Overview

HOUSING IN KENTUCKY SERIES

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Kentucky Housing Overview

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Traditionally, moving into a home is a symbol of personal independence, a source of pride, a first step to creating personal wealth, and a goal shared by many. Furthermore, economic growth and development is linked, as well to the housing market. New housing construction is often correlated with economic growth, and increased housing sale prices are another indication of the strength of the economy. As a community, a sufficient housing supply improves access to high-productivity jobs, drives potential employees to more productive places, and increases overall economic growth (Shoag, 2019). As home prices increase, homeowners enjoy a wealth effect leading to an increase in total personal consumption (Slacalek, 2009). An adequate housing supply is critical to human capital because potential employees will look for sufficient housing close to prospective employers. Likewise, if prospective workers cannot find an affordable place to live, they might be less likely to take the job, and the local economy loses productivity. As communities plan for new home construction as well as existing home renovations, it is critical that they consider different factors that might impact housing demand and supply. This study provides an overview of the housing characteristics in Kentucky, to help identify trends and potential gaps in housing.

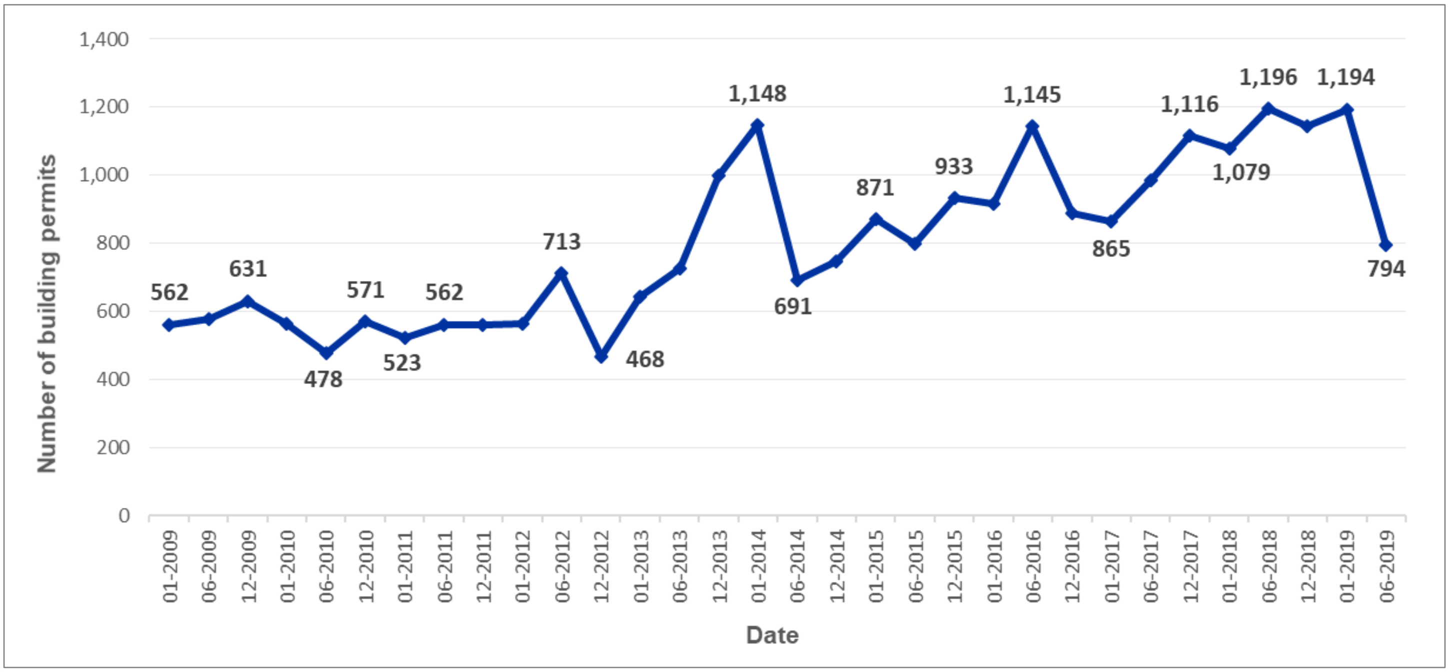
Overview of Kentucky Housing Market

In a time of continuous population growth and an imbalance of housing demand and supply, new housing construction is important to the overall development of an area. The graph in Figure 1 on next page depicts the seasonally adjusted number of permits authorized in Kentucky for new housing units between 2009 and 2019, reported at three points in time: beginning of the year, middle and end of the year[2]. An authorized permit does not necessarily mean the intended unit was built. There is a time gap between the moment when an entity applies for a permit and the time the construction starts. If, for example, the economy takes a downturn during that time, then there might be a delay in the construction process. Hence, a good indicator for an area's economic conditions could be the number of permits for new housing issued over time. Data from the Federal Reserve Bank of St. Louis (FRED) on building permits for new private housing units show an average of 1,520 per month for Kentucky, between 1998 and 2018. After the Great Recession (2007-2009), that average number of new building permits decreased to 808 from 2009 to 2019. While the trend in Figure 1 highlights an increase in number of permits after 2012, the number of permits fluctuates and has not reached on average, the levels from before 2009.

[1] Community and Economic Development Initiative of KY (CEDIK), https://cedik.ca.uky.edu/

[2] At the moment of the study, data for December 2019 was not available.

