The COVID-19 pandemic has resulted in unprecedented large and rapid changes in many data series, and similarly unprecedented large policy responses, making analysis of, and longer run predictions for, the economy and housing markets exceptionally difficult and uncertain. HUD will continue to monitor market conditions in the HMA and provide an updated report/addendum in the future.

COMPREHENSIVE HOUSING MARKET ANALYSIS

Lexington-Fayette, Kentucky

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of January 1, 2021

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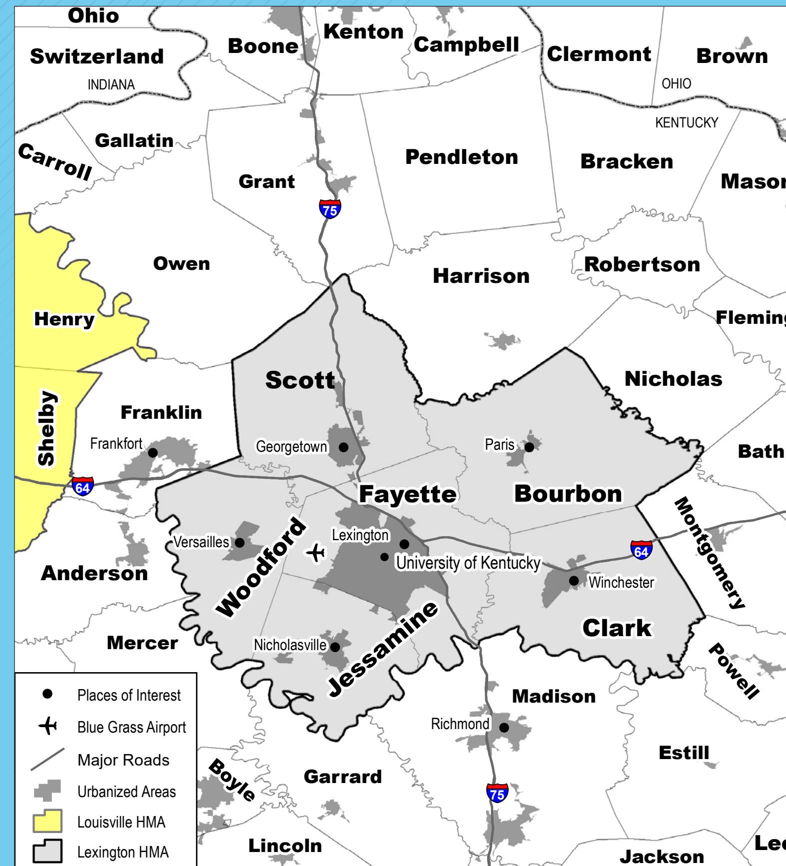

Executive Summary

Housing Market Area Description

The Lexington Housing Market Area (HMA) is coterminous with the Lexington-Fayette, KY Metropolitan Statistical Area (MSA), which is defined as Clark, Bourbon, Fayette, Jessamine, Scott, and Woodford Counties in Kentucky. Known as "the horse capital of the world," the Lexington HMA is home to the Keeneland Racecourse and Kentucky Horse Park. As a stop on the Bourbon Trail, Lexington is also famous for distilleries, such as the Woodford Reserve Distillery. The University of Kentucky (UK) is the largest employer in the HMA and the largest university in Kentucky. The next largest employer, Toyota Motor Manufacturing, Kentucky, Inc. (hereafter, Toyota), in the city of Georgetown, is the largest Toyota production facility in the world.

The population is currently estimated at 519,700.

Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in this report's supplemental tables.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Weak: Nonfarm payrolls declined by 14,800 jobs, or 5.3 percent, during 2020, and nearly all payroll sectors lost jobs.

As a result of the COVID-19 pandemic, the economy in the Lexington HMA weakened significantly during the past 12 months. Job losses were largest in the leisure and hospitality sectors, as countermeasures are still in place to slow the spread of COVID-19, including limiting indoor dining to 50-percent capacity. The unemployment rate was 5.0 percent during December 2020—down from a high of 15.2 percent during April 2020 at the beginning of the pandemic. Nonfarm payrolls are expected to increase an average of 0.9 percent annually during the 3-year forecast period, as economic conditions improve.

Sales Market

Balanced: The average home sales price increased 8 percent in 2020.

Sales housing market conditions in the Lexington HMA are currently balanced, with an estimated vacancy rate of 1.5 percent—down from 2.8 percent in April 2010. Recently, low mortgage interest rates have supported demand despite the economic contraction and low population growth. Changes in seller behavior related to COVID-19 have also led to a decrease in months of available inventory, causing a sharp increase in home sales prices. During the next 3 years, demand is expected for 4,300 new homes. The 450 homes currently under construction are expected to meet a portion of the demand during the first year of the forecast.

Rental Market

Balanced: Apartment market vacancy rates have declined since 2017.

Overall rental housing market conditions in the Lexington HMA are currently balanced, with an estimated rental vacancy rate of 8.0 percent—down from 9.9 percent in 2010, when the market was soft. The apartment market is also currently balanced, with a 4.2-percent vacancy rate during the fourth quarter of 2020—down from 5.5 percent during the fourth quarter of 2019. During the 3-year forecast period, demand is estimated for 2,425 additional rental units in the HMA. The 830 units currently under construction are expected to meet all the demand during the first year of the forecast.

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3-Year Housing Demand Forecast

		Sales Units	Rental Units
Lexington HMA	Total Demand	4,300	2,425
	Under Construction	450	830

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, 2021. The forecast period is January 1, 2021, to January 1, 2024.
Source: Estimates by the analyst

Economic Conditions

Largest Sector: Government

The government sector makes up 20 percent of total nonfarm payrolls and is the largest sector in the HMA.

Primary Local Economic Factors

The Lexington HMA is home to the University of Kentucky (UK), the Keeneland horse racetrack, and the largest Toyota manufacturing plant in the world. The University of Kentucky (UK) employs 16,750 workers (Table 1) and makes up more than 33 percent of jobs in the government sector. UK is the largest university in Kentucky, with an enrollment of 31,100 students during the fall semester of 2020 (*U.S. News & World Report*). Construction of a large expansion of the UK HealthCare Albert B. Chandler Hospital was finished in 2013, and from 2014 through 2017, full-time health affairs employees increased 9.5 percent annually to 3,775 (UK). The $450 million construction added 1.2 million square feet and 512 private patient rooms to the existing hospital. The second largest employer in the HMA is Toyota, where the Camry, Avalon, Lexus ES 350, and RAV4 Hybrid car models are all produced. The Toyota plant, in the city of Georgetown, can produce up to 550,000 vehicles and 600,000 engines per year. The plant also supports local suppliers, such as Adient plc and Aichi Forge USA, Inc., which employ 750 and 400 workers, respectively.

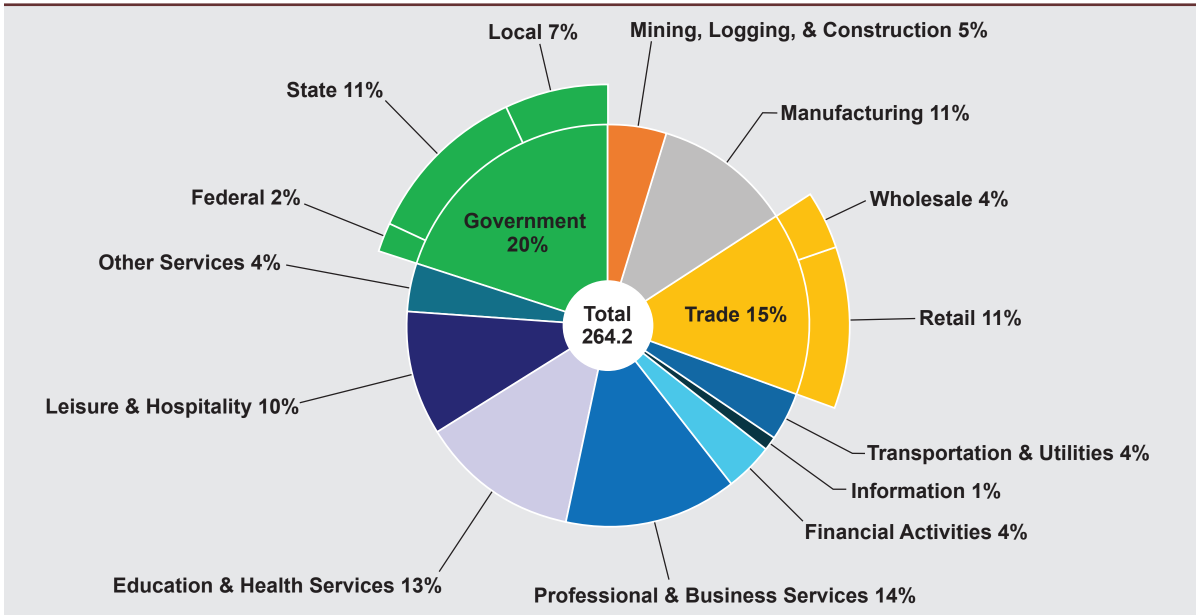
Table 1. Major Employers in the Lexington HMA

