

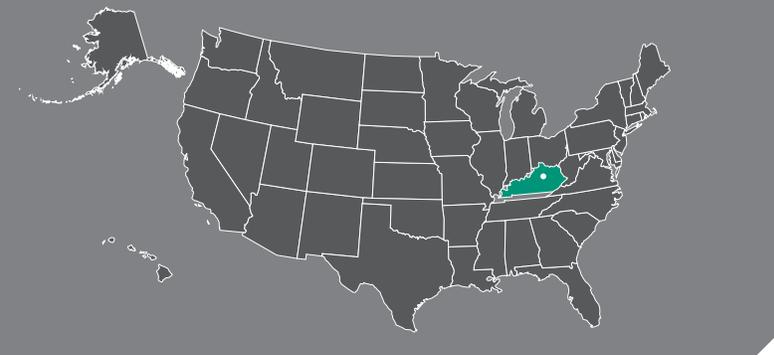
HUD PD&R Housing Market Profiles

Lexington-Fayette, Kentucky



Quick Facts About Lexington-Fayette

- Current sales market conditions: soft.
- Current apartment market conditions: soft.
- Known as the “Horse Capital of the World,” the area is home to 15 percent of the equine population of Kentucky and receives a substantial portion of the \$3 billion economic impact that the equine industry has on the state (Kentucky Equine Survey).



By T. Michael Miller | As of February 1, 2014

Overview

The Lexington-Fayette (hereafter, Lexington) metropolitan area comprises Bourbon, Clark, Fayette, Jessamine, Scott, and Woodford Counties in central Kentucky. The largest employer in the metropolitan area is the University of Kentucky (UK), which had 14,000 employees, 28,950 students, and annual expenditures of \$2.7 billion during 2012.

- As of February 1, 2014, the estimated population in the metropolitan area was 494,400, an average annual increase of 5,825, or 1.2 percent, since 2010.
- Population growth was strongest from 2002 through 2008, when the population increased by 6,975, or 1.6 percent, annually; the growth decreased to 5,900 people, or 1.2 percent, annually, from 2009 through 2012 because of substantial declines in payrolls in 2009 and 2010.
- The city of Lexington is the second largest city in Kentucky, with an estimated population of 311,400 as of February 1, 2014, accounting for 63 percent of the population of the metropolitan area.



Nonfarm payrolls in the Lexington area have increased an average of 1.8 percent annually since 2010.

	3 Months Ending		Year-Over-Year Change	
	January 2013 (thousands)	January 2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	257.8	258.2	0.4	0.2
Goods-producing sectors	39.3	39.6	0.3	0.8
Mining, logging, and construction	10.0	10.2	0.2	2.0
Manufacturing	29.3	29.4	0.1	0.3
Service-providing sectors	218.5	218.6	0.1	0.0
Wholesale and retail trade	38.4	37.9	-0.5	-1.3
Transportation and utilities	9.1	9.0	-0.1	-1.1
Information	5.9	5.6	-0.3	-5.1
Financial activities	9.7	9.6	-0.1	-1.0
Professional and business services	34.5	35.1	0.6	1.7
Education and health services	33.2	33.6	0.4	1.2
Leisure and hospitality	26.6	25.0	-1.6	-6.0
Other services	9.1	9.1	0.0	0.0
Government	52.1	53.7	1.6	3.1
	(percent)	(percent)		
Unemployment rate	6.2	6.2		

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

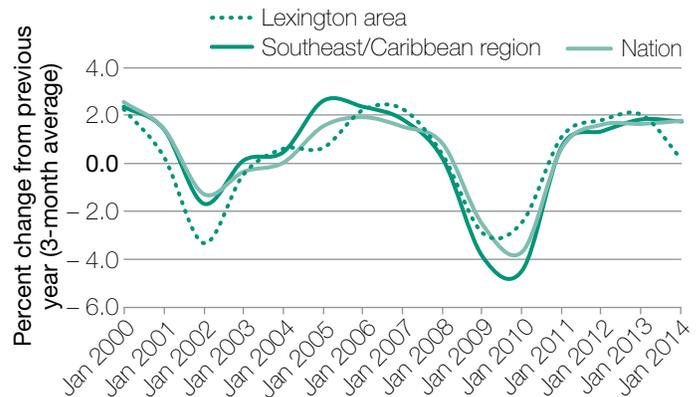
Economic Conditions

Nonfarm payrolls in the Lexington metropolitan area increased during the past 12 months but remained slightly below the peak level recorded before the declines in 2009 and 2010.

During the 3 months ending January 2014—

- Nonfarm payrolls increased by 400 jobs, or 0.2 percent, compared with the number of jobs recorded during the 3 months ending January 2013, to an average of 258,200 jobs.
- The government and the professional and business services sectors led job growth, increasing by 1,600 and 600 jobs, or 3.1 and 1.7 percent, respectively; the government sector is the largest sector in the metropolitan area, accounting for 21 percent of nonfarm payrolls.
- The most significant declines occurred in the leisure and hospitality and the wholesale and retail trade sectors, which lost 1,600 and 500 jobs, or 6.0 and 1.3 percent, respectively, from the same 3-month period a year ago, as severe winter weather hampered economic activity.
- The average unemployment rate remained unchanged from the 6.2-percent rate reported during the 3 months ending January 2013.

