LFUCG HOUSING MARKET STUDY

RCLCO
Urban Collage
EHI Consultants

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SUMMARY OF CONCLUSIONS

The Housing Study has identified several key findings related to the provision of housing within Lexington-Fayette County:

- The city's regional share of housing, that is affordable to a broad cross-section of the market has been declining;
- There has been a net migration of households out of Fayette County to the surrounding counties;
- City residents spend a smaller portion of their income on housing than the national average. As a result, Lexington is comparatively affordable and attractive to in-migrants from other higher-cost parts of the country. That said, Lexington households with the most moderate incomes are paying a significantly higher share of their income on housing, a percentage more in line with the national average;
- There is a significant unmet demand for housing at the most affordable levels;
- The relatively large percentage of students leads to a high demand for rental product and a corresponding higher percentage of renters versus owners;
- Like most parts of the country, higher income housing has been overbuilt in recent years;
- The city has an extremely diverse market audience which is reflected in widely divergent preferences in targeted consumer research. Within New Circle Road, there exists a greater appetite for higher density product and diverse communities where residents are motivated by proximity to work, walkable environment, and access to green space. Outside New Circle Road, stronger preferences exist for single-family homes and lower density development and residents are motivated by value in price as well as amount of space for their money;
- Barriers to meeting evolving market demands include existing regulatory structures, the lack of financial subsidies for affordable housing, and the need for public investment in potential redevelopment areas; and
- Currently, the market lacks examples of key types of development that are present in other markets (e.g. traditional neighborhood development and variety of mixed-use projects) that would likely influence stated market preferences.

Macro Trends and Context

Nationally, large demographic shifts will significantly affect future housing demand. Based upon extensive research conducted by RCLCO and others, the following trends will affect future housing choice throughout the country and in Lexington.

Between 1985 and 2000, just over two-thirds of household growth was comprised of one- and two-person households, and the U.S. Census anticipates that nearly 90% of the household growth until 2025 may be comprised of one- and two-person households. According to U.S. Census data analyzed by the Brookings Institution, smaller households have demonstrated a preference for downtowns and other urban neighborhoods, where denser housing types typically predominate.

Much of this growth is being fueled by the aging baby boomers. As they become empty nesters and eventually retirees, their lifestyle and corresponding housing needs change. In Lexington, this will mean changing demand from existing households as well as potential influx of new residents, as a portion of baby boomers, more so than the previous generation, indicate they will choose "affinity locations" such as college towns for retirement.

Another major factor is Generation Y. This youngest cohort, the oldest of whom is turning 30 this year, is a larger group than their baby boomer parents and appears to have much more pronounced housing preferences. Their most preferred locations are downtowns and inner-ring suburbs; they value the ability to walk over almost all else; they seek diverse communities; and they value location and community over home. Within Gen Y there is still significant appetite for more suburban settings, the key being that they want the suburbs to be different – more walkable and with more variety of products.

Based on the growth in smaller households as well as growing preferences for high-density housing among all households, it is likely that the coming decades will be witness to increased overall demand for higher-density housing. Nationally, there may be as much as a 140% increase in demand for higher-density housing (over levels calculated by using the 2005 American Housing Survey distribution), approximately half of these units will likely be demanded in dense, mixed-use, walkable neighborhoods.

Sustainability is an important and increasingly critical motivation for the location and type of home in which people live. For approximately 40% of the market, purchasing a “green” home is a critical purchase motivation and living in sustainable communities is important to an even larger share of the market. “Green” is increasingly becoming mainstream and will likely be a major shift in the housing when the housing market recovers.

It is important to note that while RCLCO’s research and related research highlight a growing preference for high-density living arrangements, RCLCO’s data indicate that today traditional suburban-style development is still most preferred by almost 50% of potential homebuyers nationally and approximately 60% of the market locally.

Implications for Lexington

These trends, among others, portend a change from historical demand patterns, both nationally and in Lexington. There will always be a portion of the market that seeks larger lot and lower density development. In all markets, there is almost always more demand than supply for this product. Perhaps not surprisingly, in Lexington-Fayette County the same is true of housing for first-time homebuyers and households with the most affordable incomes.

As discussed above, there will be more growth in demand, however, for lower maintenance housing product, due to growth in smaller households and an aging population. The result of our analysis of supply and demand for housing by income band and housing preferences suggests three primary areas the city should focus on:

1. Immediately address the shortage of housing, particularly quality housing, for those with the most moderate incomes;
2. Plan for longer term growth in demand for higher intensity product (condominiums, townhomes, and small lot single-family) in all areas within the urban services boundary (USB); and
3. Pursue regulatory changes and public investment that can encourage a broader range of higher intensity development in the form of well-designed neighborhoods in order to accommodate the portion of the market that seeks this product and capture the highest share of the market that would consider it as a trade-off to lower their transportation costs.

Lexington-Fayette County is a Growth Market

Fayette County experienced strong population growth in the 1990s, adding over 3,500 people annually. The vast majority of growth was in the eastern and southern parts of the city, outside of New Circle Road. During the 1990s, the area inside New Circle Road actually lost 1,400 residents.

Most population forecasting sources estimate growth to have slowed in the 2000s to anywhere between 1,650 and 2,650 new residents annually. However, an analysis of permits completed by the LFUCG actually shows annual growth increasing this decade to 4,500 residents annually. Our review of the various estimates and secondary market data, suggests that growth has slowed somewhat this decade, however not as much as the most conservative estimates. We estimate that, on average, approximately 2,700 new residents have been added to the county each year this decade.

Going forward, RCLCO expects growth to pick up again beginning in 2010 with an improved national economy. Growth should average approximately 3,150 new residents annually in the coming decade before gradually slowing down after 2020 to an average of roughly 2,150 new residents annually.

Comparison of forecasts:

FAYETTE COUNTY POPULATION PROJECTION SOURCES							
	2000	**2005**	**2010**	**2015**	**2020**	**2025**	**2030**
POPULATION							
KY State Data	260,512	269,333	281,613	296,647	310,262	322,194	331,212
LFUCG (Based on Permits)	260,512	285,028	305,338				
Census	260,512	272,219	286,986				
Claritas	260,512	268,733	276,996	285,323			
Lexington MPO	260,512						333,000
BLA	260,512						353,484
RCLCO	260,512	273,828	287,733	305,339	319,353	331,635	340,917

Demographic Context

Lexington-Fayette County has a somewhat unique demographic make-up relative to the region. A few noteworthy characteristics, illustrated in more detail in the appendix, include:

- A higher concentration of renters and younger households than the region. Both of these factors are heavily influenced by the presence of University of Kentucky;
- A slightly higher concentration of one- and two-person households;
- A “fair share” of moderate incomes (defined here as household with income below $35,000); and
- To date, the county has been losing middle income market more so than households overall, primarily to Scott and Jessamine Counties.

Psychographic Profile

As summarized in the consumer research, those who live within New Circle Road have fairly distinct attitudes and preferences about where and how they live. Respondents with interest in living inside New Circle Road prefer a more diverse community in terms of people and housing. Overall, respondents who prefer to live outside New Circle Road prefer a more conventional community and home themes.

In terms of housing product, those who want to live within New Circle Road are much more willing to make trade-offs.

- 71% would choose a home with smaller square footage and higher finish opposed to a larger home with lower level of finish;
- 66% would choose a home with a less than ideal floorplan but closer to work;
- 60% would choose a less than ideal floorplan but walkable to shops, restaurants, activities; and
- 66% want homes in more an ‘urban’ environment.

In terms of community features, respondents who have interest in living inside New Circle Road are very much driven by walkable features followed by interest in green features and public transportation. Those with no interest in living inside New Circle Road, have comparatively little interest in these community features.

Walkable:

- 41% of respondents with interest in living inside New Circle Road think walkable community features are so critical they would pay extra for it.
- 12% of respondents with no interest in New Circle Road agree.

Green:

- 26% of respondents with interest in living inside New Circle Road think green community features are so critical they would pay extra for it.
- 9% of respondents with no interest in New Circle Road agree.

Public Transportation:

- 19% of respondents with interest in living inside New Circle Road think public transportation community features are so critical they would pay extra for it.
- 4% of respondents with no interest in New Circle Road agree.

Economic Context

Fayette County is the job center for the greater Lexington region. As illustrated in slides 59 and 60, Fayette is home to the largest concentration of jobs (150,000 in 2006) and is one of only two counties with more jobs than households. With jobs to housing ratio of 1.4, there is a significant portion of the employees who work in the county and live outside. Slide 4 graphically depicts the commuting pattern of those working within the county.

Commuting from outside of the county is a choice many have made and continue to make for lifestyle reasons but is also increasingly an economic reality. The loss of product available on the market (both from new construction and turnover of existing homes each year) that is priced below $120,000 is sending more people to outlying counties. This is something of a natural evolution that occurs in many markets but also creates opportunities for development in the county to better respond to the market’s changing needs in the face of the available options.

As a result of economics, current regulations, and market preferences, Lexington-Fayette County has lost market share this decade. In 2000, Fayette accounted for 57% of all households in the region while in 2008 it is estimated to have accounted for 55% of households. While the 2% drop may not seem remarkable at first blush, it translates to the county capturing 38% of regional household growth compared to a 57% “fair share”. Counties that have been capturing more than their “fair share” of household growth include Scott, Madison, and Jessamine.

Summary of For-Sale Residential Demand Analysis

Even in a down housing market with a significant excess of total inventory, supply has been and continues to be constrained for product targeting first-time buyers and those with more moderate incomes. As illustrated in the attached, slides 55 and 56, there is much more limited inventory for all homes in Lexington as compared to other counties and particularly for homes priced below $160,000. Over the years, supply below $140,000 has diminished precipitously. In a market where the median owner-occupied home is $145,000, this creates a challenge for approximately half of the market.