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
Lexington-Fayette Urban County Government	Government	2,950
Conduent, Inc.	Professional & Business Services	2,500
Baptist Health	Education & Health Services	2,100
Lexington VA Health Care System	Education & Health Services	2,000
Catholic Health Initiatives	Education & Health Services	1,850
Lexmark International, Inc.	Professional & Business Services	1,500
Lockheed Martin Corporation	Manufacturing	1,100

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

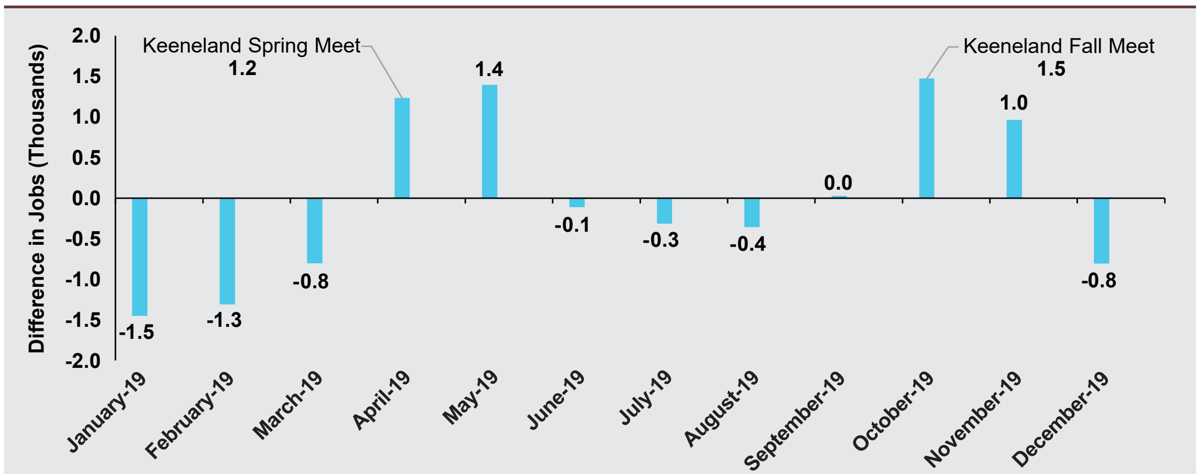
The rolling hills of Kentucky bluegrass, horse racing, UK sports, and distilleries have made the HMA a popular destination for retirees and tourists. The combination of students, retirees, and tourists supported job growth in the education and health services and the leisure and hospitality sectors almost every year from 2000 through 2019, except for the years during and shortly after the Great Recession. These sectors combined make up 24 percent of total nonfarm payrolls (Figure 1). The spring and fall meets at the Keeneland racetrack draw the biggest crowds of any event in the HMA. Keeneland also hosts some of the largest horse auctions in the world during the two meets. In 2015, the events had an estimated economic impact of $590 million in Fayette County alone (UK). Payrolls in the leisure and hospitality sector during the months of the two meets increase considerably. As an example, the Keeneland Fall Meet and other equestrian events throughout the Lexington HMA contributed significantly to 1,500 additional leisure and hospitality sector jobs during October 2019 (Figure 2).

Figure 1. Share of Nonfarm Payroll Jobs in the Lexington HMA, by Sector



Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through December 2020.
Source: U.S. Bureau of Labor Statistics

Figure 2. Monthly Difference from Annual Average in Leisure and Hospitality Sector Jobs, 2019



Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Current Conditions—Nonfarm Payrolls

During 2020, nonfarm payrolls decreased by 14,800 jobs, or 5.3 percent, compared with 2019 (Table 2). The largest decline was in the leisure and hospitality sector, which declined by 6,700 jobs, or 20.7 percent. Those job declines were due to countermeasures to slow the spread of COVID-19, including 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, causing closures from November 20 until December 13, 2020, as cases of COVID-19 increased drastically during the holiday period. Subsequently, the aforementioned establishments resumed operations at 50-percent capacity. The Keeneland Fall Meet, which typically occurs in October, did not allow fans to attend the races, but various other events, such as auctions, still occurred, and the Breeders' Cup in November 2020 allowed 45,000 attendees. Those events tempered job losses in the leisure and hospitality sector during the fall of 2020.

The retail trade subsector also suffered substantial job losses during the early part of the pandemic, declining year-over-year by 5,500 jobs, or 18.9 percent, in April 2020 (non-seasonally adjusted). By December 2020, the number of jobs in the retail trade subsector had returned to just 2.2 percent below the December 2019 level. Although restrictions more directly affected the leisure and hospitality and the wholesale and retail trade sectors, all sectors except the professional and business services sector lost jobs during 2020, many due to the impacts of the pandemic. The education and health services sector declined by 2,300 jobs, or 6.2 percent, compared with 2019. A reduction in consumer willingness to visit healthcare facilities led to the sector declining during 2020. Payrolls in the manufacturing sector fell by 2,000 jobs, or 6.6 percent, due in part to the closure of the Trane Technologies plant, a producer of commercial HVAC systems, in mid-2020. Trane Technologies had scheduled closing their plant by August 2020, before the pandemic, and laid off 660 workers. The professional and business services sector was the only sector to add jobs during 2020, increasing by 100 jobs, or 0.3 percent. Across the nation, approximately 85 percent of temporary help services production jobs are manufacturing-related; they would otherwise be classified as jobs in the manufacturing sector but are not because they are contracted through employment agencies such as Kelly Services, Inc., which hires workers for Toyota. The categorization of contractors in the professional and business services sector is partly reflected in the American Community Survey (ACS) survey data for Fayette County in the HMA, where approximately 9 percent of respondents worked at a manufacturer in the county, versus a 6-percent share of total nonfarm payrolls in 2019. Ten percent worked at a company in the professional and business services sector, versus a 14-percent share of total nonfarm payrolls (IPUMS USA 2019 1-year ACS estimates). Toyota announced at the end of 2019 that it needed to hire 400 temporary workers for production of the new RAV4 Hybrid model in January 2021. Although some workers were furloughed as the factory shut down in March and April, employees returned to work during the summer of 2020. Surges in e-commerce sales due to the pandemic also likely helped keep temporary workers at companies such as Amazon.com, Inc. employed during 2020. The ability of many occupations in the professional and business services sector to adapt to a telework model also kept the impact of the pandemic to a minimum in this sector.

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the Lexington HMA, by Sector

	12 Months Ending December 2019	12 Months Ending December 2020	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	279.0	264.2	-14.8	-5.3
Goods-Producing Sectors	44.1	41.8	-2.3	-5.2
Mining, Logging, & Construction	13.9	13.5	-0.4	-2.9
Manufacturing	30.3	28.3	-2.0	-6.6
Service-Providing Sectors	234.8	222.5	-12.3	-5.2
Wholesale & Retail Trade	40.3	38.4	-1.9	-4.7
Transportation & Utilities	11.8	11.6	-0.2	-1.7
Information	2.7	2.5	-0.2	-7.4
Financial Activities	10.0	9.8	-0.2	-2.0
Professional & Business Services	37.7	37.8	0.1	0.3
Education & Health Services	37.0	34.7	-2.3	-6.2
Leisure & Hospitality	32.4	25.7	-6.7	-20.7
Other Services	10.1	9.5	-0.6	-5.9
Government	53.0	52.5	-0.5	-0.9

Notes: Based on 12-month averages through December 2019 and December 2020. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

