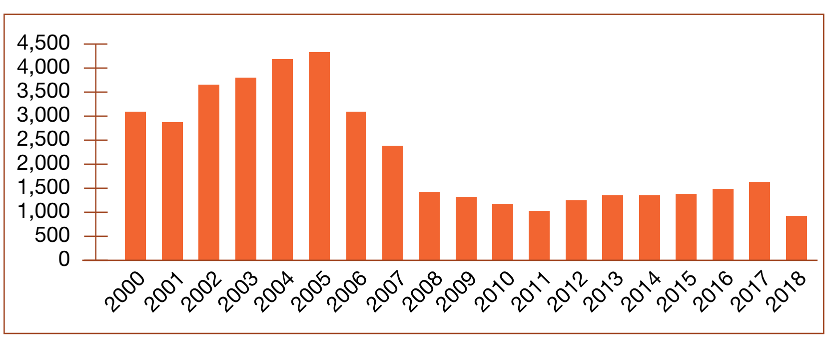
New and existing home sales have rebounded from the number of homes sold during the economic recession but fell during the past year. Sales of new and existing homes (including single-family homes, townhomes, and condominiums) in the HMA totaled 10,850 during the 12 months ending July 2018, down by 890 homes, or 8 percent, from the previous 12 months (CoreLogic, Inc., with adjustments by analyst). Currently, the number of new and existing home sales is 14 percent above the previous high of 8,650 homes sold during mid-2008. Following the peak, new and existing home sales fell by an average of 280 homes, or 4 percent, annually to a low of 6,400 homes sold in 2011. From 2012 through 2016, new and existing homes sales in the HMA increased by an average of 1,050, or 13 percent, annually. New home sales accounted for 7 percent of all homes sales during the 12 months ending July 2018, similar to the previous 12 months, but down from the high of more than 12 percent during 2006.

New and existing home sales prices in the HMA followed a similar trend as new and existing home sales, but the peak sales price occurred 2 years before the peak level of home sales. During 2000, the average sales price for all homes was $106,000, a number that increased steadily during the next 6 years, by an average of $28,050, or 17 percent, annually, to $274,200. Following this peak, and in response to the housing market downturn, the average home sales price during the next 5 years fell by an average of $21,300, or 9 percent, annually, to reach $167,600 in 2011. As the economy began to recover, the average home sales price began to increase in 2012 and, by 2016, rose to $193,400, or an average of nearly 3 percent, annually. During the 12 months ending July 2018, the average sales price for all homes sold in the HMA was $207,900, up 6 percent from a year earlier; however, the price remains nearly 25 percent below the previous peak.

In July 2018, 1.1 percent of all mortgage loans in the HMA were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status, down from 1.5 percent in July 2017, and below the peak of 4.7 percent in November 2011. The current rate of seriously delinquent loans and REO properties in the HMA was lower than the 2.0-percent rate in Kentucky and the 1.8-percent rate in the nation. Distressed home sales (real estate owned [REO] and short sales) accounted for 3 percent of existing home sales during the 12 months ending July 2018, down from a high of nearly 15 percent in 2013. The average sales price of an REO property was 48 percent below the average regular resale price at $108,400 during the 12 months ending July 2018, up from a low of $78,000 in 2005 and the $100,700 average in 2013.

During the 12 months ending August 2018, approximately 1,400 single-family homes were permitted, down by 200 homes, or 13 percent from the previous 12-month period (preliminary data and analyst estimates). From 2002 through 2005, homebuilding activity, as measured by the number of single-family homes permitted, increased by an average of 370 homes, or 11 percent, a year to 4,325 (Figure 7). Elevated sales activity and rising prices during the early 2000s helped contribute to the growth during this period. From 2006 through 2011, the number of homes permitted decreased by an average of 550 homes, or 22 percent, a year, to a low of 1,000 homes permitted in 2011. A slowdown

Figure 7. Single-Family Homes Permitted in the Lexington-Fayette HMA, 2000 to Current



Notes: Includes townhomes. Includes data through August 2018.

Sources: U.S. Census Bureau, Building Permits Survey; 2000-2017 final data and analyst estimates; 2018 preliminary data and analyst estimates in the economy and an increase in REO homes contributed to the decline in building activity. Since reaching that low, the number of single-family homes permitted has increased modestly. The number of single-family homes permitted increased by an average of 95 homes, or nearly 8 percent, annually, from 2012 through 2016, to 1,475 homes. The number of single-family homes permitted in 2017 further increased to approximately 1,600, which is 57 percent below the average of 3,750 homes permitted annually from 2001 through 2005.