RCLCO's statistical demand analysis of the for-sale market substantiates the shortage of for-sale product below $85,000. Further, as the market for product priced $85,000 to $133,000 is in balance, we recommend revisiting the supply/ demand dynamic in this price band going forward. To date, Lexington has not experienced the significant drop-off in home pricing as experienced in other more overheated markets. As illustrated in slide 52, home pricing in Lexington ran fairly linear to the nation overall until 2000. After 2000, homes in the nation appreciated at a much faster rate than the local market and although Lexington climbed slightly faster this decade than the previous decade, the run-up was much more moderate than the nation. As such, Lexington has had comparatively little to "give back". All of this is to say that the softening in the housing market and the economic downturn will not likely solve the affordable housing problem in Lexington.

Based on our review of household growth forecasts, secondary market data, and historic home sales data, we quantified rental and for-sale demand in Lexington-Fayette County by income band. Our methodology for this top line analysis includes looking at current residents (renters and owner) as well as projected new households to the county. All groups were qualified by income and corresponding affordability, turnover rates, and likelihood of becoming renters or owners again. This analysis does not include segmenting the market by geographic preference or by product type.

The results of the for-sale housing statistical demand analysis (summarized below), reveal that the for-sale market is generally in balance for product priced between $85,000 to $244,000, over-supplied with product priced above $244,000, and grossly under-supplied with for-sale product priced below $85,000. Going forward, economic downturn not withstanding, there is a high probability the market will become under-supplied with homes priced $85,000 to $133,000 as new product at these price points can be difficult to deliver. This price band should be monitored and policy should be crafted to facilitate the delivery of such product.

FAYETTE COUNTY ANNUAL DEMAND FOR FOR-SALE PRODUCT (NEW AND RESALE)

AMI	<50%	50%-80%	80%-100%	100%-140%	140%-180%	180%+
Price	<$85k	$85k-$133k	$133k-$160k	$160k-$208k	$208k-$244k	$244k+
Supply	503	1,770	1,337	1,536	559	1,518
Demand[1]	2,606	1,579	826	1,087	609	671
Gap	**-2,103**	**192**	**510**	**449**	**-50**	**846**

[1] Demand methodology is to assess structural demand and is based on Census and Claritas data related to tenure, turnover, and affordability for households in Fayette County. This represents an annual average for the next five years assuming rational market behavior. This type of statistical demand should be used as a guide for mid-term planning as it does not account for the contraction in demand over the next 12 months.

It is important to note that all areas of the county are not experiencing the gap in supply equally. All subareas are undersupplied of for-sale products below $85k. However[2]:

Inside New Circle Road	‣ Generally under-supplied across all price bands. ‣ 76% of new product delivered and sold inside New Circle Road since 2004 has been below $270,000 revealing that despite rising land prices, it is still possible to deliver products at middle market prices at closer-in locations.
North	‣ Of all the sub-areas, appears to have the best supply and demand relationship.
Northwest	‣ Residents currently indicate the least level of preference for this area. However, land availability has meant that Northwest has been the recipient of new supply that has been unable to be delivered in more desirable areas. ‣ Opportunity for master-planning
South	‣ Despite relatively healthy supply of product below $120,000 this area suffers from a dramatic supply/demand imbalance at lower price points.
Southwest	‣ Supply/demand imbalance at lower prices points is moving into higher price bands.
East	‣ Most significant oversupply of higher priced homes in this area.

Affordable Rental Housing is an Immediate Need

Like most urban areas, Lexington-Fayette already has an affordable housing problem. Developing precise numbers for the market overall is challenging due to the large student population, their transient nature, and the difficulty associated with determining whether or not students are being counted evenly in secondary data. That said, the statistical analysis discussed below utilized all of the data available to combine statistical with judgment to reach our best estimates.

Our statistical analysis of supply relative to demand reveals significant challenges in the rental housing market. As illustrated below, statistically, Lexington-Fayette has a significant deficit of rental apartments priced below $500 monthly. Further, middle income renters are paying a lower percentage

[2] A map illustrating the submarket can be found on Slide 2.

of their income on rent than is typical, placing more pressure on these most affordable rental ranges. The lack of product in these price bands is putting pressure on the single-family rental market, effectively creating a market for single-family homes to become rental. On the other end of the spectrum, there appears to be a longer term opportunity to introduce lifestyle rental product into the market. Statistically, there is an under-supply of higher end rental product. Effectively, this means that higher income renters are "renting down" but when the economy recovers and with the right community types, there appears to be an untapped market for higher end rental.

AMI	<40%	40%-60%	60%-80%	80%-100%	100%+
Monthly Rent	**<$500**	**$500-$800**	**$800-$1,050**	**$1,050-$1,330**	**$ 1,330+**
Annual Supply	6,015	10,616	2,085	225	312
Annual Demand	8,563	5,816	5,391	2,283	3,058
Gap	**-2,548**	**4,800**	**-3,306**	**-2,058**	**-2,746**

Significant Portion of Market is Willing to Make Trade-offs

In the context of limited supply, a significant portion of the market is making trade-offs to accommodate their preferred lifestyle. Some move further out to find the housing product they want while others choose to rent or buy a "less than ideal" home in a convenient location.

This diminished supply at the most affordable price bands and the outward development pattern is not unique to Lexington and is consistent with general market preferences. Across the United States the majority of the market has made a choice to "drive for value" or "drive until they qualify". Sixty percent of Fayette County employees say they have the same preference.

We should not ignore that 40% say of the market prefers a close-in location and, based on the experience in other market and with broader macro trends, the 40% figure will likely grow. The most effective ways to accommodate more of the 60% drive for value market inside the USB (a shift that would have a positive impact on transportation and the environment) is through:

- Small lot SFD product – 41% of the market would accept a small lot inside New Circle Road if it lowered their transportation costs.
- Attached (townhome and condominium) product – 28% of the market would accept an attached home inside New Circle Road in order to lower their transportation costs.

<u>Small lot single-family product can accommodate growing portion of the "move-out" market</u>

There is already a fairly large small lot single-family detached market. Twenty-five percent of the market states that it is their preferred home type. To date, much of the small lot product in Lexington serves the starter market. Although there are several examples of higher-end small lot product, there appears to be a void of small lot product with great design across price points. The key to accommodating the market in smaller lot product across price bands is through great community and home design.

Case studies from other markets reveal that an even larger share of the market (than the 25% and even the 41%) will accept small-lot product in the context of great neighborhood design and/or if their jobs are co-located with their home. Once the market can literally see, touch, and feel high quality streets and the convenience of the lifestyle, a much larger share of the market prefers and accepts smaller lot product, particularly among key market audiences and income levels.

Based on the stated preferences of the existing market and assuming new growth will be accommodated in a context of trade-offs, we estimate demand for 4,700 to 4,800 new, small-lot single family homes through 2030. This would be characterized by a lot size that is smaller than much of the product currently in Lexington, with lot sizes as small as 35 feet. Our analysis suggests that there will continue to be strong demand for more conventional single-family product, with 14,200 to 14,500 net new homes through 2030. While this product type, which is characterized by smaller lots than is available in surrounding bedroom communities, has been the vast majority of what has been offered historically, it will become a smaller but sill important portion of the market, estimated at 42%. This analysis does not account for any dramatic change in transportation costs, nor does it account for the introduction of new transportation alternatives, both of which could impact these figures.

Examples of communities that have effectively incorporated small-lot product into high quality, successful mixed-use communities are summarized on the following page.

Birkdale Village 10-15 du/acre huntersville, nc

Birkdale Village is a 52 acre mixed use development that includes dining, commercial, and residential uses. The majority of residential space is in 1-3 bedroom apartments above ground level retail all of which are surrounded by community amenities such as the town green which creates an urban pedestrian friendly environment.

Norton Commons 10-15 du/acre louisville, kentucky

Norton Commons is a 595 acre Traditional Neighborhood Development (TND) that includes a mixed use “Village Center”, single-family detached and some attached homes in the “Village General”, as well as a “Village General” which is comprised of mostly single family detached homes. The site also offers an abundance of greenspace as well as community gardens.

Serenbe 10-15 du/acre palmetto, georgia

Serenbe is made up of a 900 acre area outside of Atlanta, Ga. Serenbe is devoted to being a sustainable development both environmentally and socially. The site has been designed and planned in an environmentally friendly way in an attempt to provide residents with the necessities of a community while lessening their impact on the surrounding environment.

Stapleton 20-30 du/acre denver, colorado

Stapleton is a mixed use district that includes five neighborhoods of differing housing types and densities. The district also includes schools that provide the area with educational opportunities. The neighborhoods are intertwined with parks commercial/retail opportunities in an attempt to make Stapleton a self sustaining community.

Glenwood Park 20-30 du/ac atlanta, georgia

Glenwood Park is a mixed use development with a broad range of housing types including; townhouses, condos and single-family. Glenwood offers retail and office space throughout and strives to provide its residents with a walkable and environmentally considerate living space.

Attached housing in an important and growing niche

Attached housing has historically been a small share of the market. From 1998 through 2005, 7 to 14 percent of all of all home sales have been condominium or townhome product. As illustrated in slide 5, the share of the market that was attached experienced an uptick in 2006 (23% attached) and 2007 (29% attached) as the availability of mortgages and capital brought new buyers to the market - students, second home buyers, and some first-time buyers who otherwise may have remained renters. New projects also tapped into what was likely pent-up demand for such product. RCLCO consumer research reveals that 15.5% of the market wants and up to 23% of market will accept attached housing if they get another benefit in return (such as lower transportation costs)

Demographic shifts, particularly growth of one- and two-person households and an aging population, will create incremental shifts in demand for attached product that translate to a significant change in the number of new attached units through 2030.

