Testimony to
Committee on Financial Services
U. S. House of Representatives
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Housing and the New Orleans Economic Recovery

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Introduction

In November 2005, three months after Katrina had pounded Louisiana and the Gulf Coast causing significant and substantial damage to residential and business properties, schools and hospitals, manufacturing facilities, public infrastructure, and other buildings and facilities, my co-author, Professor Loren C. Scott, and myself presented the Louisiana Economic Outlook for 2006 and 2007.[1] We noted that housing would severely limit the recovery of the New Orleans Metropolitan Area for 2006 and 2007; in October 2006, more than a year after Katrina Professor Scott and myself in the Louisiana Economic Outlook for 2007 and 2008[2] indicated the New Orleans Metropolitan Area would not have a substantial recovery given the absence of an accelerated increase in housing.

Housing, Population, and Employment Facts

Most natural disasters typically run an established course. First, the capital assets of a community are damaged or destroyed, disrupting local and sometimes national economic activity for a short period of time, while putting extra burdens on local, state, and federal governmental agencies, as well as on the private sector. Second, once the damage has occurred the private economy with assistance from federal, state, and local authorities, initiates a recovery process that ordinarily moves the local economy back to its pre-disaster level within a relatively short period of time. Mega-catastrophes such as Katrina are different, not only in degree, but also in kind. Not only did Katrina cause unprecedented damage to the physical infrastructure of the affected areas, but the recovery process has been much more difficult than in any previous natural disaster, specifically in the most heavily damaged areas of the New Orleans Metropolitan Area.

Hurricane Katrina created a surge along the Mississippi Gulf Coast and on the north shore of Lake Ponchartrain in Louisiana essentially wiping homes off their

[1] **Louisiana Economic Outlook, 2006-2007,** Loren C. Scott and James A. Richardson (E. J. Ourso College of Business, Louisiana State University, November 2005).
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foundations. In New Orleans the hurricane created breaches in the levee system that led to catastrophic flooding covering over 80 percent of Orleans Parish in water; almost all of St. Bernard Parish; and some of Plaquemines Parish. This was a natural disaster unlike any the United States has had in the last 100 years. Families could not return quickly to their communities because there was no housing. If families cannot return, workers will not be available for businesses that produce goods and services for people throughout the world, and customers will not be available for businesses that service the local population. The lethargic recovery in the New Orleans area is directly tied to the number of days between the storm and the time when families were able to return to their homes; in fact, in a number of neighborhoods in Orleans and St. Bernard Parishes today, families still cannot return to their homes.

Table 1 indicates the damage to housing, which is a good proxy for damage to other capital assets as well, and the disruption of employment, which is a good proxy for disruption to ongoing production processes throughout the economy. Over 87 percent of the housing stock in Louisiana that incurred major and severe damage from both Hurricanes Katrina and Rita was in the New Orleans Metropolitan Area. Even within the New Orleans Metro the distribution of major and severely damages houses is skewed to three parishes—Orleans, St. Bernard, and Plaquemines.

Table 1. Louisiana: Housing (proxy for damaged capital) and Employment (proxy for disruption of production process) (Source: FEMA and Bureau of Labor Statistics)

State/MSA	Louisiana	New Orleans	NO Metro as percent of state
Total Damaged Housing Units	515,249	315,288	61.2%
Severe and Major Damaged Units	204,737	178,601	87.2%
Total as Percent of Housing Stock	31.0%	63.2%	
Gain or Loss of Employment from 8/05 to 12/06	(162,000)	(163,000)	100.0%
Percentage Change in Average Employment, 2005 pre-Katrina/Rita	(8.3%)	(26.7%)	

Katrina affected all housing in the New Orleans area, owner-occupied and rental units. Damaged owner-occupied and rental units by parish are presented in Table 2. First, note the percentage of housing units damaged in these five parishes. Over 70 percent of all houses, both owner-occupied and rental units were damaged in Orleans, Plaquemines, St. Bernard, and St. Tammany parishes. Over half of the houses in Jefferson parish was damaged by Katrina. For the five parishes most affected by the Katrina just over 40 percent of the housing units were rental units with over half of these rental units being single-family dwellings. Orleans parish had the most rental units absolutely and proportionately. Just over half of all housing units in Orleans Parish are rental units. Just over two-thirds of these rental units in Orleans Parish are single-family dwellings.

The rate of the recovery is not related to the owner-occupied/rental unit ratio but to the extent of the damage in the parish. Orleans has a relatively high rental rate compared to the metropolitan area and is still trying to get its recovery rolling. St. Bernard parish is struggling in its recovery and this parish has a very low rental rate for homes. However, it is also true that Orleans parish with a large number of families living in rental units will depend on programs that provide assistance to rental units more than St. Bernard parish will in order to secure housing for persons returning to the parish.