New home construction is typically occurring east of downtown Lexington and, to a lesser degree, to the southeast and northwest. Villas at Cherry Blossom is a single-family subdivision in Scott County, where home construction is in the third of five phases planned, with homes on 28 of the 30 lots complete. When finished, the subdivision will have 165 homes and should be complete by 2020. Home prices range from $215,000 for a three-bedroom, 1,435-square-foot house to $270,000 for a four-bedroom, 2,385-square-foot home. Scott County is home to the third largest employer in the HMA, Toyota Motor Manufacturing. In the east Lexington area, the Summerfield subdivision currently has 12 homes available of 40 homes built in the fifth phase of this development. This 450-lot community, with 300 lots already developed, offers new three- and four-bedroom single-family homes, with prices ranging from $300,000 to $450,000.

During the next 3 years, demand is expected for an additional 4,900 homes. The 750 homes currently under construction are expected to meet a portion of the demand during the first year of the 3-year forecast period (Table 1). Demand will be greatest for new homes in the $300,000-to-$399,999 range (Table 4), and demand is expected to remain stable each year during the forecast period.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Lexington-Fayette HMA During the Forecast Period

Price Range ($) From	Price Range ($) To	Units of Demand	Percent of Total
100,000	199,999	490	10.0
200,000	299,999	1,475	30.0
300,000	399,999	1,725	35.0
400,000	499,999	740	15.0
500,000	and higher	490	10.0

Notes: Numbers may not add to totals because of rounding. The 750 homes currently under construction in the HMA will likely satisfy some of the forecast demand.

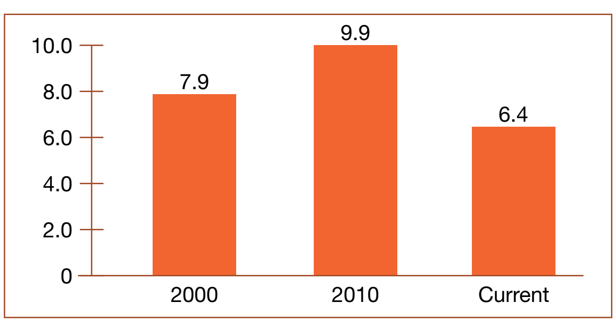
Source: Estimates by analyst

Rental Market

The rental housing market (including single-family homes, mobile homes, and apartments) in the Lexington HMA is currently balanced, with an overall estimated rental vacancy rate of 6.4 percent, down from 9.9 percent in April 2010 (Figure 8). Improving economic conditions since 2010 and net in-migration to the HMA have contributed to the declining vacancy rate. Most of the renter household growth has been concentrated in the apartment communities, with the portion of single-family homes decreasing since 2010. In 2016, approximately 56 percent of rental units in the HMA were single-family homes or in buildings with four or fewer units, whereas 41 percent of rental units were in large buildings with five or more units, and the remainder were mobile homes (2016 and 2010 ACS 1-year data). By comparison, in 2010, approximately 58 percent of rental units were in single-family homes or in buildings with four or fewer units whereas 40 percent were in large buildings with five or more units, and the remainder were mobile homes.

The apartment market in the HMA was balanced in the second quarter of 2018 with a 6.4-percent vacancy rate (Reis, Inc.). By comparison, a year earlier, apartment market conditions were slightly tight, and the vacancy rate was 5.0 percent. The increase in the vacancy rate was partially due to an increase in multifamily units entering the market. The average rent for an apartment during the second quarter of 2018 was $784, a gain of $40, or 5 percent, from a year earlier. During the economic downturn in the HMA, the apartment vacancy rate peaked at 9.1 percent in 2009, and the average rent remained virtually unchanged from a year earlier.

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



Note: The current date is September 1, 2018.

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

The following year, the apartment vacancy rate decreased to 7.3 percent, and rents increased less than 1 percent as previously vacant units were absorbed. Builders responded to the soft market conditions by reducing multifamily construction activity to allow vacant units to be absorbed. As the economic recovery strengthened in the HMA, the apartment market also began to show improvement. By the end of 2016, the apartment vacancy rate declined to 4.5 percent, and rents grew by an average of 2 percent annually since 2011. Even as the vacancy rate increased slightly during the past year, rents have continued to increase.

In 2017, the University of Kentucky had approximately 8,300 beds for on-campus living and student enrollment was approximately 30,750. The remaining students living off campus occupied approximately 6,900 units in Fayette County, accounting for more than 8 percent of the occupied rental units. (Fayette County Housing Demand Study, 2017).