Through 2030, we estimate demand for 5,500 to 6,000 new, owner-occupied attached homes. It is important to note that although much of this demand will be accommodated in the urban core areas, there is demand for attached product throughout the urban services boundary, particularly for townhomes.

When you add to this an estimated total demand for 8,800 to 9,000 new attached rental units, total net new demand for higher density product (rental and for-sale) is approaching 15,000 units. These figures do not account for obsolescence of existing product and the likely need of the coming 20 to 30 years to replace some aging higher density housing stock.

Active Adult and Senior Housing

An important component in demand for lower maintenance product is the aging of the baby boomers. With the oldest of the baby boomers approaching 65, many are already empty nesters and are looking toward retirement. With a delayed retirement compared to previous generations (an existing trend that will likely be magnified in light of the economic downturn), the peak of the baby boomers retiring will likely occur between 2020 and 2025.

A significant portion of demand for small-lot single-family, condominiums, and townhomes will come from these more mature households. Local projections call for 136% growth (more than doubling) in population aged 60 – 85 between 2008 and 3030. Increasingly over time, the market will need to respond to the needs of this aging population. Product types in demand will include:

- Low to no maintenance single-family homes with master on the main;
- Townhomes with master on the main in more urban areas as well as within existing single-family neighborhoods – the vast majority of empty nesters want to stay in their same neighborhoods so they can go to the same grocery store, gym, church/ synagogue, etc.;
- Flats located in service-rich locations;
- Quad ranches in more suburban locations; and
- In the longer term, independent and assisted living.

Student Housing

Within the demand for attached housing, there is fairly significant demand for new student housing. Currently, an estimated 6,000 units in the of-campus market are filled with students. This represents approximately 22% of annual rental housing demand. In terms of product type, more students (41%) seek a unit to share with one other roommate, followed by those (32%) who would prefer to live with two or more roommates. The least desired product, perhaps due to expense, is a single unit; 27% of students indicated a single as their first choice. Based on input from University of Kentucky, we are assuming a need of an additional 400 beds off-campus annually. Given the reported preferences above, this would translate to 250 to 275 units of students housing.

Another intuitive yet important finding from the consumer research is the students want to live close to campus. Despite their being located throughout the county (Slide 12), their highest preference is to live in the subareas closest to campus. From a planning perspective, this raises some points for discussion.

Throughout the country and in Lexington, rental housing tends to concentrate, much more so than for-sale housing, near the central business district. With University of Kentucky being located intown, rental product is even more concentrated close in. In many ways this is desirable for transportation related issues but it also places pressure on the single-family neighborhoods. High home ownership rates are typically associated with higher neighborhood stability. The converse is not always true but when the ratio between owners and renters is the opposite of a region (i.e. an area becomes 70% rental), there can be challenges associated with the more transient nature of rental properties.

Accommodating Demand for Higher Intensity Development

Much of this demand can be accommodated through underutilized properties as well as though new mixed-use developments. The chart below quantifies the potential to redevelop underutilized properties with a full range of densities, the land for which was indentified in a survey of vacant land and unoccupied structures conducted by the Division of Planning in 2007. It is worth noting that here Medium Density Residential (approximately 7,000 total units) is at 4 units to the acre which is slightly lower density than is typically seen with small lot product. As detailed below, high and Very High Density Residential totals approximately 5,000 units.

LFUCG HOUSING MARKET STUDY

	LAND USE	ASSUMPTIONS	DOWNTOWN			NEW CIRCLE			URBAN SERVICES BOUNDARY		
			Acres	Dev. Sq. Ft.	Dev Units	Acres	Dev. Sq. Ft.	Dev. Units	Acres	Dev. Sq. Ft.	Dev. Units
Residential:											
LD:	Low Density Res.	2 units/acre	1.21		2.42	62.12		124.24	397.58		795.16
MD:	Medium Density Res.	4 units/acre	5.94		23.76	112.19		448.76	1240.74		4962.96
HD:	High Density Res.	13 units/acre	5.93		77.09	26.06		338.78	77.83		1011.79
VHD:	Very High Density Res.	24 units/acre				1.53		36.72			
EAR 1:	Exp. Area Res. 1	2 units/acre							675.12		1350.24
EAR 2:	Exp. Area Res. 2	4 units/acre							376.10		1504.40
EAR 3:	Exp. Area Res. 3	13 units/acre									
		Totals:	**13.08**		103.27	**201.90**		948.50	**2767.37**		9624.55
		Total Res. Units:			**103**			**948**			**9624**
Mixed-Use:											
MU:	Retail / Off. / Res.	0.75 FAR + 3 FAR + 24 units/acre	10.28	1679238.00	246.72	2.60	424710.00	62.40			
RTHD:	Retail / Personal Serv. / HD Res.	0.75 FAR + 60 units/acre				0.10	3267.00	6.00			
RTPS:	Retail / Personal Serv. / Prof. Serv.	0.75 FAR + 3 FAR	0.60	98010.00							
IMU:	Industrial Mixed Use		**1.98**			**0.67**					
	RT	40% at 0.75 FAR	0.79	25874.64		0.27	8755.56				
	Residential	60% at 60 units/acre	1.19		71.28	0.40		24.12			
DTMP:	Downtown Master Plan:		**75.40**								
	RTPS	20% at 0.75 FAR + 3 FAR	15.08	2463318.00							
	RTHD	40% at 0.75 FAR + 60 units/acre	30.16	985327.20	1809.60						
	High Rise Office	10% at 10 FAR	7.54	3284424.00							
	Residential	30% at 60 units/acre	22.62		1357.20						
		Totals:	**88.26**	8536191.84	3484.80	**3.37**	436732.56	92.52			
		Total Res. Units:			**3484**			**92**			
		Total Comm. Sq. Ft:		**8,536,191.00**			**436,732.00**				
Commercial:											
RT:	Retail Trade/Personal Services	1 FAR	0.24	10454.40		75.71	3297927.60		106.29	4629992.40	
HC:	Highway / Interstate Comm.	1 FAR				12.38	539272.80		14.70	640332.00	
PS:	Prof. Serv. / Off.	3 FAR				128.16	16747948.80		100.58	13143794.40	
ORP:	Off. / Ind. / Research Park	4 FAR							445.83	77681419.20	
OW:	Off / Warehouse	1 FAR				8.03	349786.80				
WW:	Warehouse & Wholesale	1 FAR				27.80	1210968.00		45.80	1995048.00	
LI:	Light Industrial	1 FAR				62.54	2724242.40		147.98	6446008.80	
HI:	High Industrial	1 FAR				7.68	334540.80				
ED:	Eco. Development	2 FAR							178.36	15538723.20	
		Totals:	**0.24**	10454.40		**322.30**	25204687.20		**1039.54**	120075318.00	
		Total Comm. Sq. Ft:		**10,454.00**			**25,204,687.00**			**120,075,318.00**	
Public:											
SP:	Semi-Public Facilities					6.20			27.86		
OPU:	Other Public Uses		0.34			4.44			55.02		
GS:	Green Space/Open Space		1.35			9.83			98.60		
PE:	Public Education								14.76		
PR:	Public Recreation		11.74			18.00					
CIR:	Circulation		0.90								
CC:	Community Center										
U:	Utilities					1.91					
CON:	Conservation										
TA:	Transition Area								7.97		
SDA:	Special Design Area										
SRA:	Scenic Resource Area	2 units per 5 acres									
		Totals:	**14.33**			**40.38**			**204.21**		

	DOWNTOWN	NEW CIRCLE	URBAN SERVICES BOUNDARY	TOTAL
Total res. units:	3587	1040	9624	**14251**
Total comm. Sq. ft:	8,546,645.00	25,641,419.00	120,075,318.00	**154,263,382.00**

In addition to or concurrent with redevelopment, there are areas throughout the market that would likely be appropriate for a full range for mixed-use development patterns. The table below highlights the significant amount of acreage that is potentially available for such development. The areas are illustrated graphically in the attached appendix.

LFUCG HOUSING MARKET STUDY

LEXINGTON HOUSING STUDY		
SUB AREA	SQ FEET	**POTENTIAL MIXED-USE ACREAGE**
District		District Acreage
North		**3,000**
NewtownPike/New Circle Rd.	106387017	2,500
Paris Pike	4125482	100
Hamburg	18819120	400
East		**2,500**
Hamburg	67564831	1,500
Richmond Road	38672521	1,000
Intown South		**2,000**
Distillery	51927981	1,200
Harrodsburg Road	10586408	300
Nicholasville Rd	21234200	400
Tates Creek	5406388	100
Northwest		**1,500**
Masterson Station	62465040	1,500
South		**1,000**
Nicholasville Rd	40994294	800
Man O' War	8826263	100
Tates Creek	9721065	100
Intown North		**1,000**
NewtownPike/New Circle Rd.	30362455	600
Winchester Rd	16269143	300
Lexington Mall	6358907	100
Intown Central		**1000**
Red Mile/S.End Park/College Town	25526474	700
Broadway	3840427	100
Nicholasville Rd	6025775	100
Chevy Chase	4445139	100
Southwest		**500**
Palomar	6020140	100
Beaumont	17559175	400
Downtown		**250**
Lex Center/Downtown/Collegetown/3rd st.	12893760	250
TOTAL POTENTIAL MU ACREAGE		**12,750**
		(Acreages are approximate measurements)

Implications and Implementation

Much of the feedback from the consumer research is static and does not necessarily account for the dynamic nature of real estate and underlying economic trends. Outside factors must be taken into consideration when thinking about land use and affordable housing policy. They include, but are not limited to:

- Land availability (greenfield and redevelopment opportunities) by subarea;
- Changing character of areas in the county that may influence market perceptions;
- Changing lifestyle needs and preferences with age; and
- Changing transportation costs and/or available income for transportation.