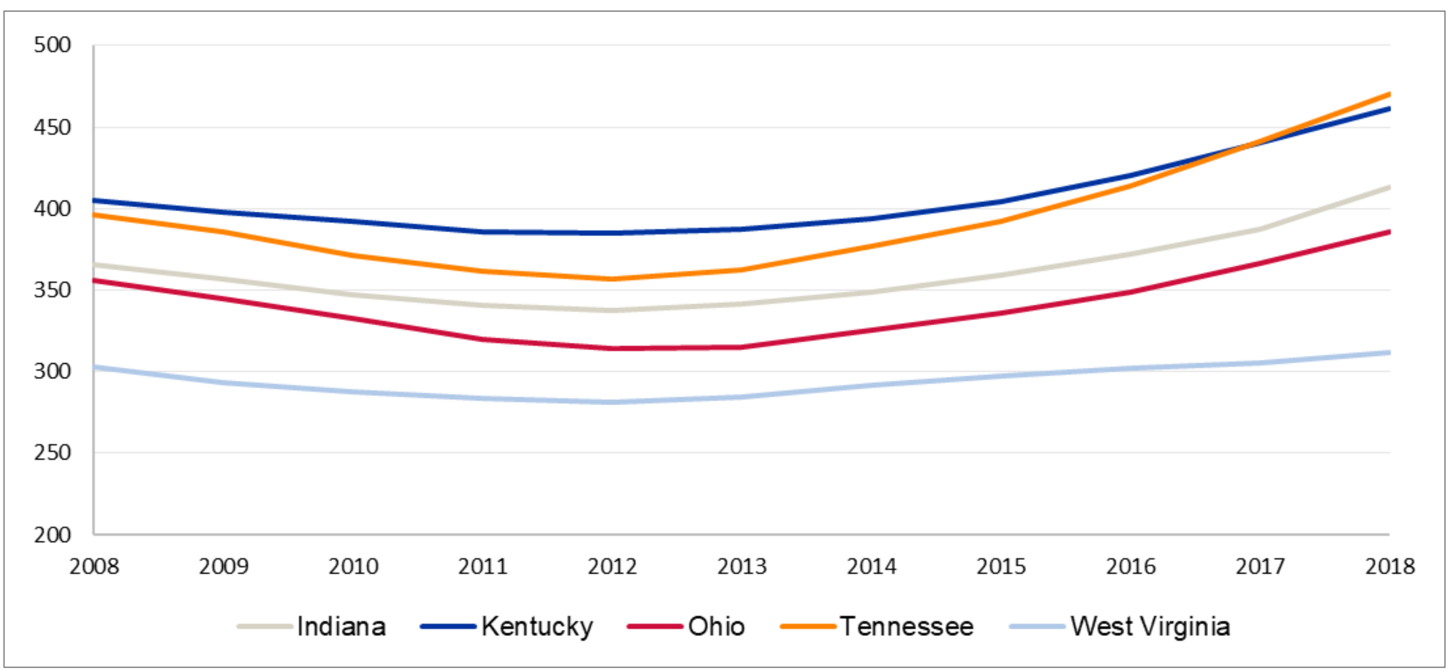
Figure 1. Building Permits for New Private Housing Units (beginning, mid- and end year)



Source: FRED Economic Data, 2019

The Federal Housing Finance Agency publishes the Housing Price Index (HPI), which measures the average price changes in repeat sales or refinancing on single-family properties and is a tool that provides price trends at various geographic levels (fhfa.gov). The price change over time is measured from a specific start date. At the start date the HPI is 100. The higher the index, the higher the average price difference between the first sale of the property and the point in time of the re-sale or refinancing. Figure 2 illustrates that the HPI for Kentucky is comparable to Tennessee and performing better than most surrounding states. The increasing HPI in Kentucky is a signal of a strong economy, suggesting homeowners may be experiencing a wealth effect and a propensity to spend.

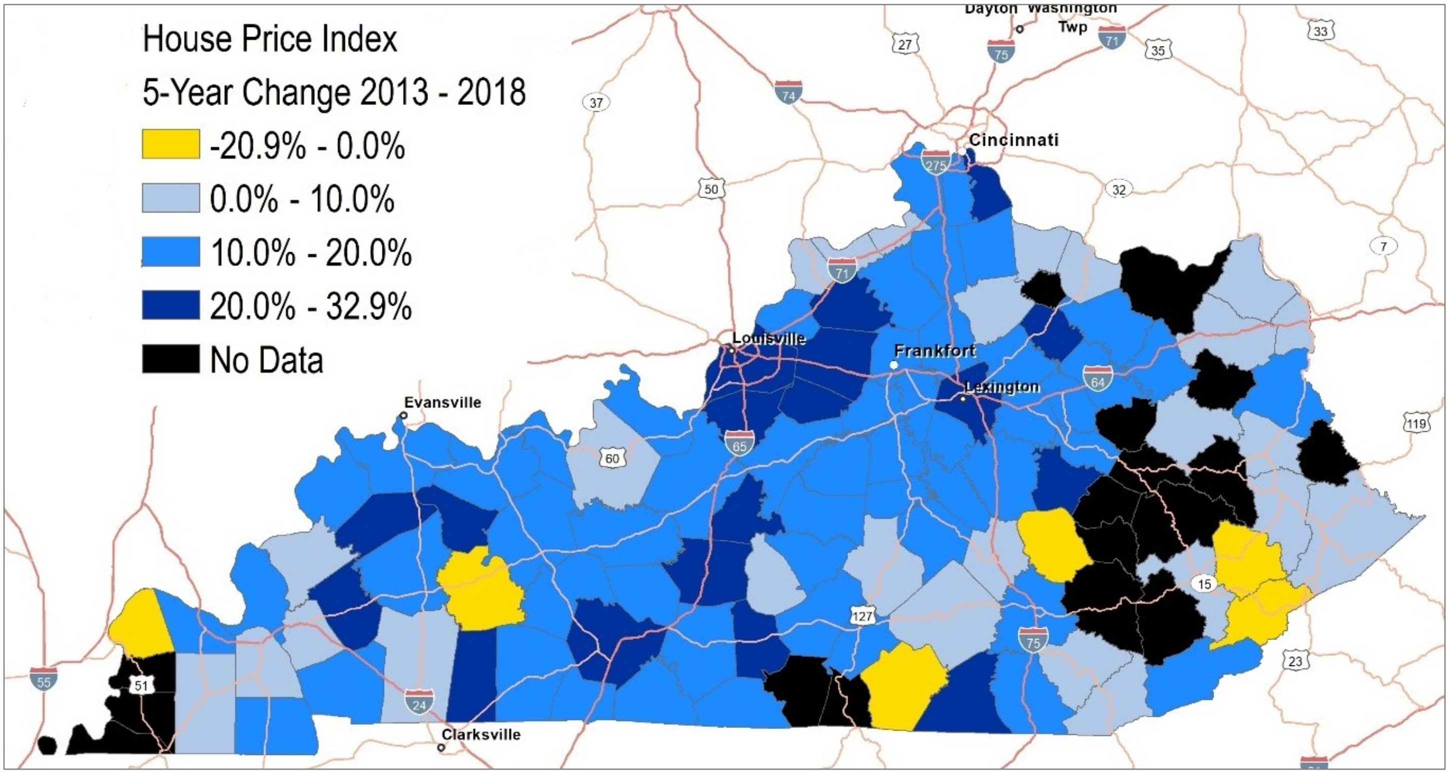
Figure 2. House Price Index for Kentucky and selected neighboring States