Current Conditions—Unemployment

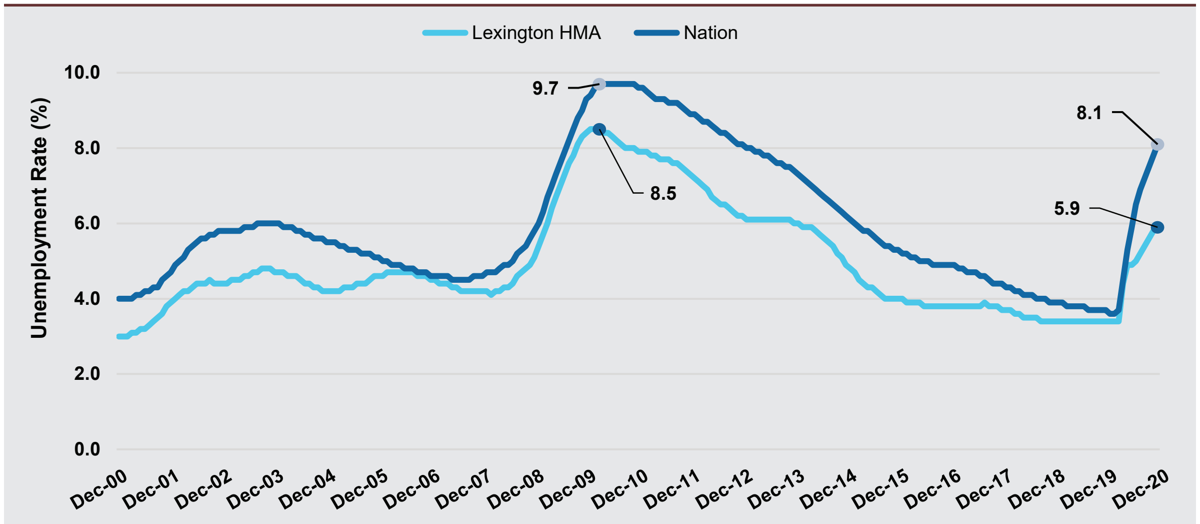
The unemployment rate averaged 5.9 percent during 2020—up from 3.4 percent during 2019 (Figure 3). During April 2020, the unemployment rate rose to 15.2 percent from 4.2 percent during March 2020 and surpassed the high during the Great Recession of 9.3 percent during mid-2009 (non-seasonally adjusted). The unemployment rate has fluctuated nearly every month since April 2020, as restrictions to slow the spread of COVID-19 have been eased and strengthened with surges in COVID-19 cases. The unemployment rate in the HMA declined to 5.0 percent in December, compared with 6.5 percent for the nation. The unemployment rate in the HMA has remained below that of the nation since the initial job losses in April.

Economic Periods of Significance

2001 Through 2003

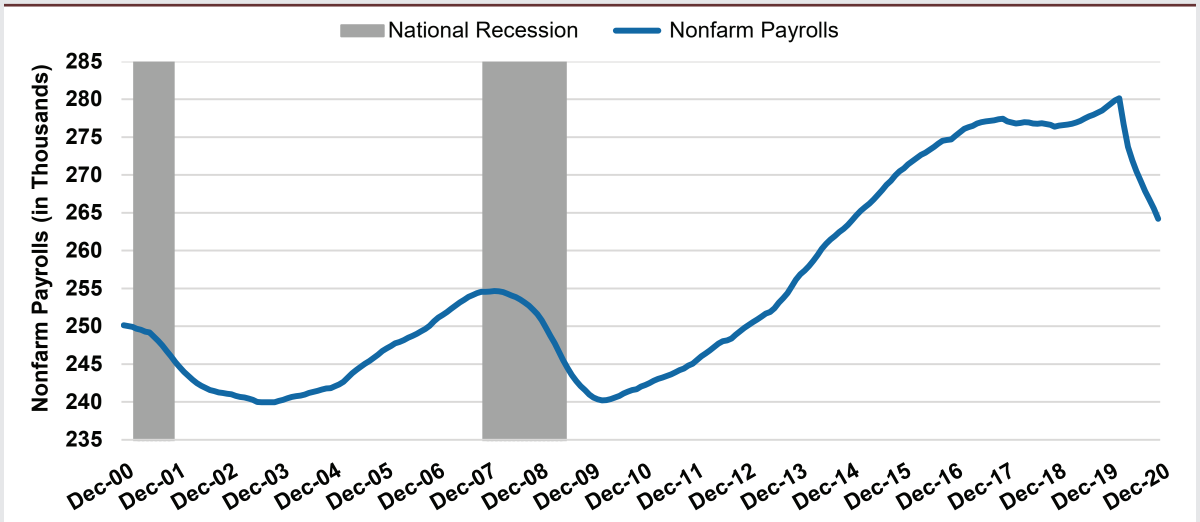
From 2001 through 2003, during and shortly after the national dot-com recession, nonfarm payrolls declined by an average of 3,300 jobs, or 1.4 percent, annually (Figure 4). Job losses were concentrated in the manufacturing sector, which declined by an average of 2,100 jobs, or 5.4 percent, annually. Lexmark International, Inc. laid off approximately 1,275 workers in 2000 and 2001 as the number of printer sales declined and production facilities were moved overseas to save on costs. The national recession and decline in manufacturing also led to a slowdown in the retail trade subsector, which decreased by an average of 900 jobs, or 3.0 percent, annually. During that period, Turfland Mall, the first enclosed mall to open in the HMA during the 1960s, had several tenants liquidate their products and relocate or close, such as J.C. Penny Company, Inc. and Montgomery Ward Holding Corp. The education and health services sector was one of four sectors that added jobs during that period, increasing by an average of 800 jobs, or 2.7 percent, annually. The health care and social assistance industry increased by 1,250 jobs, or 6.4 percent, from 2002 through 2003. Growth in the industry was partially due to expansions in cancer, cardiovascular, and general surgery services at Baptist Health Lexington.

Figure 3. 12-Month Average Unemployment Rate in the Lexington HMA and the Nation



Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

Figure 4. 12-Month Average Nonfarm Payrolls in the Lexington HMA



Note: 12-month moving average.
Sources: National Bureau of Economic Research; U.S. Bureau of Labor Statistics

2004 Through 2007

Economic conditions improved from 2004 through 2007, and nonfarm payrolls increased by an average of 3,600 jobs, or 1.5 percent, annually. The professional and business services and the government sectors made up 64 percent of the total increase in jobs during that period. Payrolls in the professional and business services sector increased by an average of 1,200 jobs, or 4.3 percent, annually; the temporary help services industry accounted for more than one-half of the growth, increasing by 650 jobs, or 11.7 percent, annually. The government sector increased by an average of 1,100 jobs, or 2.6 percent, annually. The state government subsector increased by an average of 800 jobs, or 4.2 percent, annually, comprising most of the gains in the government sector. This subsector includes UK, which increased enrollment by 0.9 percent annually during that period. The university also began construction on the additions to Albert B. Chandler Hospital—the second largest hospital in the state—and opened the new College of Pharmacy and University Health Services Pharmacy facility. The state education and health services industry increased by an average of 700 jobs, or 4.5 percent, each year from 2004 through 2007.

2008 Through 2009

Nonfarm payrolls declined by an average of 6,800 jobs, or 2.7 percent, annually from 2008 through 2009. By the end of 2009, the effects of the Great Recession caused nonfarm payrolls to decline to 2003 levels. Job losses were again led by the manufacturing sector, which decreased by an average of 2,200 jobs, or 6.4 percent, annually. Lexmark laid off 825 workers during that period, and Trane Technologies laid off 140 workers. The government and the education and health services sectors were the only sectors to add jobs during the period, increasing by an average of 400 and 200 jobs, or 1.0 and 0.5 percent, annually, respectively.

2010 Through 2013

Economic conditions began to slowly improve in early 2010, and nonfarm payrolls increased by an average of 3,800 jobs, or 1.5 percent, annually from 2010 through 2013. The professional and business services sector increased by an average of 1,900 jobs, or 5.9 percent, annually, spurred by hiring in the temporary help services industry, which averaged 1,000 jobs, or 18.6 percent, annually. Temporary workers are also used in the many call centers in the HMA, such as at Affiliated Computer Services, Inc. During that period, Toyota increased its production in North America by an average of 14 percent annually, from 1.04 million units to 1.76 million units. Affiliated Computer Services, Inc. and Amazon.com, Inc. expanded to add 700 and 600 jobs, respectively, to their call centers in the HMA—a combination of permanent and temporary jobs. The state government subsector also increased by an average of 1,100 jobs, or 4.5 percent, annually, as UK opened the first additional pavilion of Albert B. Chandler Hospital in 2013.

2014 Through 2016

Economic recovery strengthened from 2014 through 2016; nonfarm payrolls increased by an average of 6,200 jobs, or 2.4 percent, annually. Most sectors reported stronger job growth during the period compared with the earlier stages of economic recovery, with the leisure and hospitality sector adding the most jobs. Nonfarm payrolls in the leisure and hospitality sector increased by an average of 1,200 jobs, or 4.2 percent, annually. The Keeneland racetrack hosted the Breeders' Cup in 2015, attracting visitors from around the world and setting records for one-day attendance. The Keeneland Spring and Fall Meets had record attendance in 2016 and drew more than 260,000 and 270,000 attendees, respectively, to the racetracks at each event. The professional and business services sector increased by an average of 1,100 jobs, or 2.9 percent, annually, slowing from 1,900 jobs, or 5.9 percent, during the previous period. The slowdown can be partially explained by the temporary help services industry declining by 1,600 jobs, or 18.6 percent, during 2016. Toyota decreased production at the Georgetown plant by approximately 16 percent after the first quarter of 2016. The mining, logging, and construction sector increased by 900 jobs, or 7.7 percent, annually during that period. UK demolished older dormitories and began construction of 14 new residence halls and a new student center, contributing to growth in the sector. Renovations to the Gatton College of Business and Economics and the J. David Rosenberg College of Law also began during that period.