Nonfarm payrolls in the Lexington area have increased since 2011, but the government sector was the only sector to expand each year since 2005.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Largest employers in the Lexington area

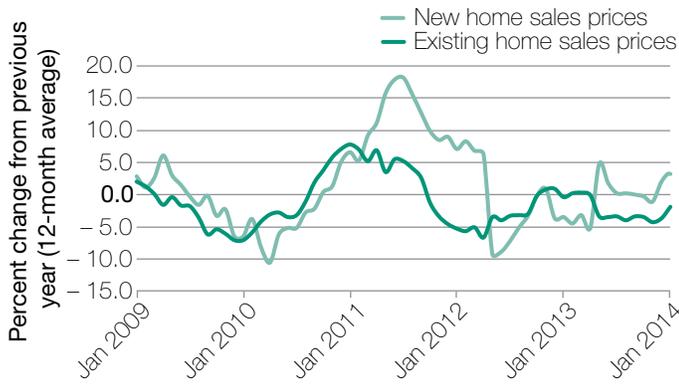
Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of Kentucky	Government	14,000
Toyota Motor Manufacturing, Kentucky, Inc.	Manufacturing	7,900
KentuckyOne Health Inc.	Education and health services	3,000

Note: Excludes local school districts.
Source: Commerce Lexington Inc.

Sales Market Conditions

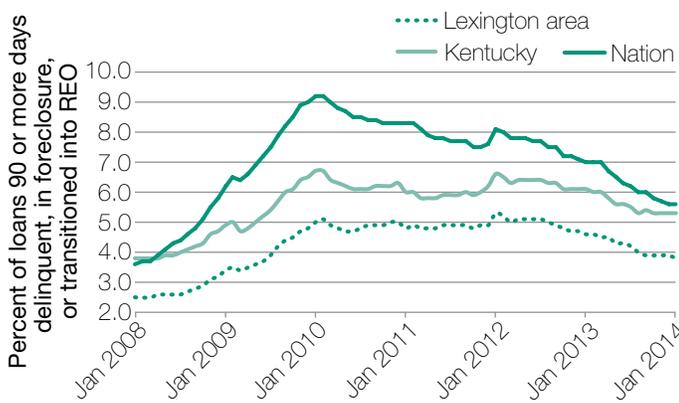
The sales housing market in the Lexington metropolitan area is soft, with an estimated sales vacancy rate of 2.2 percent compared with the rate of 2.8 percent recorded in April 2010. During the 12 months ending January 2014, 5,475 existing single-family homes and townhomes sold, a 12-percent increase compared with the 4,875 existing homes sold during the previous 12 months (Metrostudy, A Hanley Wood Company). REO (Real Estate Owned) sales during the same period increased 29 percent, to 710 homes sold, compared with the number sold during the previous 12 months. The increase in REO sales contributed to a 2-percent decline in the average sales price of existing single-family homes, to \$181,500, during the 12 months ending January 2014.

The average sales price of new and existing homes in the Lexington area fluctuated during the past year as sales of lower priced homes increased.



Note: Includes single-family homes and townhomes.
Source: Metrostudy, A Hanley Wood Company

The reduction in distressed loans in the Lexington area has been driven primarily by an increase in REO sales.



REO = Real Estate Owned.
Source: Black Knight Financial Services, Inc.

During the 12 months ending January 2014—

- New home sales (including single-family homes and townhomes) averaged 340 homes sold, up 9 percent, and new home sales prices averaged \$233,000, up 3 percent from the previous 12 months.
- REO sales accounted for 13 percent of existing home sales, up from 11 percent during the 12 months ending January 2013.
- The inventory of unsold homes, including single-family homes and townhomes, comprised a 9.5-month supply, down from 10- and 14-month supplies during the 12 months ending January 2013 and January 2012, respectively (Lexington-Bluegrass Association of REALTORS®).

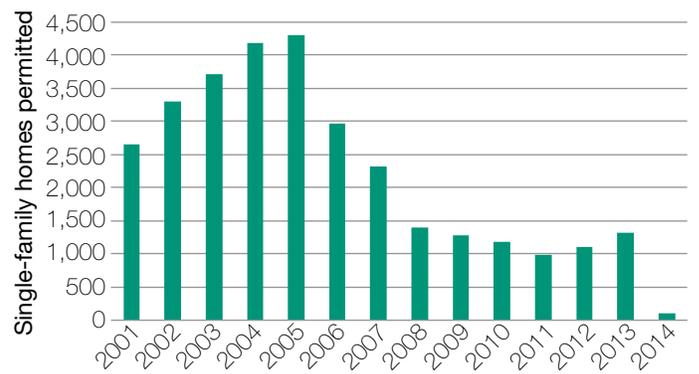
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Lower average prices for new and existing homes contributed to increased sales during the past year in the Lexington area.