Source: Federal Housing Finance Agency, 2019

A closer look at the percent change in HPI between 2013 and 2018, across KY counties illustrates that the highest percent increases in the HPI over the 5-year period occur outside of highly populated counties (Figure 3). For example, Metcalfe (32.9%), Todd (32.1%), Larue (27.2%), Estill (26.7%), and Hart County (26.2%) have the greatest percent changes in HPI. The most negative changes in HPI occurred in Knott (-20.9%), Ballard (-7.6%), Jackson (-4.7%), Wayne (-3.9%), and Letcher County (-3.8%). Data for some counties in Western Kentucky and several in Eastern Kentucky was not available. In general, homeowners in the counties with higher percent increases in HPI might feel more confident in the local economy and more likely to spend money. Likewise, residents in counties where HPI has a negative or small percent change are unlikely to feel the wealth effect or be comfortable making additional spending.

Figure 3. HPI 5-year Change by County 2013 – 2018 (%)

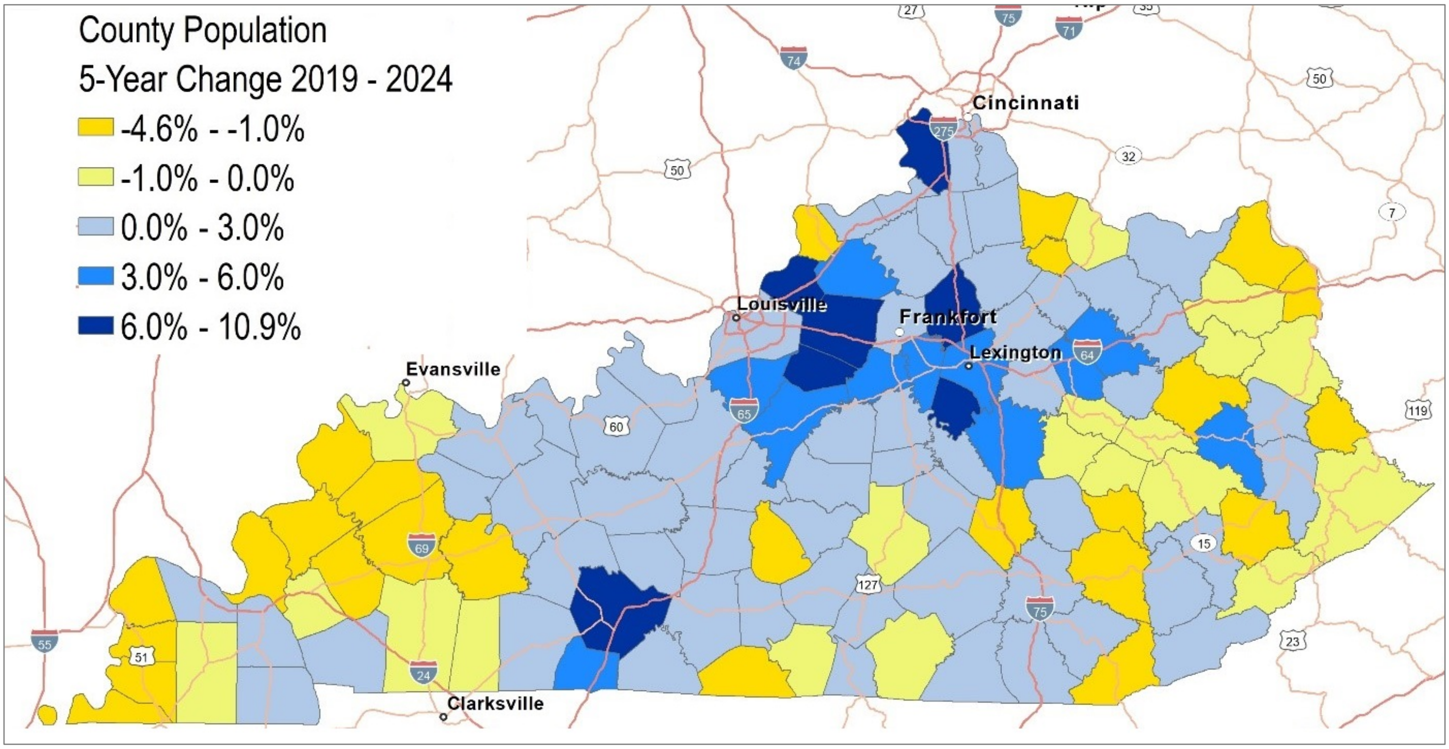


Source: Federal Housing Finance Agency, 2019

Expected population change from 2019 to 2024 is forecasted in Figure 4. The greatest increases in population are observed in metropolitan areas such as the outskirts of Louisville, Cincinnati, Lexington and Bowling Green. More rural counties in Eastern or Western Kentucky indicate population losses by 2024.