2017 Through 2019

Nonfarm payroll growth moderated from 2017 through 2019, increasing by just 1,400 jobs, or 0.5 percent, annually during that period. Most sectors grew during 2017, and nonfarm payrolls increased by 2,700 jobs, or 1.0 percent. Job gains were led by the government and the wholesale and retail trade sectors, increasing by 800 jobs, or 1.6 percent, and 600 jobs, or 1.5 percent, respectively. Several manufacturing plant closures, and a general slowdown in the manufacturing sector nationwide, caused declines in the manufacturing and the professional and business services sectors during 2018 and 2019. During 2018, nonfarm payrolls declined by 1,000 jobs, or 0.4 percent, primarily due to the professional and business services sector declining by 1,400 jobs, or 3.6 percent. Subsequently, the manufacturing sector declined by 500 jobs, or 1.6 percent, during 2019, and the professional and business services sector declined by another 300 jobs, or 0.8 percent. Despite those job losses, total nonfarm payrolls began increasing by 2019. During 2019, nonfarm payrolls increased by 2,600 jobs, or 0.9 percent, led by increases in the government and the mining, logging, and construction sectors, which increased by 700 jobs, or 1.3 percent, and 1,000 jobs, or 7.8 percent, respectively.

Employment Forecast

During the forecast period, nonfarm payrolls are expected to increase an average of 0.9 percent annually, as job losses in the manufacturing sector are not expected to continue into the forecast period. By the end of the 3-year forecast period, 98 percent of the jobs lost during the pandemic are expected to be recovered. Growth is expected to be focused in the government, the education and health services, and the professional and business services sectors. Faneuil, Inc., a national customer service outsourcing company, plans to build a new call center in the city of Lexington, adding 450 jobs by 2022. Baptist Health is building a new medical campus in eastern Lexington, which will create 700 new jobs and is expected to be completed by 2023. The Keeneland racetrack is expected to host the Breeders' Cup in 2022, helping the leisure and hospitality sector recover from the impacts of the pandemic.

Population and Households

Current Population: 519,700

Population growth has slowed significantly since 2017 due to a sharp decline in net in-migration.

Population Trends

As of January 1, 2021, the population of the Lexington HMA is estimated at approximately 519,700 (Table 3). Since April 2010, population growth has averaged 4,425 people, or 0.9 percent, annually. Net in-migration accounted for 57 percent of population growth from 2010 to 2017, but only 12 percent from 2017 to the current date (Figure 5). Net natural change (resident births minus resident deaths) has slowed nearly every year since 2006 because of an aging population. Population growth trends for those aged 65 years and older have been strong—irrespective of economic conditions—since 2010, whereas population trends in younger age cohorts have fluctuated with economic conditions (see Age Cohort Trends, below).

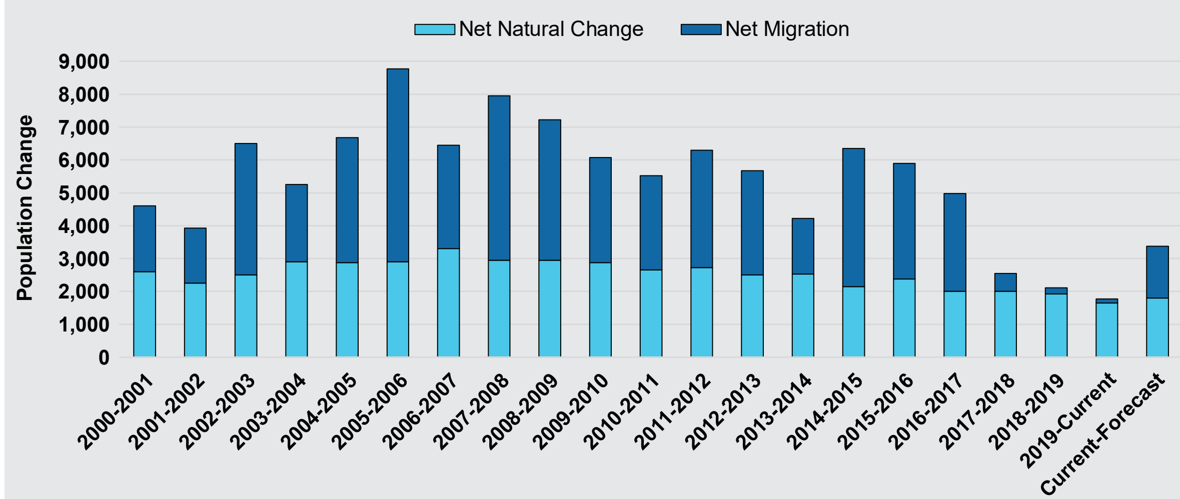
From 2000 to 2002, the population increased by an average of 4,500 people, or 1.1 percent, annually (Census Bureau decennial census counts and population estimates as of July 1). After the recession of the early 2000s, population growth

Table 3. Lexington HMA Population and Household Quick Facts

		2010	Current	Forecast
Population Quick Facts	Population	472,099	519,700	529,900
	Average Annual Change	6,375	4,425	3,375
	Percentage Change	1.5	0.9	0.6
		2010	Current	Forecast
Household Quick Facts	Households	190,142	212,400	217,900
	Average Annual Change	2,625	2,075	1,825
	Percentage Change	1.5	1.0	0.9

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (January 1, 2021) to January 1, 2024.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

Figure 5. Components of Population Change in the Lexington HMA, 2000 Through the Forecast



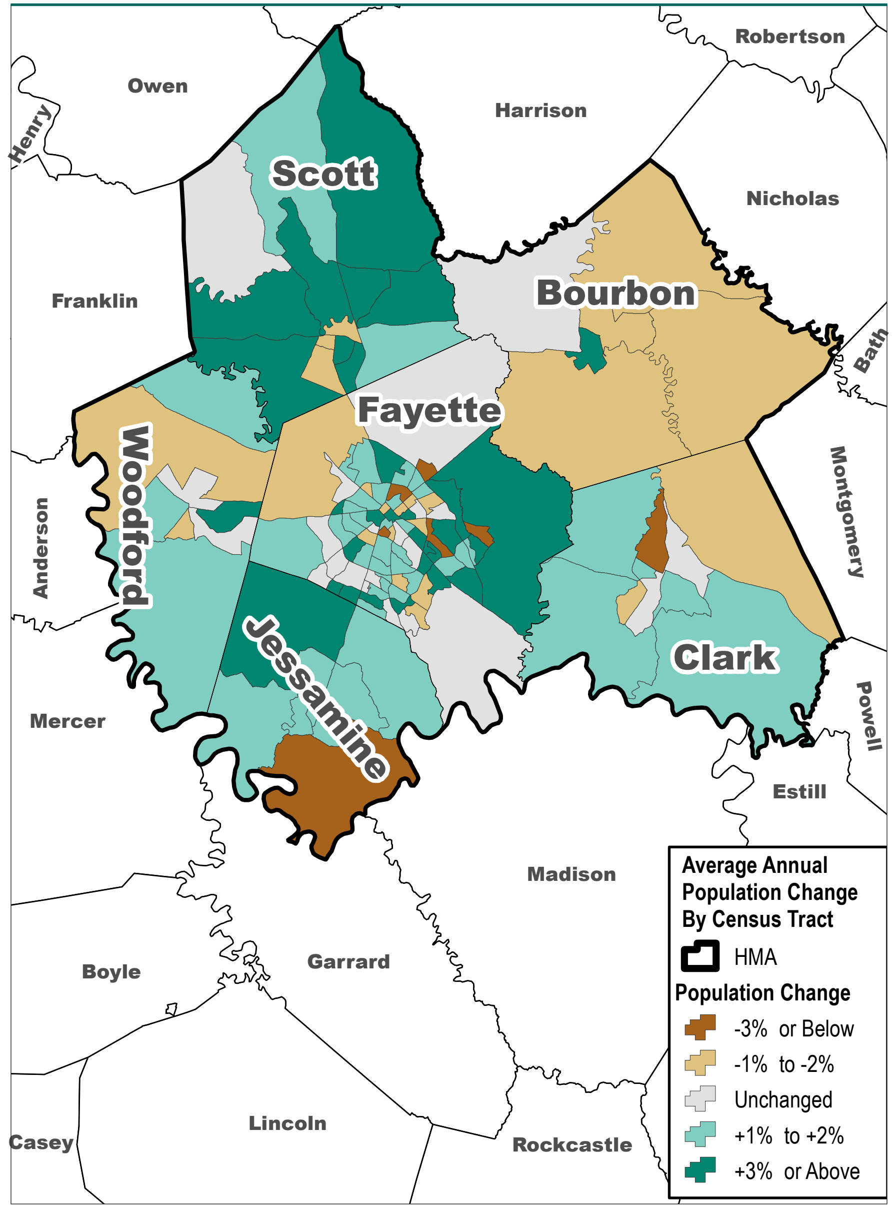
Notes: Net natural change and net migration totals are average annual totals over the time period. The forecast period is from the current date (January 1, 2021) to January 1, 2024.
Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