Based on all of the above and the team's knowledge of the factors and trends above, we recommend the county pursue the following:

- Targeted affordable housing strategies; and
- Regulatory changes to accommodate market demand for higher density product across price points and accommodate the growing share of the market that seeks high quality, walkable, diverse, mixed-use environments.

<u>Affordable Housing Strategies</u>

With mounting foreclosures and tightening of the housing credit market, there has been a spike in the demand for additional rental housing and especially affordable rental units and the demand for affordable ownership is also on the increase. If current trends continue, today's default crisis will soon turn into an even larger affordability crisis driven by the residents being locked out the ability for home ownership or even more critical access to affordable housing. The market analysis, which may not fully account for the impact of the foreclosure crisis, bears out the need to expand the supply of affordable housing units within the community and the region as a whole.

Innovative strategies of mixed-use neighborhood and infill development will be needed to increase the production and preservation of affordable housing. With the increase in the number of vacant and abandoned properties within Fayette County, a more robust effort by local, state and federal governments will be needed to address the affordable housing crisis faced by Fayette County. Some key strategies to pursue include:

Lexington Land Bank

Land banking is the process or policy by which LFUCG acquires vacant, abandoned or surplus properties and converts them to productive use or can hold them for long term strategic affordable housing purposes. Turning vacant and abandoned properties into community assets will foster a targeted and sustainable strategy of affordable housing preservation.

The Lexington-Fayette Urban County Government has proposed an application for Neighborhood Stabilization Program funds for the establishment of a land bank for the purchase of Fayette County foreclosed homes. A majority of these homes exist within identified low and moderate income neighborhoods.

Under the Land Bank, these properties will be purchased and ‘land-banked’ and then made available for developers to utilize for redevelopment (new construction or rehabilitation) and sale to low-income, moderate-income and middle income households for owner/occupancy. Federal funds will be used to support the cost of acquisition, appraisals, closing costs, relocation, if necessary and maintenance of properties while held by the LFUCG. After redevelopment, these properties are to be sold for homeownership opportunities for households whose incomes exist at or below 120% of median. The LFUCG is in the process of forming a land bank authority and once this authority is established, it will undertake responsibility for purchase and disposition of NSP-funded properties.

Under this proposal, homebuyers will be eligible at the time of final sale for subsidies under the HOME Investment Partnerships Program. Whether or not a HOME subsidy is provided, final homebuyers of NSP-assisted land bank properties will enter into mortgages, notes, and deed restrictions that enforce an affordability period that is consistent with HOME regulations and that require the unit(s) remain the buyers principal residence for a given length of time.

With the proposed Newtown Pike Extension, the Southend Park Neighborhood is being relocated as a vital part of this project. A guiding principle of the Southend Park Neighborhood is to provide affordable housing to all residents. Given this principle of affordable housing, the Community Land Trust (CLT) model was selected to meet the housing and development needs for this neighborhood. Under the CLT model, affordability is maintained by separating the ownership of the land from the home. This means the CLT retains ownership of the land while the homebuyer buys and owns the home and the CLT leases the land to the homeowner.

A steering committee has established by-laws and re-sale formulas as well as appointed a Board of Directors for the Lexington CLT. The CLT is a private, nonprofit 501(c)(3) organization that exists to preserve affordable housing forever as well as to assist and support homeowners and renters within the CLT properties and also to protect community assets. The goals and objectives of the CLT are currently being formulated by the Board of Directors.

Lexington Housing Authority HOPE VI

The Bluegrass-Aspendale HOPE VI affordable housing project is a multi phase project currently underway with phases of multifamily and homeownership planned, overall the project will consist of 491 new units, including 260 subsidized rental units and 103 affordable and market rate single family units on the existing public housing site’s footprint.

Tax Credits

The New Markets Tax Credits (NMTC): is a federal program that permits taxpayers to receive credit against Federal income taxes for making qualified equity investments. The purpose of the credit is to stimulate increased investment and economic growth in low- income communities. The NMTC stimulates investments in commercial real estate and business venture in low-income rural and urban areas. The Tax credits can be used to finance community development projects, but not in conjunction with projects already benefiting from other federal tax subsidies. The credit is provided to the investor over a seven year allowance period. Compliance is mandatory for seven years. Lexington needs to be more active in lobbying for these funds for projects in the community.

Low Income Tax Credits: The Federal Low-Income Housing Tax Credit program is run by the IRS and allows companies to invest in low-income housing, while receiving 10 years of tax credits. The program is administered by the Kentucky Housing Corporation. Many local housing and community development agencies have effectively used these tax credits to raise equity for developments that otherwise would not have been built or purchased and rehabilitated. The purpose of the tax credit is to increase the supply and availability of low-income rental housing by offering incentives to developers. Federal Low Income Housing Tax Credits enable property owners to claim a tax credit equal to 30% or 70% of a project’s present value, depending on the type of project. The tax credit is claimed over a period of 10 years and can be realized either through the sale of tax-exempt bonds or through an allocation from the Kentucky Housing Corporation.

Non Profit Housing Providers
Within the Fayette County affordable housing community there are several nonprofit housing providers that are charged with addressing the demand for affordable housing. Those entities include:

1. Community Ventures Corporation
2. Faith Community Housing Foundation
3. REACH
4. Lexington Housing Authority
5. Lexington CLT
6. Fayette County Local Development Corporation

East End Community Development Corporation
The East End Small Area Plan recommends the creation of a Community Development Corporation (CDC) to ensure the revitalization of the neighborhood. A Community Development Corporation as a 501(c)3 non-profit corporation could be used to implement and coordinate an affordable housing strategy for the East End Neighborhood.

The CDC's primary focus and priority would be to improve the East End Neighborhood holistically. This can be accomplished by establishing many programs that would constitute the core focus of the CDC. These programs include an Economic Development program, a Real Estate Development program, a Community Organizing program, an Infrastructure program, a Quality of Life program, a Housing program and a Community Arts program.

Through the creation of the CDC and many of its programs, the revitalization of the East End would move towards becoming a reality.

Regulatory Changes

Much of the regulatory changes required to accommodate market demand, in terms of types both of communities and product types, are consistent with those identified in the Infill & Redevelopment Steering Committee Report issued in March of 2008. To recap, various areas for types of scales of infill and mixed-use development were identified and in order to bring to fruition a broad range of issues need to be addressed, including those related to design and administrative processes:

<u>Design issues relate to the character the market seeks:</u>
Site Design Standards**:** In priority Centers, LFUCG should create and institutionalize a set of Site Design Standards that encourage pedestrian-oriented development.

Transitional Requirements**:** Within the transitional areas between Centers and Corridors and Neighborhoods, LFUCG should establish standards that mandate minimum buffers, create transitional height planes and establish compatibility with surrounding neighborhoods.

Signage Standards**:** In areas of commercial and mixed use redevelopment, unified private signage of a common vocabulary and standardized location and size could be encouraged and billboards could be eliminated or minimized. Implementation of the previously adopted ordinance on amortization of non-conforming signs should be reconsidered by LFUCG.

Streetscape Standards**:** As part of the development of "Complete Streets Standards," LFUCG should develop guidelines for adequate planting strips, street furnishings, landscape species and hardscape materials.

Parks and Open Space Standards: LFUCG should update and implement quantifiable standards for the provision of parks and open spaces. Standards should address locational frequency, public accessibility, and program for new and improved parks and open space.

Administrative Process

As there are no stand-alone Mixed Use categories in the code right now (although there are Mixed Use classifications that properties can be rezoned to), the city needs to explore creating new mixed-use districts or overlays that are more form-based in their approach and provide architectural guidelines and then apply them to target areas to encourage redevelopment and provide some context for remaining infill and greenfield development.

Additional strategies and approaches to address the issues and respond to market demand will be included based on input from the Steering Committee.

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they stand the test of time.

We assume that the economy and real estate markets are close to bottoming out for the current cycle, and that they will grow at a stable and moderate rate starting in 2010, more or less in a straight line on average for the duration of the analysis period (to 2020 and beyond). However, history tells us that stable and moderate growth patterns are not sustainable over extended periods of time, and that the economy is cyclical and that the real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when the current economic and real estate downturns will end, and what will be the shape and pace of growth once they are recovered.

With the above in mind, we assume that the long term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not take into account the potential impact of future economic shocks on the national and/or local economy, and does not necessarily account for the potential benefits from major "booms," if and when they occur. Similarly, the analysis does not necessarily reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

For all the reasons outlined , we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that once the current cycle is over, the following will occur in accordance with current expectations:

- Economic, employment, and household growth.
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels.
- The cost of development and construction.
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth).
- The availability and cost of capital and mortgage financing for real estate developers, owners and buyers, at levels present in the market before the most recent run up (i.e., early 2000s levels).
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand.
- Major public works projects occur and are completed as planned.

Should any of the above change, this analysis should probably be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

SUMMARY OF MAJOR FINDINGS

- Immediately address the shortage of housing, particularly quality housing, for those with the most moderate incomes;
    - Existing deficit of ~2,500 affordable rental units
    - Growing deficit of for-sale product priced below $120,000
    - Losing market share of middle market, family market
- Plan for longer term growth in demand for higher intensity product (condominiums, townhomes, and small lot single-family) in all areas within the urban services boundary (USB). Market demand through 2030 for:
    - 5,500 to 6,000 net new condos and townhomes
    - 4,700 to 4,800 net new, very small-lot single-family
    - 8,800 to 9,000 net new rental apartments/ lofts/ units
    - 14,200 to 14,500 net new conventional single-family
- Pursue regulatory changes and public investment that can encourage a broader range of higher intensity development in the form of well-designed neighborhoods in order to accommodate the portion of the market that seeks this product and capture the highest share of the market that would consider it as a trade-off to lower their transportation costs.