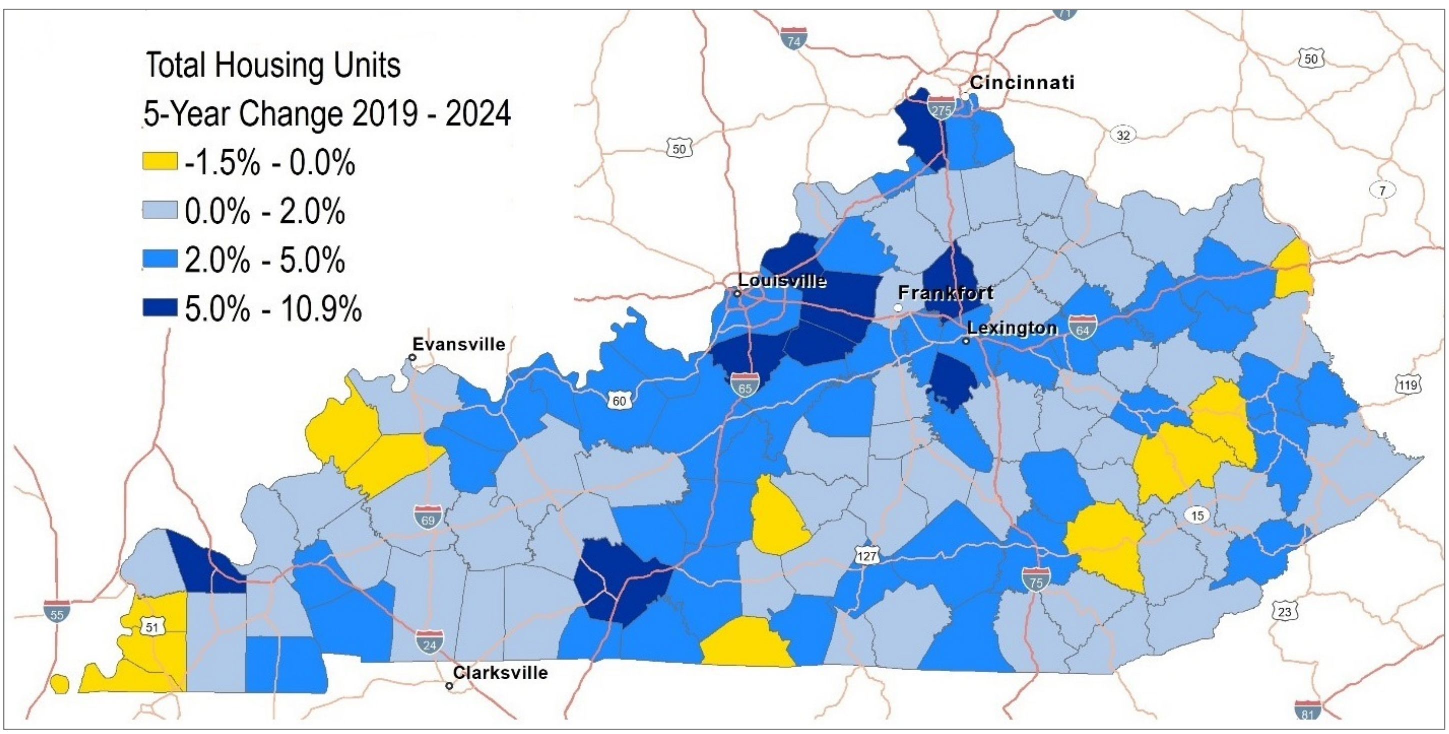
The 5-year change in housing units by county is represented in Figure 5. As the image illustrates, while the value is different, the percent change in housing units between 2019 and 2024 follows a similar trend with the population change. The largest housing unit increases tend to be in metropolitan areas, while the more rural counties of the state are either stagnant or in decline.

Figure 4. Forecasted Population 5-Year Change 2019 - 2024 (%)



Source: ESRI/ Business Analyst 2019

Figure 5. Forecasted Housing Unit 5-Year Change 2019 - 2024 (%)



Source: ESRI/Business Analyst 2019

Overall, there were 2,031,234 total housing units in Kentucky, in 2019. By 2024, the number of housing units is projected to grow by 2.9% to 2,089,296. Of the total housing units in 2019, 60.1% were owner-occupied, 29.1% were renter-occupied and 10.8% were vacant. Additional information on projected changes for housing, between 2019 and 2024 is provided in the Housing Availability in Kentucky publication.

Data from Census, ACS supports that fewer Kentuckians are owning homes, and instead are renting. The data on housing tenure from 2012 to 2017 across age groups breaks this out in Table 1. The age group 35-64 is experiencing the greatest shift from owning to renting, while the age group 15-34 displays the highest decline in ownership. Tenure remained steady for householders aged 65 and older with 82% ownership in 2012 and 2017.

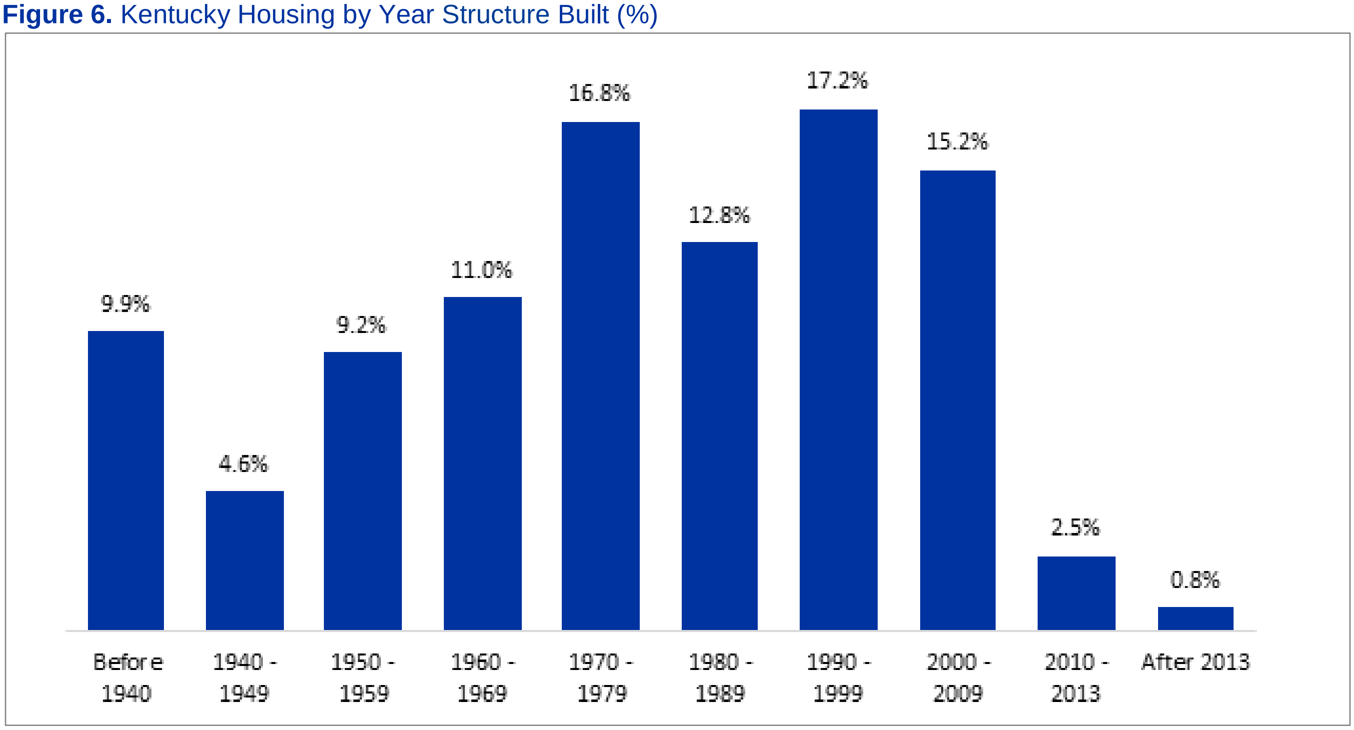
Table 1. Kentucky Housing Tenure by Age of Householder