increased to an average of 6,925 people, or 1.6 percent, annually from 2002 to 2010. The expansion of facilities at UK, and increased hiring in the manufacturing sector, led to increased net in-migration compared with the 2000-to-2002 period, increasing from averages of 2,050 to 4,000 people annually. The effects of the Great Recession were not seen in terms of population growth until after 2010 but were similar in terms of magnitude to those of the dot-com recession. From 2010 to 2014, population growth slowed to an average of 5,425 people, or 1.1 percent, annually, and 52 percent of growth was from net in-migration. During that period, 90 percent of the population growth came from the younger-than-25-years and the 65-years-and-older age cohorts, together increasing by an average of 4,675 people, or 2.1 percent, annually during the period (2010 and 2014 ACS 1-year data). Despite an increase in net in-migration, a slowdown in net natural change held population growth to 1.1 percent from 2014 to 2017. As economic conditions strengthened, with nonfarm payrolls completely recovered from the recession-induced job decline in 2014, net in-migration increased to 3,575 people annually from 2014 to 2017. Areas closest to eastern Lexington and the Toyota plant in Georgetown had the largest increases in population due to increased economic activity (Map 1). Because of the aging population, however, net natural change in the HMA declined from an average of 2,925 from 2002 to 2010 to 2,175 annually from 2014 to 2017. The population increased by an average of 2,350 people, or 0.5 percent, annually from 2017 to 2019, and net in-migration slowed to an average of 380 people a year, coinciding with a slowdown in economic growth during the period. Net natural change also slowed further during the period, to an average of 1,975 people annually.

Age Cohort Trends

The largest age cohort in the HMA is residents aged 25 to 64 years, making up 52 percent of the population—a decline from 54 percent in 2010. From 2010 to 2014, this age cohort increased at a rate of 500 people, or 0.2 percent, annually, a much slower pace than the younger-than-25-years and 65-years-and-older cohorts that, when combined, increased by an average of 4,675 people, or 2.1 percent, a year. From 2015 to 2019, the 25-to-54-years age cohort increased

Map 1: Average Annual Population Change by Census Tract in the Lexington HMA

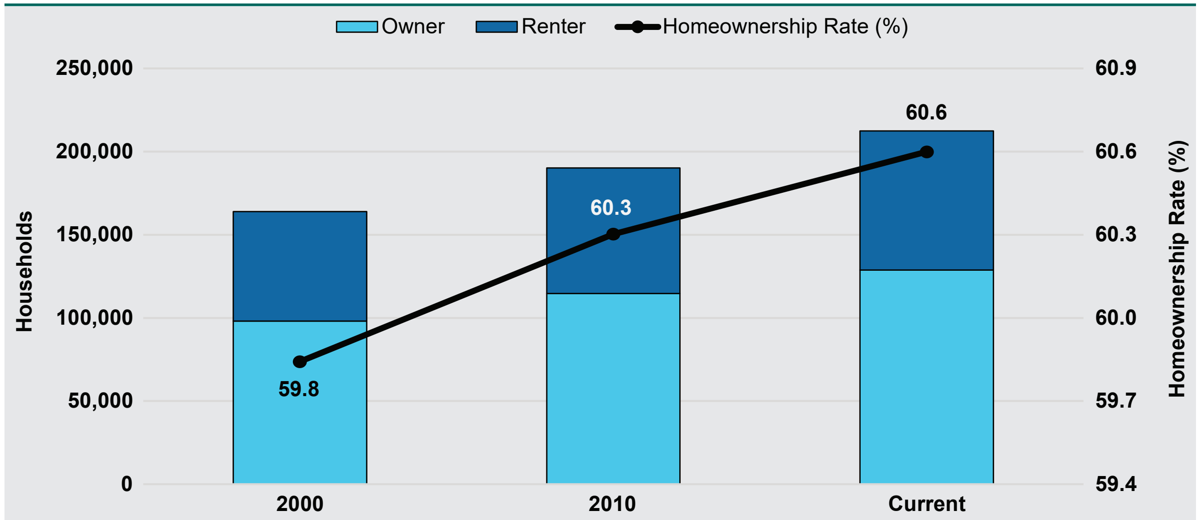


by an average of 2,975 people, or 1.1 percent, annually, as economic conditions strengthened. The fastest growing cohort was the 65-years-and-older cohort, which increased by an average of 2,550 people, or 4.1 percent, a year from 2010 to 2019—unaffected by economic contractions and expansions during that period. This cohort has contributed to slowing net natural change in the HMA since 2008.

Household Trends

Currently, an estimated 212,400 households live in the HMA, including approximately 128,700 owner and 83,700 renter households (Figure 6). Households in the HMA have increased by an average of 2,075, or 1.0 percent, annually, since 2010—a slowdown from the 1.5-percent growth rate during the previous decade. Household growth has been slightly higher than population growth due to growth in the 65-years-and-older age cohort, an age group that tends to have fewer members per household, causing the average household size in the HMA to decrease since 2010. The homeownership rate in the HMA has increased to an estimated 60.6 percent from 60.3 percent in 2010, despite the aftereffects of the Great Recession and an increasing number of students in the HMA. The increase in homeownership is partly due to the retirement age cohort accounting for a large share of population growth since 2000. Among those aged 65 years and older in Fayette County, homeownership averaged 72.2 percent from 2010 to 2019, whereas among those aged 25 to 64 years, homeownership averaged just 50.4 percent, with little change during that period (IPUMS USA, 2010–2019 ACS 1-year data).

Figure 6. Households by Tenure and Homeownership Rate in the Lexington HMA



Note: The current date is January 1, 2021.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

Forecast

Population growth during the first year of the forecast period is expected to be slightly higher than in recent years, with growth picking up during the second and third years of the forecast period. Overall, the population is estimated to increase by an average of 3,375, or 0.6 percent, a year. Net in-migration is expected to increase compared with recent years, as economic conditions continue to improve from the impacts of the pandemic and as layoffs in manufacturing subside. Households are expected to increase by an average of 1,825, or 0.9 percent, annually during the forecast period, continuing the trend of higher household growth compared with population growth.

Home Sales Market

Market Conditions: Balanced

Existing home sales price growth has increased recently because changes in seller behavior in response to the COVID-19 pandemic have led to a reduction in the supply of homes for sale.

Current Conditions

Sales housing market conditions in the Lexington HMA are currently balanced, with an estimated vacancy rate of 1.5 percent (Table 4)—down from 2.8 percent in April 2010 when conditions were soft. The inventory of homes for sale in the HMA is currently low, with a 1.7-month supply in December 2020—down from 2.9 months a year ago (CoreLogic, Inc., with adjustments by the analyst). Recently, low mortgage interest rates have supported demand despite the economic contraction and slow population growth.

Home Sales Trends

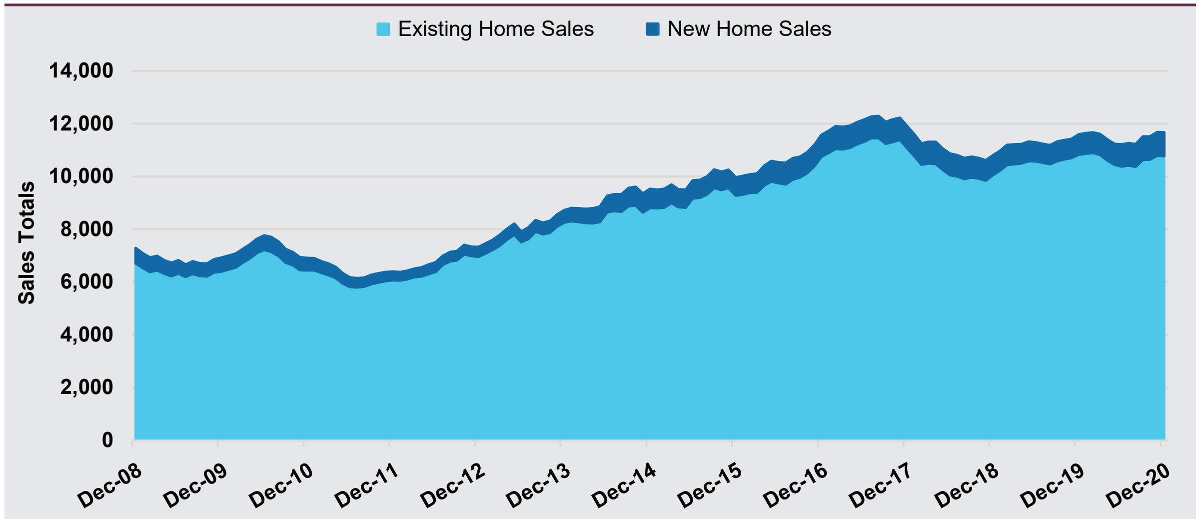
During 2020, total home sales (including new and existing single-family homes, townhomes, and condominiums) increased 1 percent, to 11,650 homes sold, reflecting a slowdown from the 7-percent increase in 2019 (CoreLogic, Inc., with adjustments by the analyst; Figure 7). Home sales have generally followed economic trends in the HMA. From 2009 through 2011, home sales declined by an average of 300 homes, or 4 percent, annually, as the local housing market dealt with the effects of the Great Recession. Home sales began recovering about a year after jobs began to recover. As economic conditions improved, home sales increased by an average of 13 percent annually from 2012 through 2016 to 11,550 homes sold