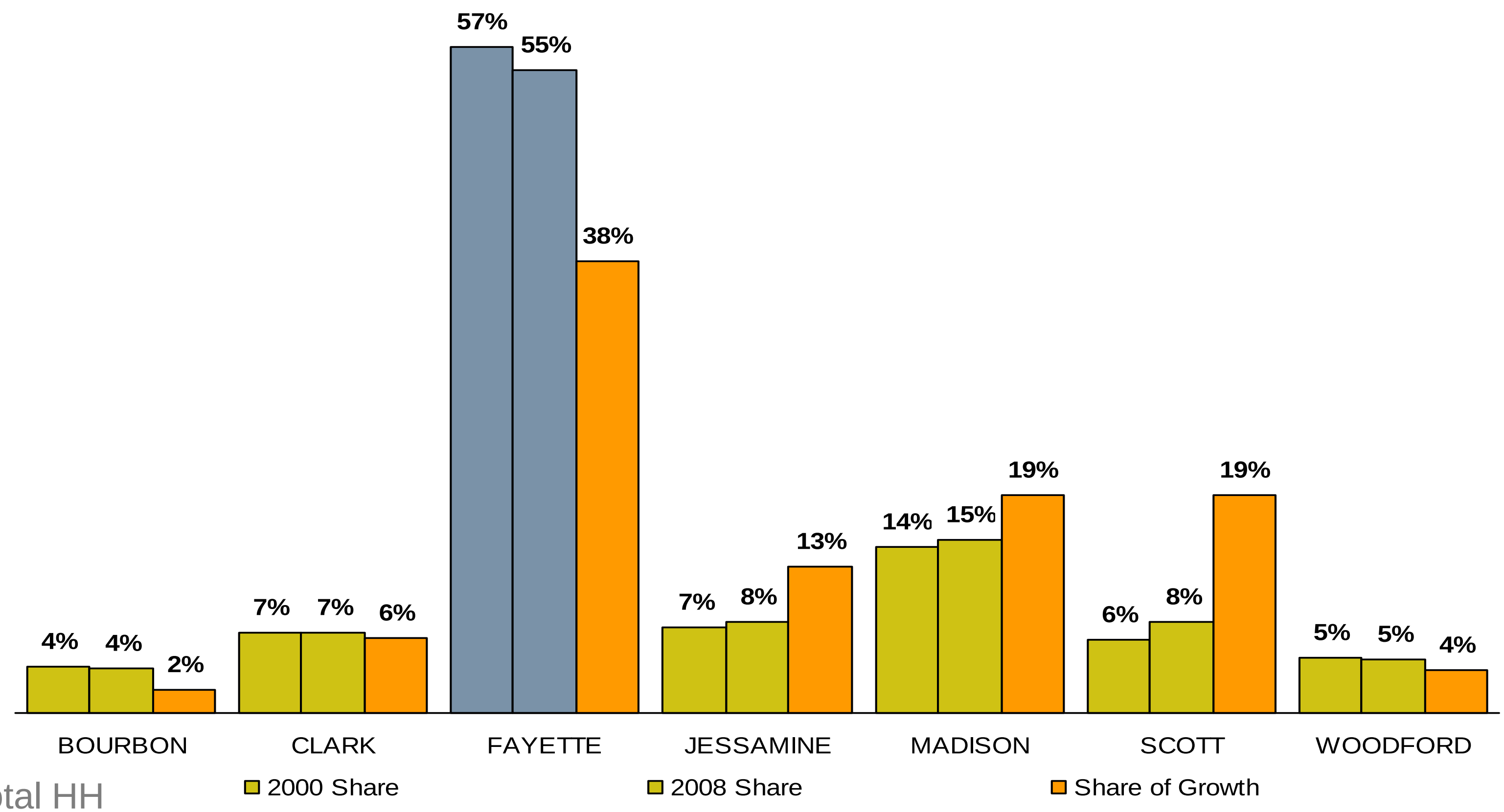
SUBAREA MAP


Northwest
North
GEORGETOWN ST.
NEWTOWN PIKE
NEW CIRCLE RD.
Downtown
In Town North
OLD FRANKEORT PIKE
VERSAILLES RD.
WINCHESTER RD.
In Town Central
HARRODSBURG RD.
East
75
In Town South
RICHMOND RD.
TATES CREEK RD.
Southwest
NEW CIRCLE RD.
South
MAN O' WAR BLVD.

WHILE FAYETTE IS HOME TO A MAJORITY OF THE REGION'S HOUSEHOLDS, GROWTH HAS SLOWED AND GONE ELSEWHERE

Shares of MSA Households -- 2000, 2008, Growth

SOURCES: US Census, Claritas Inc.



Total HH

	Bourbon	Clark	Fayette	Jessamine	Madison	Scott	Woodford	TOTAL
2000	7,681	13,015	108,288	13,867	27,152	12,110	8,893	**191,006**
2008	8,143	14,543	117,481	16,860	31,580	16,544	9,768	**214,919**

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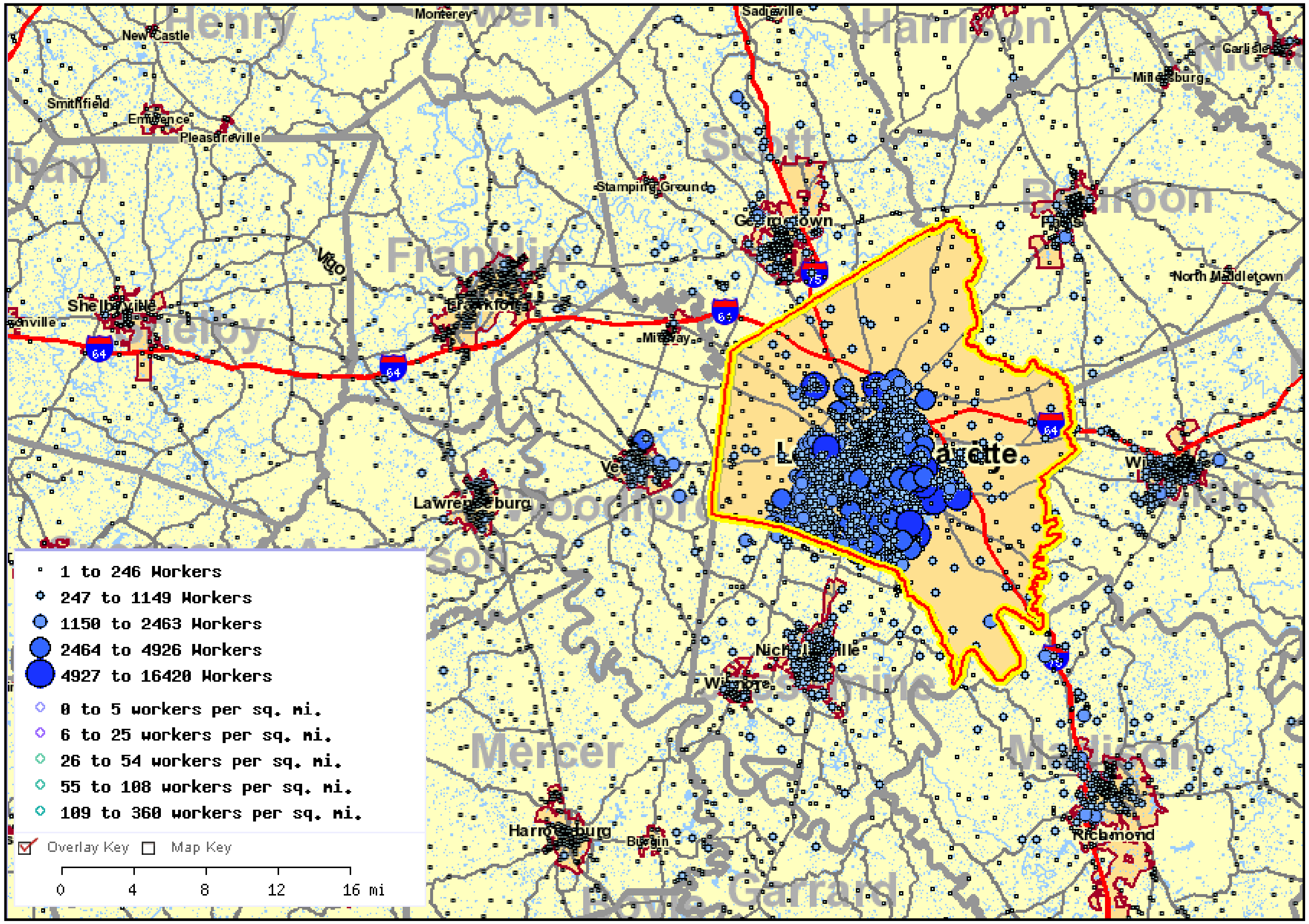
MAJORITY OF FAYETTE WORKERS LIVE IN FAYETTE; 45% COMMUTE FROM OTHER COUNTIES