Tenure & Age	Kentucky		
	2012	2017	Change
Householder age 15-34			
Owner	40.9%	38.2%	-6.6%
Renter	59.1%	61.8%	4.6%
Householder age 35-64			
Owner	73.2%	70.4%	-3.8%
Renter	26.8%	29.6%	10.5%
Householder age 65 and over			
Owner	82.2%	81.9%	-0.4%
Renter	17.8%	18.1%	2.0%

Source: U.S. Census/ACS 2013-2017

The age of housing units is another important characteristic to consider. It is well known that older homes can lead to higher costs of maintenance, repairs and renovations, over time. Figure 6 highlights that over 50% of the housing structures in Kentucky were built before the 1980s. Overall, the decades with the largest number of new housing units built were the 1990s (17.2%), followed by the 1970s (16.8%) and, 2000s with 15.2%. Based on U.S. Census data, less than 3.5% of all Kentucky housing units were built since 2010.

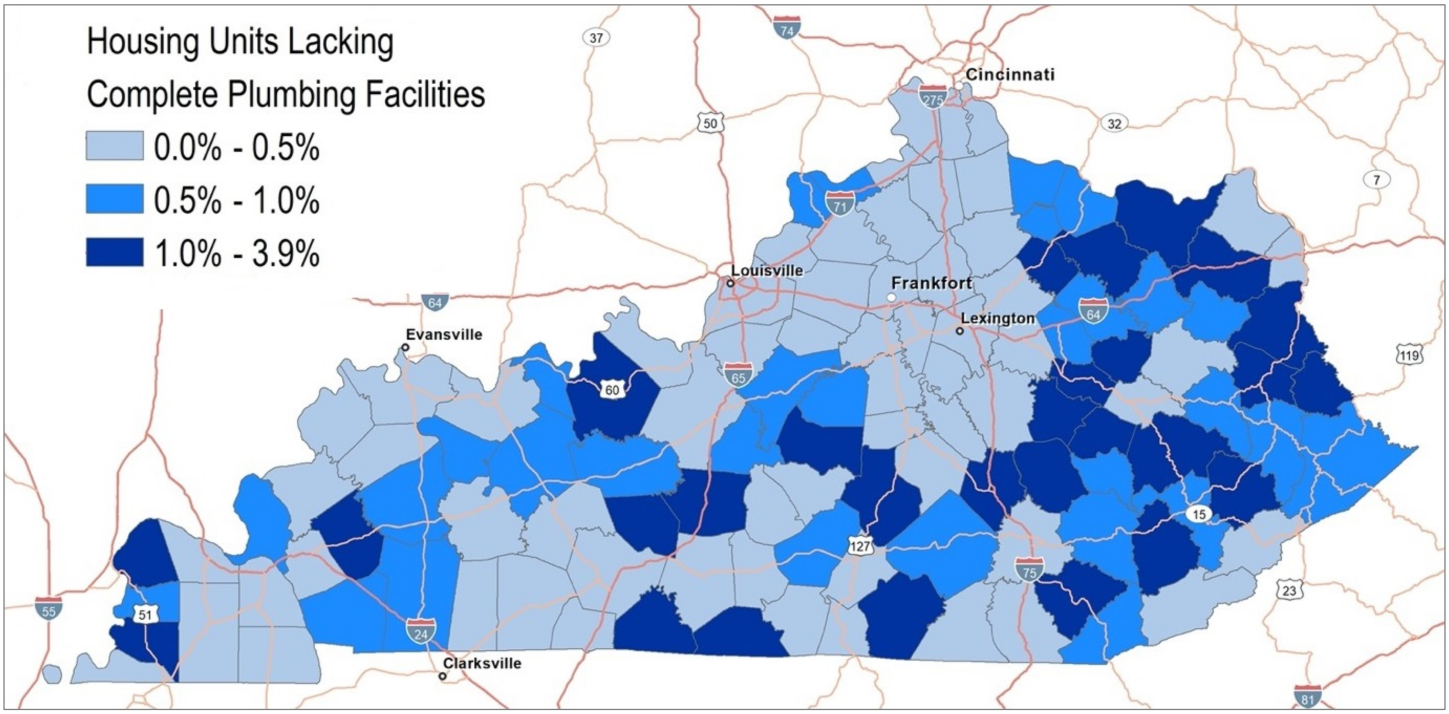
Figure 6. Kentucky Housing by Year Structure Built (%)



Source: U.S. Census/ ACS 2013-2017

Plumbing can also be an indicator of the quality housing. A home is considered to have complete plumbing facilities if it has a flush toilet, hot and cold water, and a tub or shower. If any of the facilities are not present in the home, it lacks complete plumbing facilities. Most of the counties in Kentucky have a low percent of housing units without plumbing. Cumberland, Fulton, Henry, and Todd Counties have no homes lacking complete plumbing facilities (Figure 7). Meade County has the fewest homes lacking complete plumbing facilities (0.1%). Leslie and Nicholas counties top Kentucky with the largest percent of housing units lacking complete plumbing with 3.9% and 3.1%, respectively. Lee, Allen, and Powell Counties each have 2.6% of their housing inventory lacking plumbing facilities.