Table 4. Home Sales Quick Facts in the Lexington HMA

		Lexington HMA	Nation
Home Sales Quick Facts	Vacancy Rate	1.5%	1.0%
	Months of Inventory	1.7	3.1
	Total Home Sales	11,650	6,451,000
	1-Year Change	1%	7%
	Existing Home Sales Price	$232,700	$296,500
	1-Year Change	9%	9%
	New Home Sales Price	$300,500	$333,100
	1-Year Change	1%	4%
	Mortgage Delinquency Rate	5.9%	4.0%

NA = data not available.
Notes: The vacancy rate for the HMA is as of the current date; the vacancy rate for the nation is as of January 1, 2021; home sales and prices are for the 12 months ending December 2020; and months of inventory and mortgage delinquency data are as of December 2020. The current date is January 1, 2021. Prices shown are median for the year.
Source: CoreLogic, Inc.

Figure 7. 12-Month Sales Totals by Type in the Lexington HMA

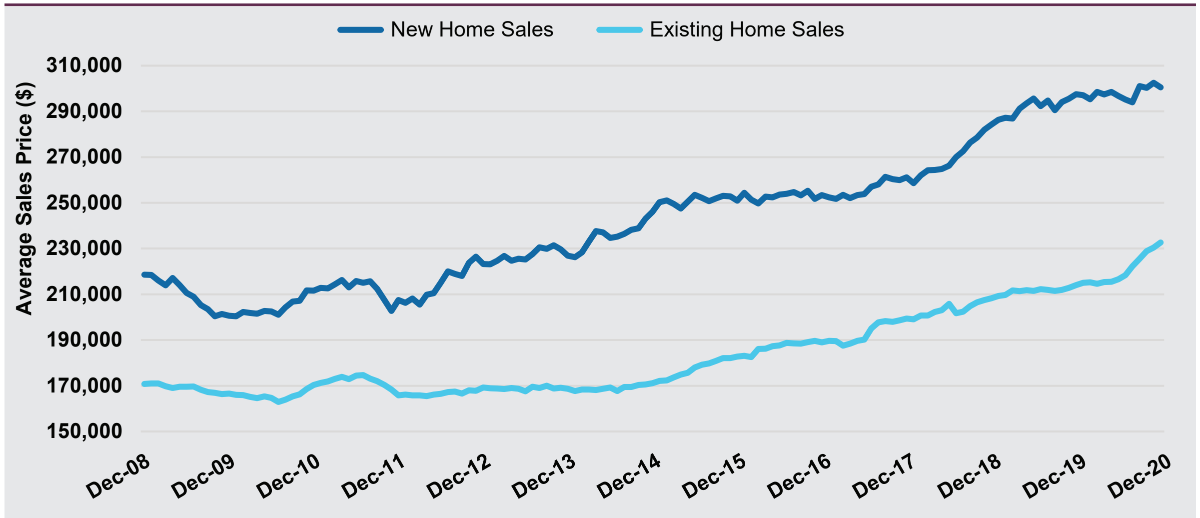


Source: CoreLogic, Inc., with adjustments by the analyst in 2016. During 2017, home sales growth began slowing, increasing 3 percent, to 11,900 homes sold. During 2018, the number of home sales declined 9 percent, to 10,800 homes sold, as job growth moderated. During late 2019, however, economic conditions were beginning to improve, and home sales increased 7 percent, to 11,600 homes sold in 2019.

Home Sales Price Trends

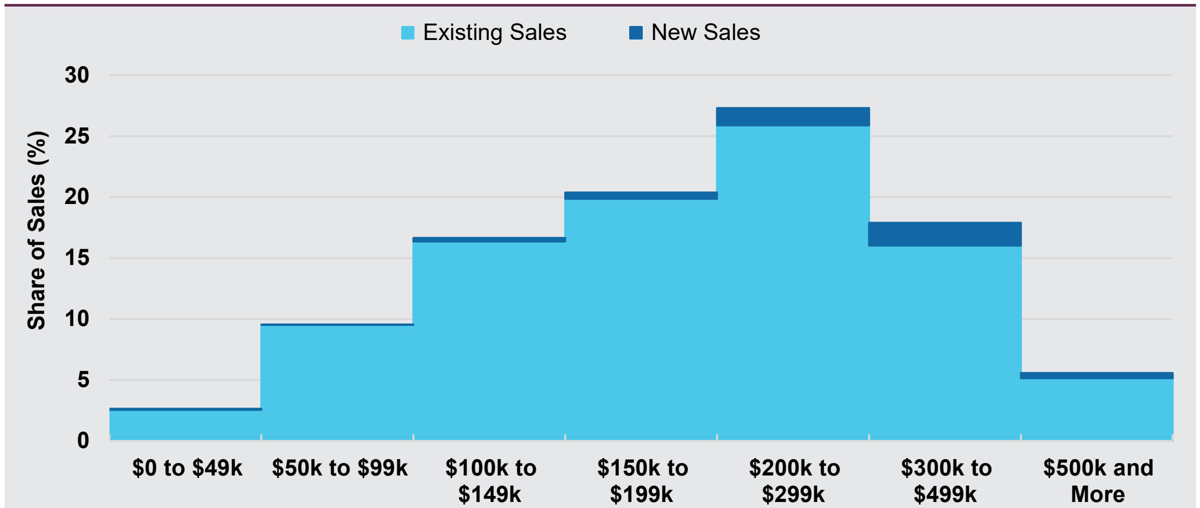
Supply constraints caused home sales prices to increase 8 percent during 2020, to an average price of $237,800 (Figure 8). In the years preceding the pandemic, home sales price growth had begun slowing, from 5 percent in 2018 to 3 percent in 2019. From 2009 through 2011, home prices declined slightly, by an average 1 percent annually, to an average of $167,900 in 2011, as weak economic conditions and slowing net in-migration suppressed demand. Home sales prices increased by an average of 2 percent annually from 2012 through 2014, to an average of $171,000, as recovering economic conditions increased demand despite further slowing net in-migration into the HMA. Home sales prices increased by an average of 5 percent annually from 2015 through 2018 due to increased demand from the significant rise in net in-migration. Home sales prices increased by $6,050, or 3 percent, during 2019, to an average of $214,500, but began to slow by the end of the year. Nearly 50 percent of total home sales were priced less than $200,000 in 2020 (Figure 9).

Figure 8. 12-Month Average Sales Price by Type of Sale in the Lexington HMA



Source: CoreLogic, Inc., with adjustments by the analyst

Figure 9. Share of Overall Sales by Price Range During the 12 Months Ending December 2020 in the Lexington HMA



Note: New and existing sales include single-family homes, townhomes, and condominium units.
Source: Zonda