Where Fayette Workers Live
2004

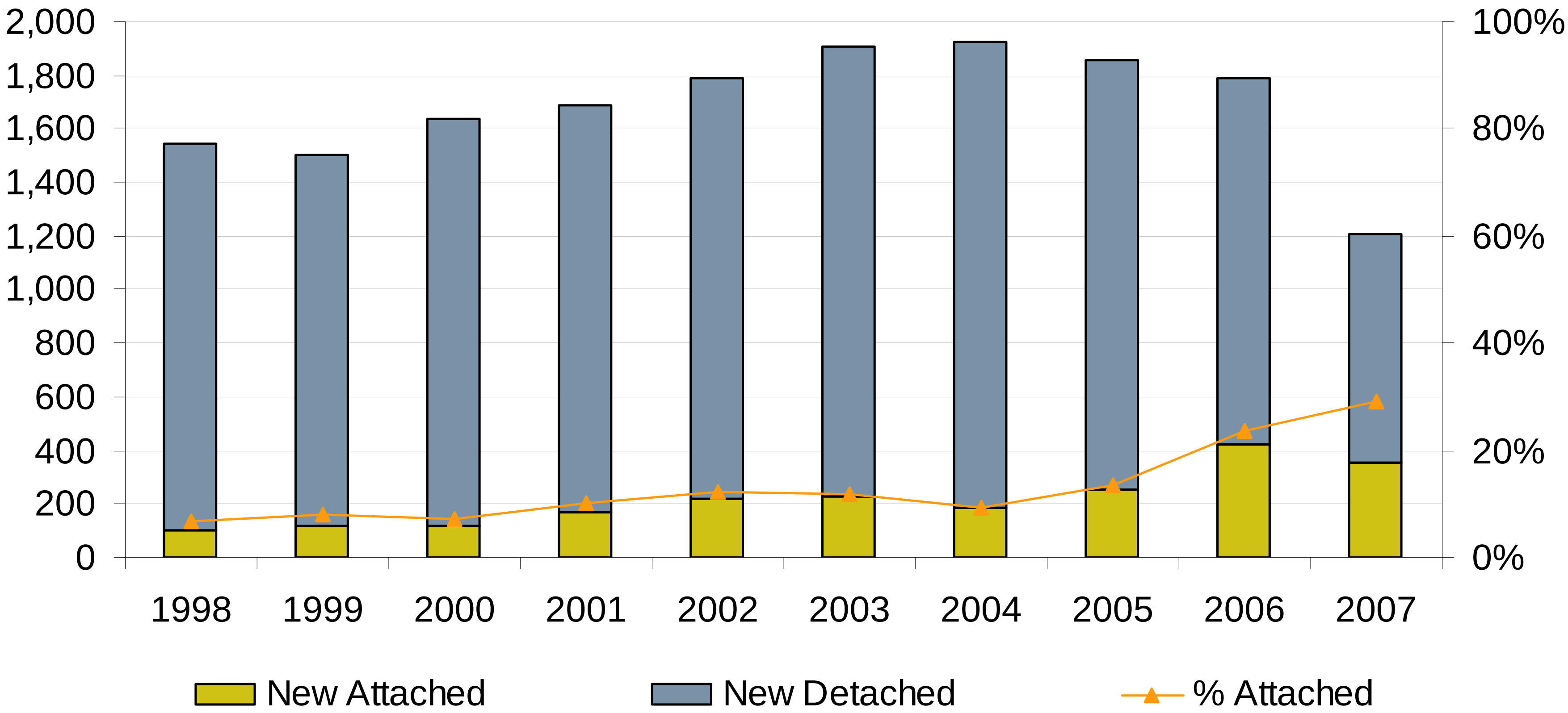


County	% of Fayette Workers Who Live In County
Fayette	55.4%
Jefferson	5.1%
Jessamine	4.1%
Madison	3.6%
Clark	3.0%
Scott	2.6%
Woodford	2.0%
Bourbon	1.3%
Montgomery	1.1%
Franklin	1.1%
Other	20.8%