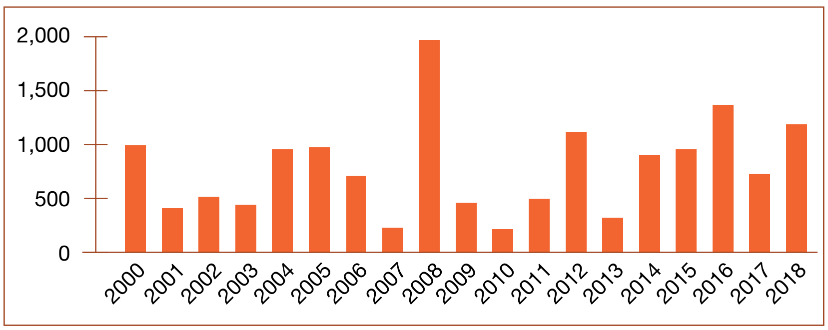
From 2002 through 2006, multifamily construction activity, as measured by the number of multifamily units permitted, averaged 710 units annually before dropping to 230 units in 2007. In 2008, 1,950 units were permitted just before the economic downturn, the most permitted in any year, partly the result of a large number of student-orientated apartment developments. Although economic conditions remained weak from 2009 through 2011, an average of 390 units were permitted annually. As the HMA recovered from the Great Recession and rental demand increased, an average of 920 multifamily units were permitted annually from 2012 through 2016.

During the 12 months ending August 2018, approximately 1,350 units were permitted, up from the 750 units permitted during the previous 12 months ending August 2017 (preliminary data). One reason for the dip in permits in 2017 is that the Lexington-Fayette local government considered expanding its urban service boundary, which did not happen, and developers were waiting on the outcome. Figure 9 shows the number of multifamily units permitted in the HMA from 2000 through the current date.

Some of the most recent apartment development in the Lexington HMA includes Brighton 3050, on the east side of Lexington, which opened in July of 2018 and is leasing 108 units. One-, two-, and three-bedroom apartment rents start at $800, $970, and $1,150, respectively. The Flats at 345 in downtown Lexington opened in July 2018. This 72-unit luxury apartment community is near the Legacy Trail and offers one- and two-bedroom apartments starting at 550 and 950 square feet, with monthly rents ranging from $895 to $1,295. The Hub Lexington, off-campus student housing that will cater exclusively to students, is expected to open in the fall of 2019 and is currently leasing 429 units near the University of Kentucky. One-, two-, three-, and four-bedroom units will be available, with rents ranging from $725 to $1,090.

During the 3-year forecast period, demand is estimated for 2,825 new market-rate rental units (Table 1). The 710 units currently under construction will satisfy most of the demand during the first year of the forecast period. Demand is expected to be greatest for two-bedroom units that rent from $850 to $1,049. Table 5 shows the forecast demand for new market-rate rental housing in the HMA by rent and number of bedrooms.

Figure 9. Multifamily Homes Permitted in the Lexington-Fayette HMA, 2000 to Current



Notes: Excludes townhomes. Includes data through August 2018.

Sources: U.S. Census Bureau, Building Permits Survey; 2000-2017 final data and analyst estimates; 2018 preliminary data and analyst estimates

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Lexington-Fayette HMA During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand
600 to 799	100	650 to 849	370	850 to 1,049	430	1,050 to 1,249	170
800 to 999	85	850 to 1,049	300	1,050 to 1,249	350	1,250 to 1,449	140
1,000 to 1,199	55	1,050 to 1,249	210	1,250 to 1,449	230	1,450 to 1,649	65
1,200 or more	40	1,250 or more	120	1,450 or more	120	1,650 or more	45
Total	280	Total	990	Total	1,125	Total	420

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 730 units currently under construction will likely satisfy some of the estimated demand. The forecast period is September 1, 2018.

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	Average Annual Change (%) 2010 to Current
Total Resident Employment	223,119	235,427	263,000	0.5	1.5
Unemployment Rate	3.0%	7.9%	3.4%		
Total Nonfarm Payroll Jobs	250,100	242,400	279,800	– 0.3	1.9
Total Population	408,326	472,099	519,400	1.5	1.1
Total Households	163,854	190,142	208,500	1.5	1.1
Owner Households	98,054	114,660	123,500	1.6	0.9
Percent Owner	59.8%	60.3%	59.2%		
Renter Households	65,800	75,482	85,000	1.4	1.4
Percent Renter	40.2%	39.7%	40.8%		
Total Housing Units	175,262	209,138	223,800	1.8	0.8
Sales Vacancy Rate	1.3%	2.8%	1.6%		
Rental Vacancy Rate	7.9%	9.9%	6.4%		
Median Family Income	$48,800	$65,000	$66,100	2.9	0.2

Notes: Median Family Incomes are for 1999, 2009, and 2016. Employment data represent annual averages for 2000, 2010, and the 12 months through August 2018.

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

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census

2010: 4/1/2010—U.S. Decennial Census

Current date: 9/1/2018—Estimates by the analyst

Forecast period: 9/1/2018–9/1/2021—Estimates by the analyst

The metropolitan statistical area definition noted in this report is based upon the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

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 this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), 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 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.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_Lexington-FayetteKY_18.pdf.

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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.

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.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.