Figure 6. Percent Housing Units Lacking Complete Plumbing



Source: 5-Year ACS 2013-2017

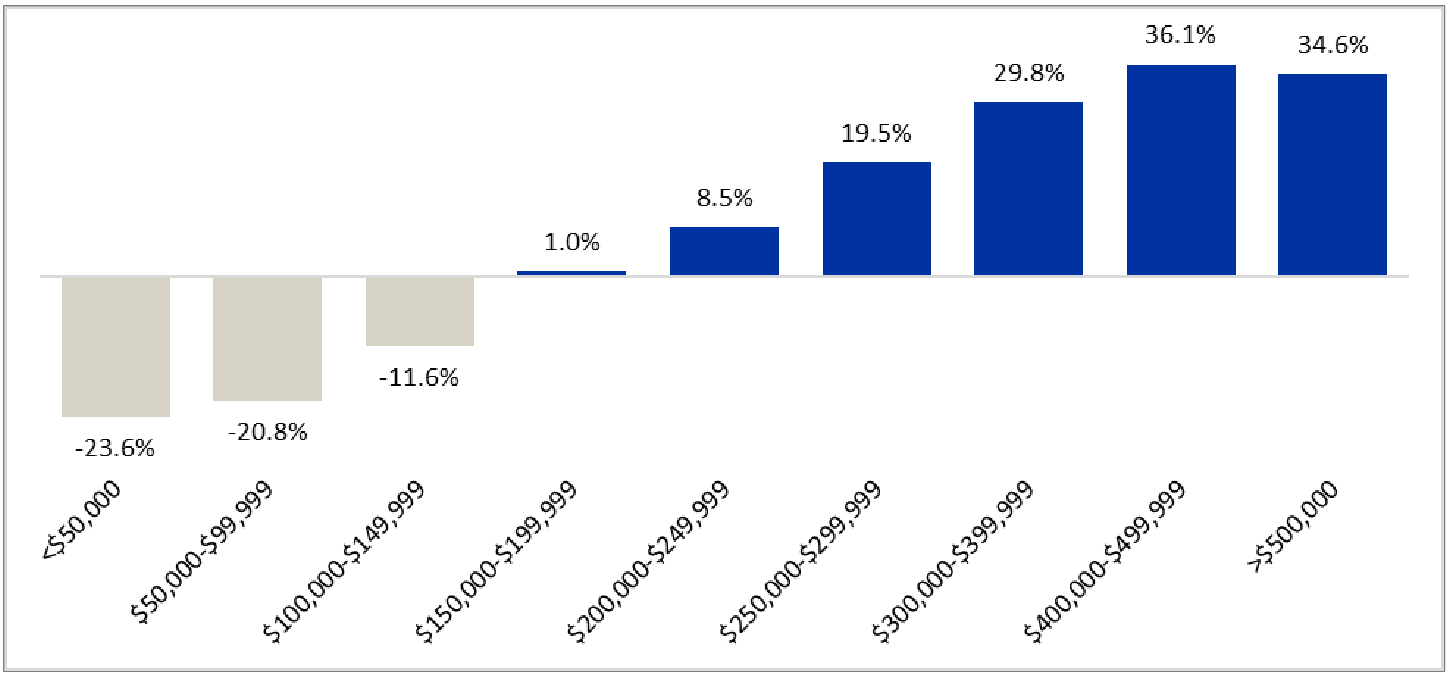
Data in Table 2 reports the percent of housing units by home value, for 2019 and 2024. In 2019, the largest share of homes in Kentucky (19.2%) were valued between $100,000 and $149,999 (Table 2). This category is projected to decrease by 2024 to 16.9%. Homes valued between $400,000 and $499,999 are projected to have the greatest increase (36.1%) from 2019 to 2024 (Figure 8). Over 48% of the homes in Kentucky were valued under $150,000 in 2019, and in 2024 less than 40% of the homes are projected to be valued less than $150,000. Overall, Figure 8 illustrates a projected increase in housing units valued at $200,000 and above and a decrease in home value for housing units valued at $149,999 or less.

Table 2. Housing Units by Home Value (%)

Home Value (Kentucky)	2019 Kentucky (%)	2024 Kentucky (%)
<$50,000	11.2%	8.5%
$50,000-$99,999	17.8%	14.1%
$100,000-$149,999	19.2%	16.9%
$150,000-$199,999	16.2%	16.4%
$200,000-$249,999	9.6%	10.4%
$250,000-$299,999	7.1%	8.5%
$300,000-$399,999	7.4%	9.6%
$400,000-$499,999	3.0%	4.1%
>$500,000	4.2%	5.7%

Source: ESRI/Business Analyst, 2019

Figure 8. Home Value 5-Year Change 2019 - 2024 (%)