SOURCE: US Census

NEW ATTACHED SALES HAVE INCREASED SHARPLY AS A SHARE OF TOTAL SALES IN RECENT YEARS

New Home Sales Volume, Attached vs. Detached
Fayette County



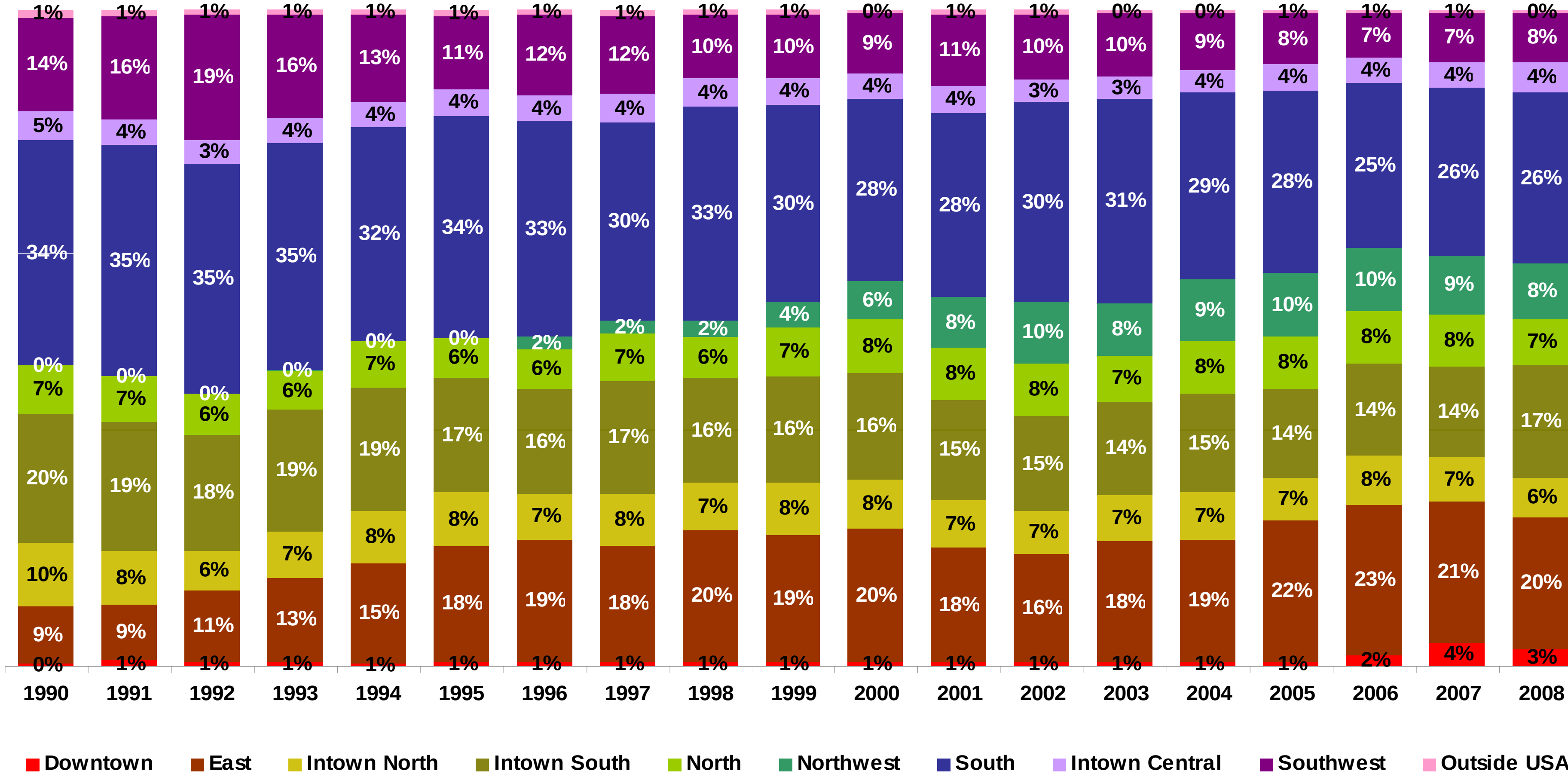
SOURCE: Galloway Appraisal

SOUTH AND EAST HAVE CONSISTENTLY MADE UP AROUND 50% OF FAYETTE SALES

NORTHWEST AND DOWNTOWN HAVE EMERGED IN RECENT YEARS

DISTRIBUTION OF SALES BY SUBAREA

1990-2008



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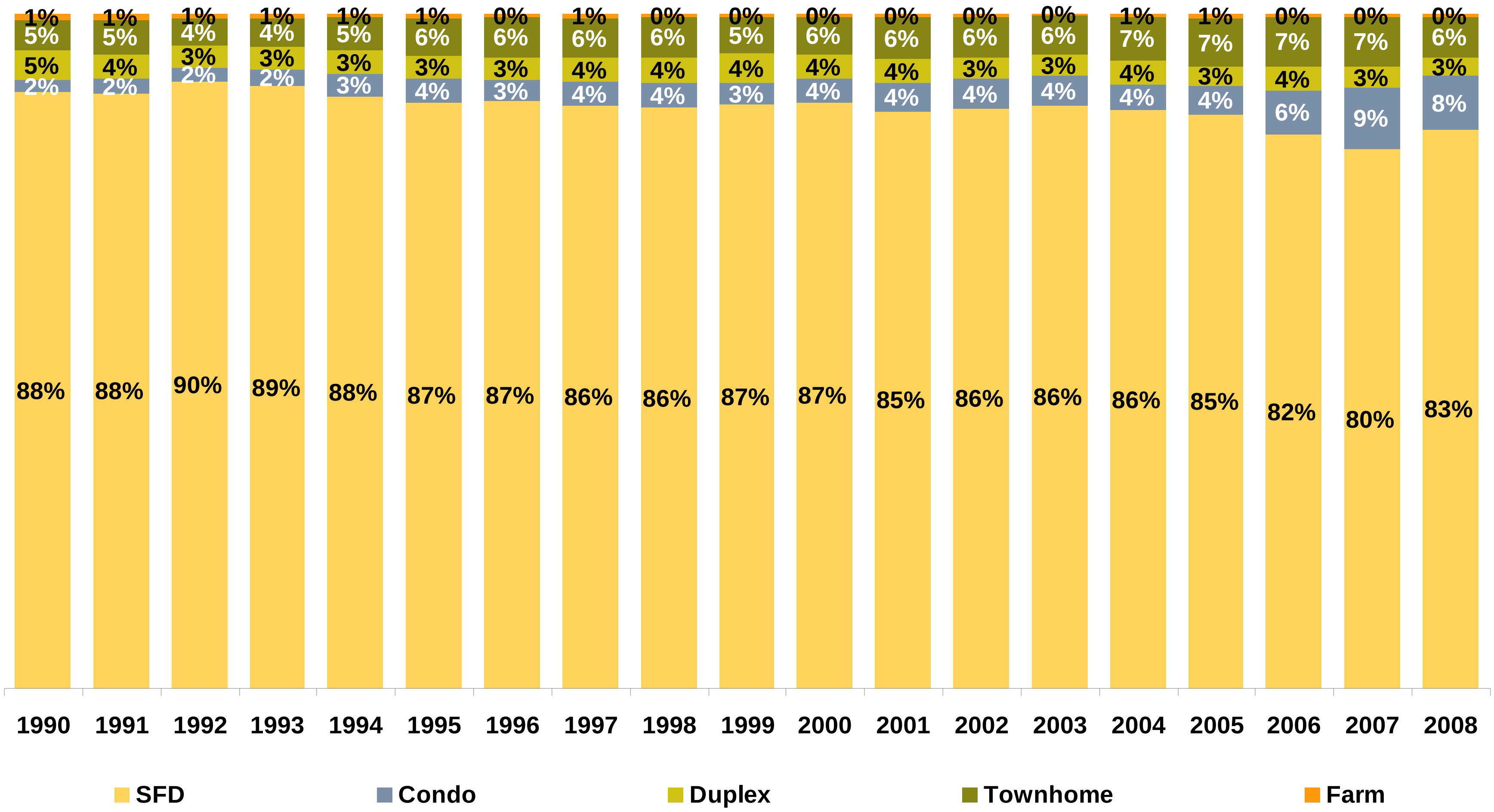
SINGLE-FAMILY DETACHED IS THE PRIMARY PRODUCT IN FAYETTE: ATTACHED HAS INCREASED ITS SHARE IN RECENT YEARS

DISTRIBUTION OF SALES BY PRODUCT TYPE

1990-2008



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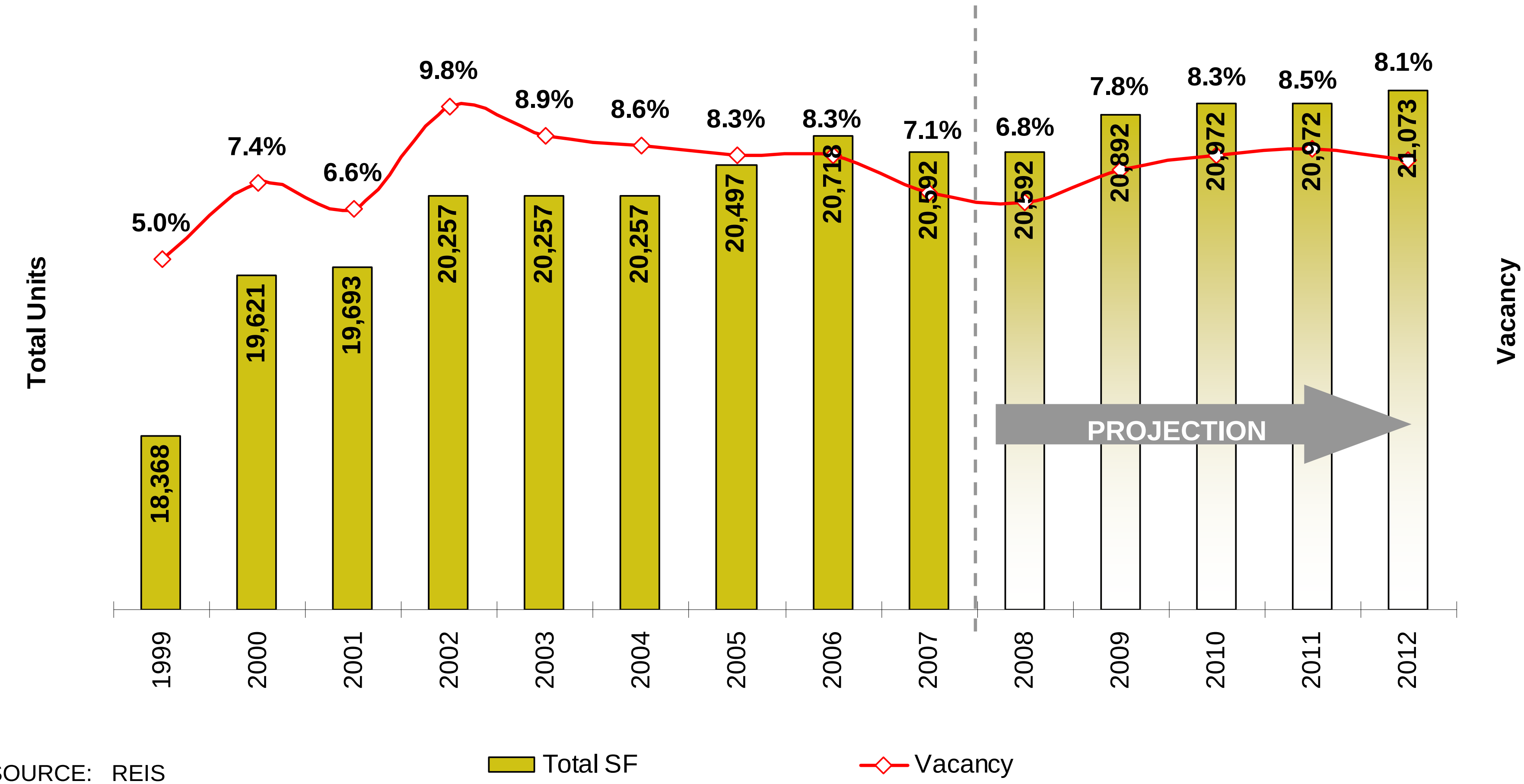
LARGEST OVERALL DEMAND FOR HOMES ON ¼ TO ½ ACRE LOTS
OPPORTUNITIES EXIST FOR VARIOUS PRODUCTS ACROSS GEOGRAPHIES

ANNUAL FOR-SALE UNIT DEMAND (NEW AND RESALE) BY PRODUCT TYPE, BY SUB-AREA

SUBAREA	CONDO	TH/ DUPLEX	SFD SMALL LOT	SFD MED. LOT	SFD LARGE+ LOT	TOTAL
DOWNTOWN	114	57	227	99	0	**497**
INTOWN CENTRAL	0	46	208	69	162	**485**
INTOWN NORTH	21	21	42	125	0	**209**
INTOWN SOUTH	30	89	209	283	75	**686**
NORTH	0	0	96	96	153	**345**
NORTHWEST	0	17	50	66	83	**216**
SOUTH	0	74	148	653	238	**1,113**
SOUTHWEST	0	78	157	204	157	**596**
EAST	0	14	259	205	150	**628**
OVERALL	**165**	**396**	**1,396**	**1,800**	**1,018**	**4,775**

THE APARTMENT STOCK HAS GROWN SLOWLY, WHILE OCCUPANCIES REMAIN HEALTHY

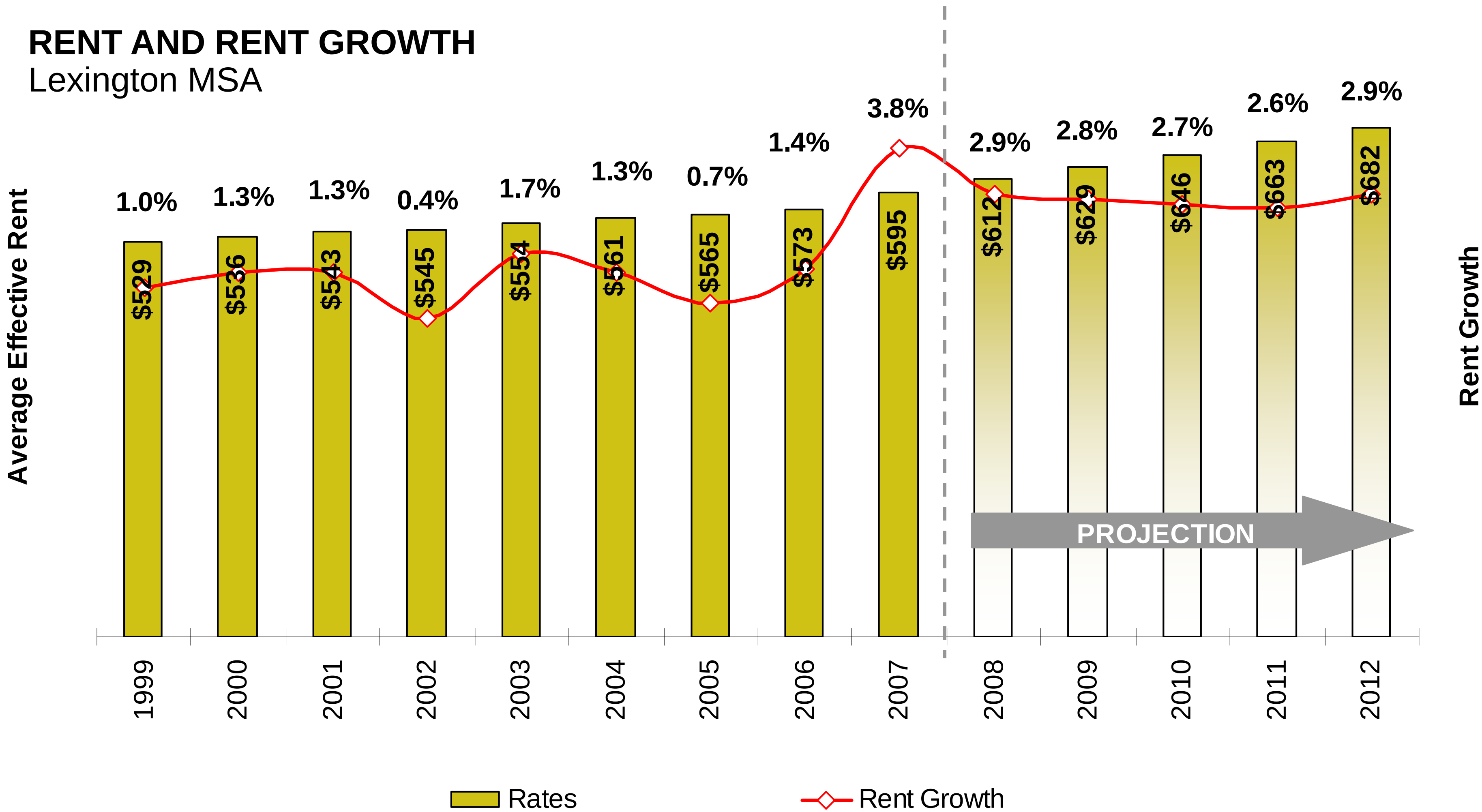
TOTAL APARTMENT UNITS AND VACANCY
Lexington MSA