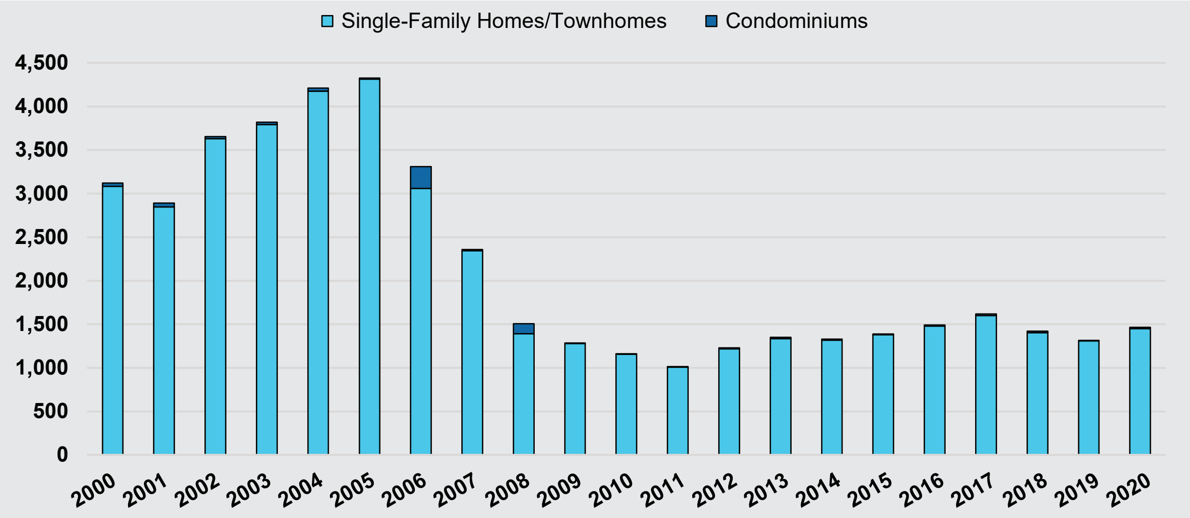
Seriously Delinquent Mortgages

The rate of seriously delinquent mortgages and real estate owned (REO) properties in the HMA has increased recently due to pandemic-related job losses. During December 2020, the rate was 2.7 percent in the HMA—up from 1.0 percent a year earlier but still well below the peak of 4.7 percent in late 2011 because of the Great Recession (CoreLogic, Inc.). By comparison, the rate for the nation was 4.0 percent in December 2020—up from 1.4 percent in December 2019 and below the peak of 8.6 percent in early 2010. The increase in the rate of seriously delinquent mortgages and REO properties has been the result of an increase in mortgages that are 90 or more days delinquent, which increased by 179 percent from December 2019 to December 2020. That increase is lower, however, than the 212-percent increase from August 2019 to August 2020, reflecting improving economic conditions.

Sales Construction Activity

Sales construction activity—as measured by the number of single-family homes, townhomes, and condominiums (hereafter, homes) permitted—in the Lexington HMA has generally stayed around the same level since the Great Recession (Figure 10). From 2001 through 2005, the number of homes permitted increased by an average of 240 homes, or 7 percent, annually, to a peak of 4,325 homes in 2005, despite economic conditions being relatively weak. New home construction declined significantly from 2006 through 2011, at an average annual rate of 21 percent, to a low of 1,025 homes permitted in 2011, largely because of the Great Recession. As economic conditions improved, the number of homes permitted increased at an average annual rate of 8 percent from 2012 through 2017, to 1,625 homes permitted in 2017. The fastest growing area during this period was Scott County, partly because hiring at the Toyota plant encouraged job seekers 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. Construction activity in the HMA slowed from 2018 through 2019, declining to an average of 1,375 homes permitted annually due to slowing economic growth. During 2020, sales construction activity increased by 150 homes, or 11 percent, from a year earlier, to 1,475 homes permitted. Nearly all of that growth came from Fayette County, where sales construction activity during 2020 increased 22 percent from a year earlier, to 700 homes permitted.

Figure 10. Average Annual Sales Permitting Activity in the Lexington HMA



Note: Includes single-family homes, townhomes, and condominiums.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–2019—final data and analyst estimates; 2020—preliminary data and estimates by the analyst

Bourbon distilleries are popular tourist attractions but have also attracted the attention of builders in downtown Lexington. Across the road from the Town Branch Distillery and a short walk from the distillery district and Rupp Arena, the 34-unit Distillery Heights townhomes are being constructed. The unit mix at Distillery Heights consists of two- and three-bedroom townhomes with sizes ranging from 1,875 to 2,400 square feet and prices in the low $300,000s. The Ethington Heights development, currently under construction, will include 33 townhomes and 38 single-family homes alongside retail and restaurant space. A short drive from the airport and Keeneland racetrack, single-family homes at The Brownstones at Ethington Heights will start in the low $300,000s and will range in size from 3,000 to 3,500 square feet.

Forecast

During the next 3 years, demand is estimated for 4,300 new homes (Table 5). The 450 homes currently under construction are expected to meet a portion of the demand during the first year of the forecast. Demand is expected to be lower during the first year of the forecast and increase in the second and third years, as the economy recovers from the current downturn. Demand is expected to continue to be concentrated in Fayette County.

Table 5. Demand for New Sales Units in the Lexington HMA During the Forecast Period

Sales Units	
Demand	4,300 Units
Under Construction	450 Units

Note: The forecast period is from January 1, 2021, to January 1, 2024.
Source: Estimates by the analyst

Rental Market

Market Conditions: Balanced

Despite slowing net in-migration, new on-campus housing from UK, and increased apartment construction, vacancy rates have continued to decrease since 2009, when market conditions were soft due to the Great Recession.

Table 6. Rental and Apartment Market Quick Facts in the Lexington HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	9.9	8.0
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	38.1	36.9
	Multifamily (2-4 Units)	20.2	16.9
	Multifamily (5+ Units)	39.7	44.0
	Other (Including Mobile Homes)	2.1	2.1
		Current	**YoY Change**
Apartment Market Quick Facts	**Apartment Vacancy Rate**	4.2	-1.3
	Average Rent	$859	3.6
	Studio	$647	-0.6
	One-Bedroom	$760	3.7
	Two-Bedroom	$919	3.9
	Three-Bedroom	$1,180	4.4

YoY= year-over-year.
Notes: The current date is January 1, 2021. Percentages may not add to 100 due to rounding.
Sources: 2010 and 2019 American Community Survey 1-year data; Moody's Analytics REIS

Current Conditions and Recent Trends

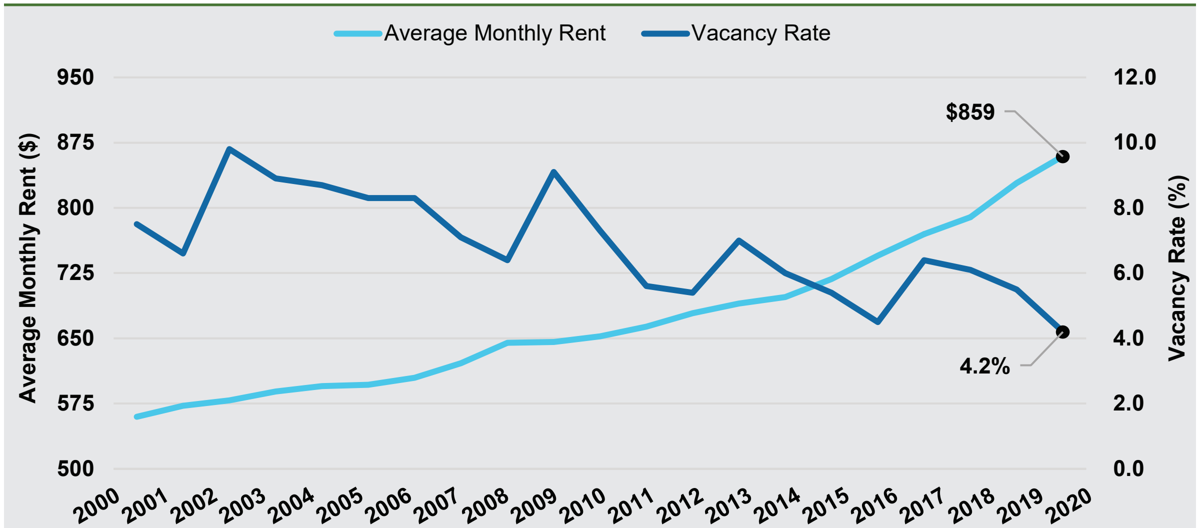
Overall rental housing market conditions (which includes single-family homes, townhomes, and mobile homes for rent) in the Lexington HMA are currently balanced, with an estimated rental vacancy rate of 8.0 percent—down from 9.9 percent in 2010, when the market was soft (Table 6). Multifamily structures with five or more units, typically apartments, made up 44.0 percent of occupied rental housing in the HMA in 2019—an increase from 39.7 percent in 2010. The apartment market is currently balanced, with an average vacancy rate during the fourth quarter of 2020 of 4.2 percent, a decrease from 5.5 percent during the same period a year ago (Moody's Analytics REIS). 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.

Vacancy rates in the Lexington HMA apartment market declined during most years after the Great Recession, increasing briefly in 2009, 2012, and 2017 due to sharp increases in construction activity during the preceding years. Vacancy rates declined from 9.1 percent in 2009 to 4.2 percent in 2020 (Figure 11), largely because of increasing enrollment at UK. Rents increased to an average of $859 in 2020, an average annual increase of 4 percent from $697 in 2014. Rents increased modestly every year from 2000 through 2013 as enrollment increased at UK and the leisure and hospitality sector grew.