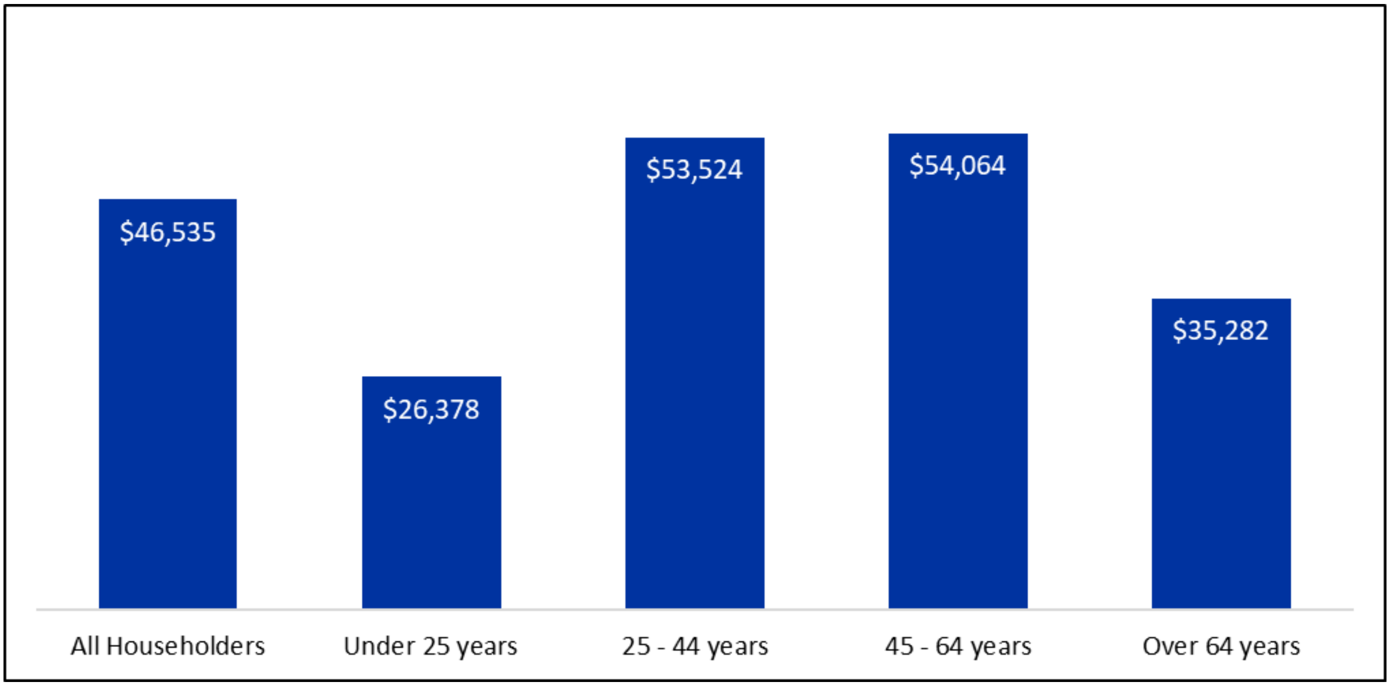


Source: ESRI/ Business Analyst, 2019

Taking a look at household income data by age group highlights a median income of $46,535 for Kentucky, in 2017 (Figure 9). The median income is projected to increase to $54,938 by 2024. Age groups 25 to 44 and 45 to 64 earn the most income with $53,524 and $54,064, respectively. Kentucky householders under the age of 25 have a median income $26,378, while those 65 and older earn $35,282.

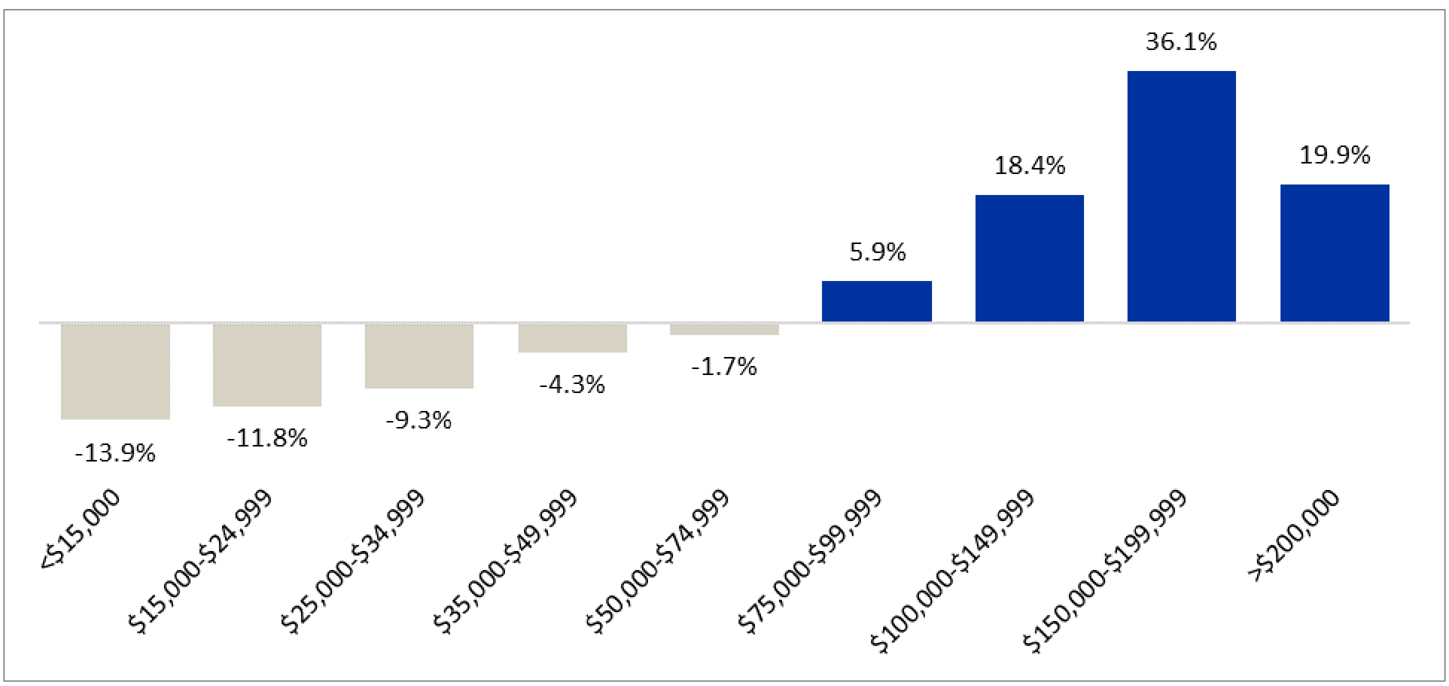
The data on households by income brackets, from ESRI/Business Analyst reports an overall increase in the number of households with income of $75,000 and above, and a decline in households with income below the $75K threshold, between 2019 and 2024 (Figure 10). Of these, households with income between $150,000-$199,999 are projected to have the largest increase (36.1%) and households with income less than $15,000 are projected to have the highest decline (13.9%).