SOURCE: REIS

RENT GROWTH HAS BEEN STEADY AND PROJECTIONS SHOW SOLID GROWTH

RENT AND RENT GROWTH
Lexington MSA



SOURCE: REIS

LARGEST UNDERSUPPLY FOR RENTAL HOMES IN DOWNTOWN AND INTOWN CENTRAL SUB-AREA

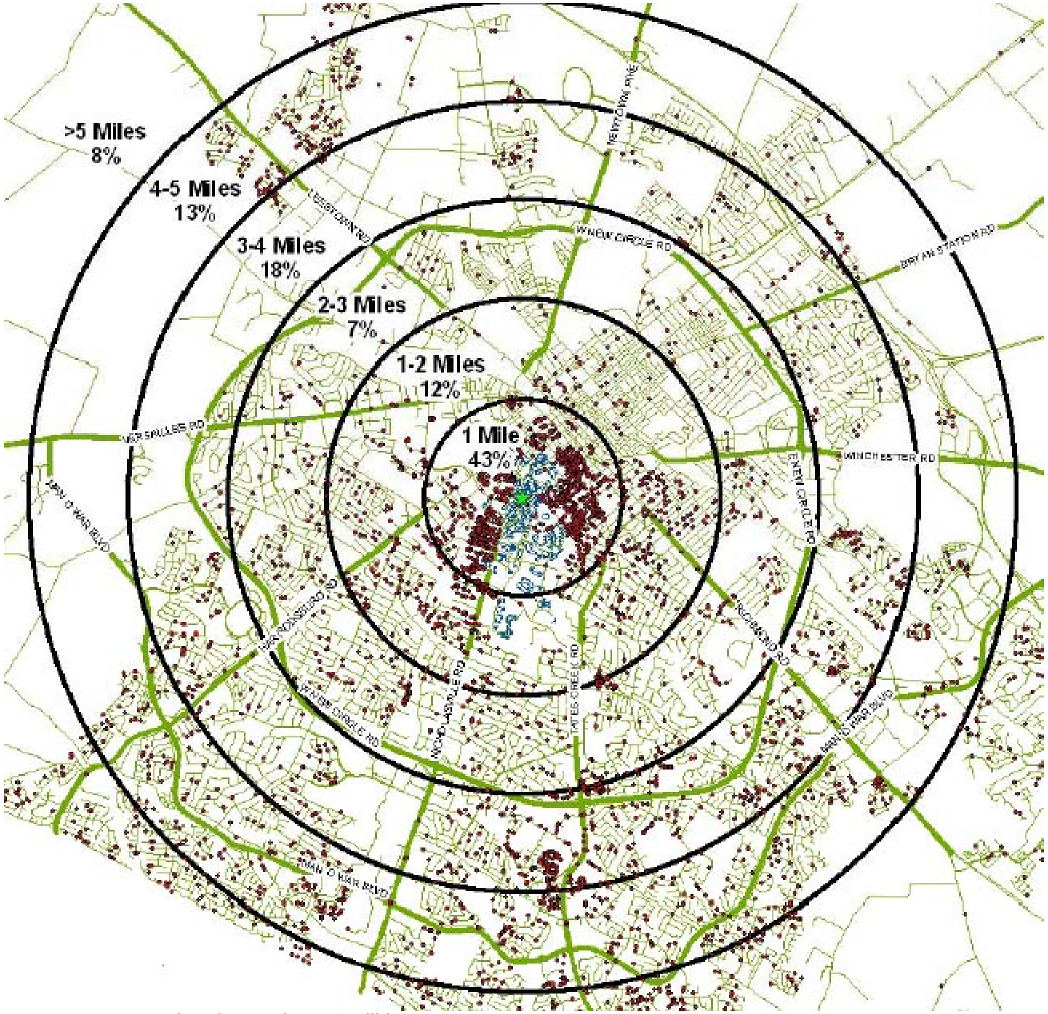
ANNUAL RENTAL UNIT SUPPLY / DEMAND BALANCE BY SUB-AREA

SUBAREA	TOTAL
DOWNTOWN	-3,543
INTOWN CENTRAL	-1,663
INTOWN NORTH	1,380
INTOWN SOUTH	670
NORTH	705
NORTHWEST	-1,420
SOUTH	-1,346
SOUTHWEST	-578
EAST	1,522
OVERALL	-4,273

Includes demand for student rental housing

OVER HALF OF UK STUDENTS LIVE WITHIN 2 MILES OF CAMPUS

Residential Location of UK Off-Campus Students



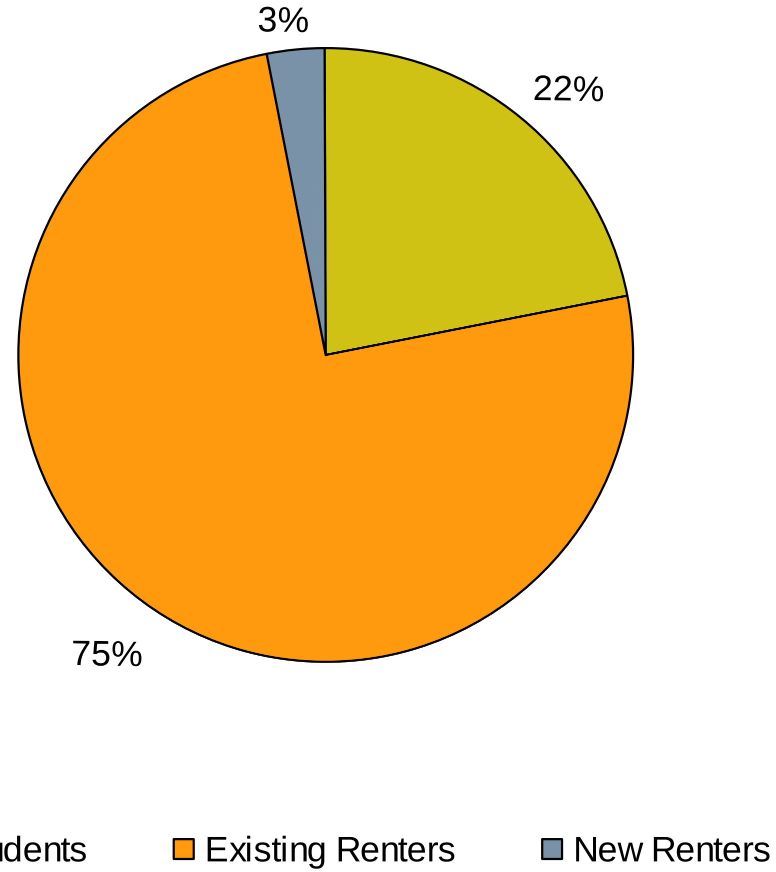
Projected Student Housing Needs – Community Perspective

- UK Projection: 6,200 additional undergrad students by 2020
- UK :Add 1,500 beds on campus
- Result: Estimated 4,700 undergraduate students to be absorbed by community (+/- 400 beds per year)

Source: LFUCG Planning and UK Facilities Management

CURRENT RENTERS IN TURNOVER MAKE UP AN ESTIMATED THREE-FOURTHS OF ANNUAL RENTAL DEMAND

Estimated distribution of renters actively seeking a rental unit annually



Based on RCLCO Consumer Research and data from US Census

Accounts for total off-campus **units**, as apposed to beds, sought by students (approximately 6,000) annually.

OPPORTUNITIES TO PROVIDE ADDITIONAL HOUSING ACROSS AUDIENCES AND PRICE BANDS

Potential Market Audience	Most Prevalent Cohorts	Motivations	Location / Product Preferences	Annual New Home Demand Potential For-Sale: $100K+ For-Rent: $500/mth+
CURRENT RESIDENTS	•Families •Empty-nesters •Retirees •Singles / Couples	•Location: distance to employment cores and retail services •Schools •Proximity to cultural amenities	•Families – Suburban SFD •Empty-nesters /Retirees & Singles / Couples– increasingly seeking lower maintenance products & locations	**For-Sale: 1,500** **For-Rent: 555**
EMPLOYMENT BASED GROWTH	•Families •Singles / Couples	•Location: distance to employment cores and retail services •Schools	•Will weigh options throughout the region, may make trade-offs to be closer to work	**For-Sale: 200** **For-Rent: 25**
STUDENTS	•Singles / Couples	•Location: distance to campus •Price	•Nationwide research indicates that they will seek active, walkable locations	**400 Beds**