Note: Includes single-family homes and townhomes.
Source: Metrostudy, A Hanley Wood Company

Single-family homebuilding has increased gradually since 2012 but remains low compared with historical averages in the Lexington area.



Note: Includes preliminary data from January 2013 through January 2014.
Source: U.S. Census Bureau, Building Permits Survey



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Improving sales market conditions in the Lexington metropolitan area since 2012 led to an increase in single-family homebuilding, as measured by the number of homes permitted.

- During the 3 months ending January 2014, approximately 300 single-family homes were permitted in the metropolitan area, an 11-percent increase from the 270 homes permitted during the same period a year earlier (preliminary data).

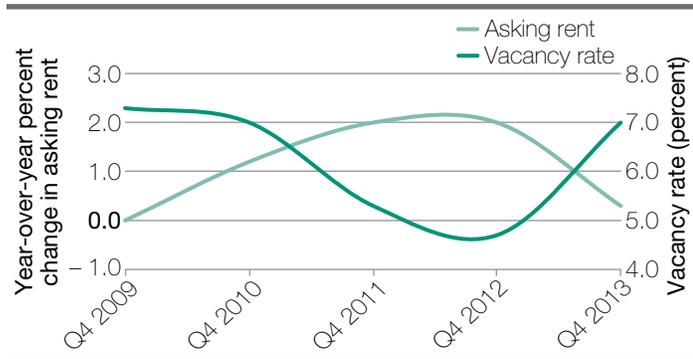
Apartment Market Conditions

Apartment market conditions in the Lexington metropolitan area are currently soft. The apartment market softened during the past year as the number of new units constructed outpaced demand.

During the fourth quarter of 2013—

- The apartment vacancy rate was 7.0 percent, up from 4.6 percent during the fourth quarter of 2012 (MPF Research).
- Asking rents for apartments in the metropolitan area averaged \$730, unchanged from the fourth quarter of 2012.
- Of the approximately 28,950 students enrolled at UK, about 22,600 lived off campus, accounting for approximately 7 percent of rental demand in the metropolitan area. Enrollment has increased by an average of 330 students, or 1.2 percent, annually since 2010.
- Of the three MPF Research-defined market areas that comprise the Lexington metropolitan area, apartment vacancy rates softened the most in the Downtown/University market area, increasing to 9.2 percent from 4.7 percent during the fourth quarter of 2012, a result of increased dormitory rooms and private student housing completions since 2012.

Overproduction of apartments in 2012 led to increased vacancy and slower rent growth in the Lexington area.



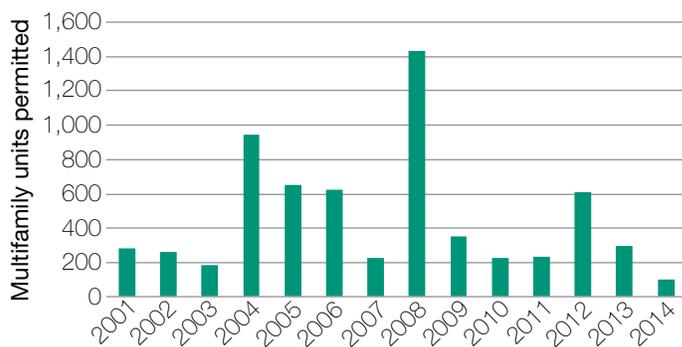
Source: MPF Research

- By comparison, an average of 210 single-family homes were permitted during the corresponding 3-month periods in 2011 and 2012 (preliminary data).
- Prices for new, three-bedroom, single-family homes in the metropolitan area start at approximately \$110,000, with 75 percent of the homes sold priced between \$150,000 and \$300,000.

Multifamily building activity, as measured by the number of units permitted, decreased somewhat during 2013 in the Lexington metropolitan area from 2012, but construction activity increased during the past 3 months.

- Multifamily permitting increased from 70 units during the 3 months ending January 2013 to 330 units during the same period in 2014 (preliminary data).
- From 2009 through 2011, multifamily permitting averaged 270 units a year compared with the average of 770 units a year from 2004 through 2008. The decline in construction starting in 2009 was partially in response to overproduction in 2008 and the subsequent increase in the vacancy rate and decrease in the effective rent.
- The 150-unit apartment complex Retreat at Hamburg Place was completed in 2013, with rents starting at \$840 for one-bedroom units, \$990 for two-bedroom units, and \$1,300 for three-bedroom units.
- During the past 2 years, three private student-housing apartment complexes began leasing up near the UK campus. The Collegiate, University Edge, and 5 TwentyFour Angeliana added 580 total units, housing more than 1,450 students.

Increased vacancy in the Lexington area because of the overproduction of units in 2012 resulted in a decline in permitting activity during the past 12 months.



Note: Includes preliminary data from January 2013 through January 2014.

Source: U.S. Census Bureau, Building Permits Survey