Figure 9. Median Householder Income by Age Group



Source: 5-Year ACS 2013-2017

Figure 10. Household Income 5-Year Change 2019 - 2024 (%)

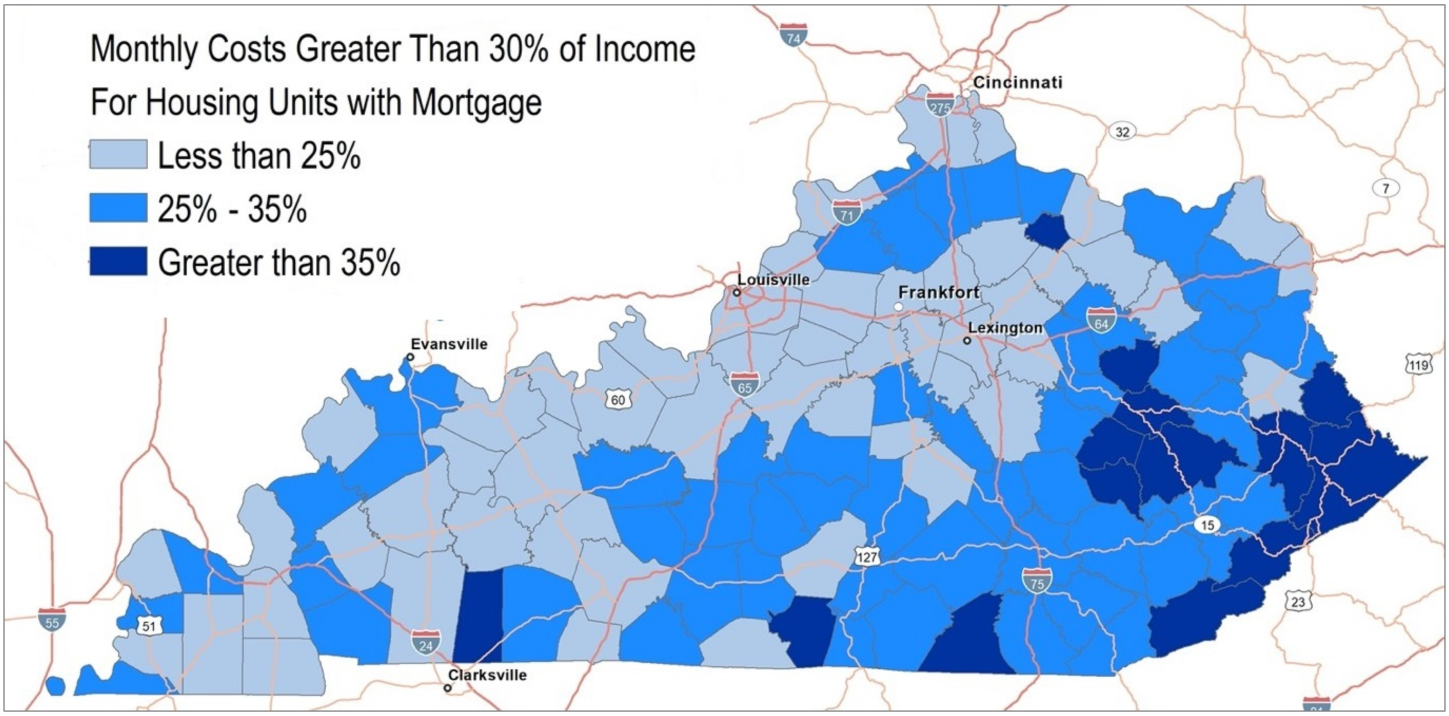


Source: ESRI/ Business Analyst, 2019

Though Figure 8 and Figure 10 display a similar trend of increase in higher home value brackets and higher household income brackets by 2024 across the state, there are still many counties with high percentage of households experiencing housing burden (Figure 11). Families who pay more than 30% of their income towards housing costs are considered *housing burdened* and may have difficulty affording other necessities such as food, clothing, transportation and medical care (HUD, 2019). Wolfe County has the highest percent of housing units (with a mortgage) who are cost burdened (55.3%) in Kentucky.

Martin County is second with 47.6%. Owsley County ranks third with 46.6%. McCreary County comes in fourth with 45.7%, and Robertson County finishes the top five with 39.7%. Hancock and Union counties in Western Kentucky rank with the lowest percent of homes with monthly costs greater than 30% of income with 11.9% and 14.3%, respectively. Scott County ranks third with 16.9%. Marshall and Hickman counties in the far west complete the top five with 18.8% and 19.4%.

Figure 11. Percent Owned Homes with Monthly Housing Costs Greater Than 30% of Household Income



Source: 5-Year ACS 2013-2017

Housing is an important factor in community and economic development, whether we are talking about affordable housing or housing affordability. Affordable housing is defined by the U.S. Department of Housing (HUD) as a "dwelling" that a household can obtain for 30% or less of its income. In other words, the monthly costs with mortgage or rent should not exceed 30% of the household income. Housing affordability relates to the median household income for the area; a dwelling is considered affordable if it costs less than 24% of area median income (AMI) for a low-income family (Vox.com, 2015).

An overview of housing data for Kentucky illustrates a projected increase in households with higher income levels, as well as increase in home values for the higher brackets. This can mean that as income levels increase, the home values will increase also. A similar parallel trend is occurring between the projected change (2019-2024) in population and housing units. For both metrics, the largest increases tend to be in metropolitan areas or around them, while for the more rural counties of the state changes are either stagnant or in decline. Thus, different areas in Kentucky experience almost opposite situations for housing and population trends (e.g., an increase in both population and housing units and decrease in households with monthly costs above 30% of household income or vice-versa, a decline in population and housing units and higher percent of households under housing burden). From a policy perspective, the strategies to address future housing needs will take different approaches.

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