Student Housing

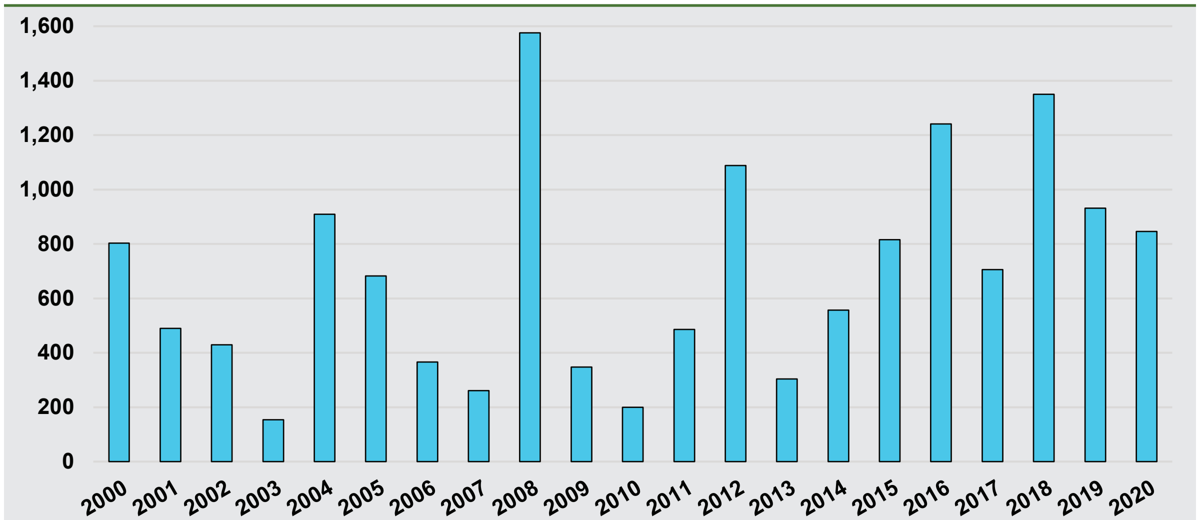
The University of Kentucky has invested more than $450 million in 14 new residence halls since 2013, the last of which was completed in 2017. Although some of those residence halls are replacements for older dormitories, the construction includes 6,850 beds and makes every residence hall on campus less than 15 years old (UK). The new residence halls have increased demand for on-campus housing; approximately 27 percent of undergraduates lived on campus in 2010, and that figure increased to 33 percent in 2019. Because demand for the rooms in the new residence halls was high and incoming freshmen are prioritized for on-campus

Figure 11. Apartment Rents and Vacancy Rates in the Lexington HMA



Source: Moody's Analytics REIS

Figure 12. Average Annual Rental Permitting Activity in the Lexington HMA



Note: Includes apartments and units intended for rental occupancy.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

housing, UK was not able to provide on-campus housing to all of the remaining students who wanted it. Partnering with The Hub apartments near campus, UK offered those students returning in 2019 room and board and the option to stay in the privately owned apartments rather than returning to residence halls. The lack of available beds on campus contributed to strong rent growth in 2019 and 2020. Year-over-year median rent paid by students in Fayette County increased 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).

Rental Construction Activity

Rental construction activity in the Lexington HMA—as measured by the number of rental units permitted—was relatively low most years until 2015, when economic activity and net in-migration accelerated. From 2000 through 2014, an average of 580 units were permitted annually, although a large increase in purpose-built student housing near the campus of UK occurred in 2008 (Figure 12). As net in-migration increased and the economy fully recovered, construction activity rose to an average of 930 units permitted annually from 2015 through 2018 to keep pace with demand. As net in-migration and economic activity slowed, construction activity declined from 1,350 units permitted in 2018 to 930 units permitted in 2019. During 2020, 850 units were permitted—a 9-percent decrease from 2019. Approximately 81 percent of the units built since 2010 have been in Fayette County. Units currently under construction are located near Interstates 75 and 64 and near New Circle Road, which encircles the city of Lexington (Map 2). The interstate highways allow quick drives to the Toyota plant in the city of Georgetown and the capital city of Frankfort.

As UK has added more modern on-campus housing, privately owned housing has been developed in a land swap deal with the city of Lexington. In exchange for parcels of land owned by UK on the northern side of Lexington, the city of Lexington turned over two parcels and some unmaintained sections of roads near campus. In turn, some residential developments were built on that land, including Hub Lexington, a 190-unit complex with a Target department store on the ground floor that was completed in 2019. Two-, three-, and four-bedroom apartment rents start at $850, $825, and $725 per bed, respectively. Although the other parcel was not used for residential development, the same real estate company that built Hub Lexington also built Hub Limestone with restaurant space on the ground floor. Two-, three-, and four-bedroom apartment rents start at $920, $769, and $724 per bed, respectively.

Forecast

During the 3-year forecast period, demand is estimated for 2,425 additional rental units in the HMA (Table 7). The 830 units currently under construction are expected to meet demand during the first year of the forecast. Despite slowing net in-migration, the need for off-campus housing due to increasing enrollment at UK is expected to keep rental demand only slightly below that of previous years.

Map 2: Completed Projects in the Lexington HMA since 2020

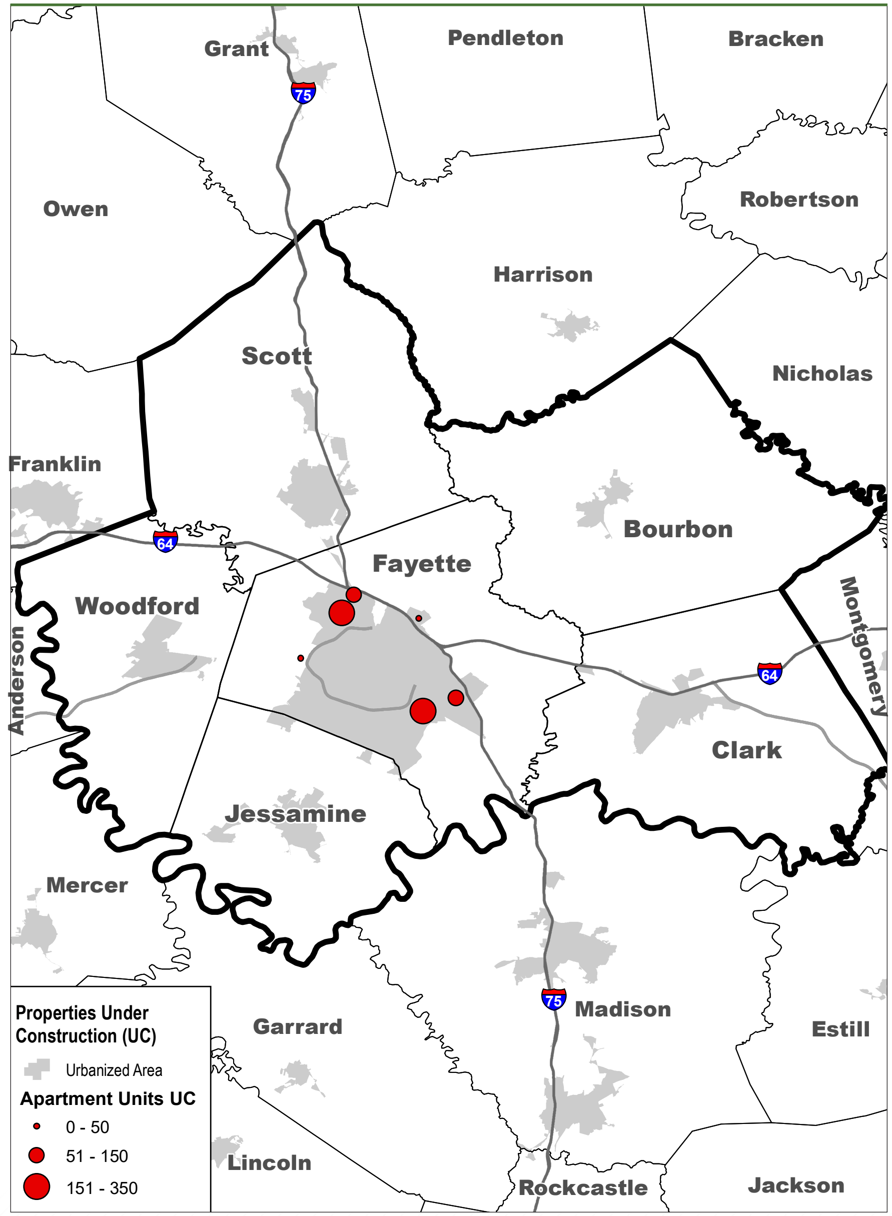


Table 7. Demand for New Rental Units in the Lexington HMA During the Forecast Period

Rental Units	
Demand	2,425 Units
Under Construction	830 Units

Note: The forecast period is January 1, 2021, to January 1, 2024.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

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.
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.
Forecast Period	01/01/2021–01/01/2024—Estimates by the analyst.
Home Sales/ Home Sales Prices	Includes single-family home, townhome, and condominium sales.
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.

Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units, such as single-family, multifamily, and mobile homes.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.

B. Notes on Geography

1.	The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.
2.	Urbanized areas are defined using the U.S. Census Bureau 2010 Census Urban and Rural Classification and the Urban Area Criteria.
3.	The census tracts referenced in this report are from the 2010 Census.

C. Additional Notes

1.	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.

2.	**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.**
Cover Photo	iStock

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