Table 2
Damaged Owner Occupied and Rental Housing Units in
Five Parishes Most Affected by Katrina

Parish	Percent Houses Damaged	Damaged Owner-occupied and Rental Units					
		Owner-Occupied	Rental Units				Rental to Total
			Single	MF, <10	MF, >10	Total	
Jefferson	53.0%	56,667	15,572	8,370	13,024	37,146	39.5%
Orleans	71.0%	66,609	46,015	6,799	14,921	67,735	50.4%
Plaquemines	80.0%	5,095	1,887	178	58	2,117	29.4%
St. Bernard	81.0%	14,037	4,360	1,126	706	6,192	30.6%
St. Tammany	70.0%	39,557	6,830	520	1,877	9,235	18.9%
Total		181,965	67,834	16,473	28,709	122,425	40.2%

Owner-occupied and rental housing units are illustrated in Table 3 by neighborhoods in Orleans Parish. It is very important to appreciate the differences in the neighborhoods in New Orleans. The city has two distinct personalities. Certain parts such as the French Quarter, the CBD, the Garden District, and Uptown, those areas with extensive but limited damage, are in the process of recovering. Other areas such as Mid-

City and Gentility have some recovery at this time, but it is limited because housing is simply not available. Areas such as Lakeview, New Orleans East, and the Lower Ninth Ward have very limited recovery because of the nature of the damage to capital assets in these areas. High rental to total housing units rates are present in neighborhoods that were not badly damaged by Katrina such as the French Quarter, the Garden District, and the Central Business District. High rental rates are also present in neighborhoods that incurred major damage from Katrina such as Mid-City and Bywater. Low rental rates are present in neighborhoods such as Lakeview and Gentility, areas that received severe damage from Katrina.

On the ground observations suggest different strategies for rebuilding. For example, in Gentility where the ownership rate is relatively high, many families have returned to live in trailers on their property and are working on their homes in the evenings and on the weekends. In Mid-city where the rental rate is relatively high, one sees more contractors and workers during the day.

Table 3
Owner Occupied and Rental Housing Units in Neighborhoods in Orleans Parish

Parish	Percent Houses Damaged	Damaged Owner-occupied and Rental Units					
		Owner-occupied	Rental Units				Rental to Total
			Single	MF, <10	MF, >10	Total	
French Quarter	32.1%	249	274	131	56	467	65.2%
Garden District	50.1%	3,078	4,549	915	1,275	6,739	68.6%
Uptown	60.8%	8,676	6,631	758	278	7,667	46.9%
Mid-City	75.4%	6,732	12,335	2,055	1,741	16,131	70.6%
Lakeview	83.1%	7,272	1,569	175	108	1,852	20.3%
Gentility	85.1%	9,921	2,917	433	387	3,770	27.5%
Bywater	77.3%	4,784	5,746	426	543	6,715	58.4%
NO East	98.8%	13,621	4,719	972	6,803	12,494	47.8%
Lower 9th Ward	92.1%	2,981	2,395	220	111	2,726	47.7%
Warehouse/CBD	47.8%	162	153	17	129	299	64.8%
Others	73.0%	9,133	4,727	697	3,385	8.809	49.0%
Total	71.0%	66,609	46,015	6,799	14,921	67,735	50.4%

Table 4 illustrates the population changes in the New Orleans Metropolitan Area since Katrina. Population estimates are fragile since there are no census type surveys on a monthly basis, but these estimates provide a benchmark for the overall metropolitan area. Post-Katrina population in Jefferson, Orleans, Plaquemines, and St. Bernard parishes has diminished by over 35 percent, while population in the overall New Orleans Metro has diminished b over 25 percent. Housing, population, and employment are all intertwined.

Table 4. Displaced Persons: Louisiana

Population	Pre	Post
– Orleans:	462.3	192.5
– Jefferson:	453.6	408.2
– St. Bernard:	65.6	16.2
– Plaquemines:	29.0	22.8
– Total in Bowl	1,010.5	639.7
– St. Tammany:	213.6	248.0
– St. Charles	50.1	51.8
– St. John the Baptist	45.6	49.3
– **Total Area hit:**	**1,319.8**	**988.8**

Dynamics of Employment and Housing

The dynamics of the economy and the importance of housing are illustrated in Figure 1. In 2005 the New Orleans Metro had just over 600,000 persons employed and a housing stock of just over 550,000. As of August 2005 there was not a housing deficiency. Housing did not limit the growth of the New Orleans economy pre-Katrina. Other factors limited the growth of the New Orleans economy.

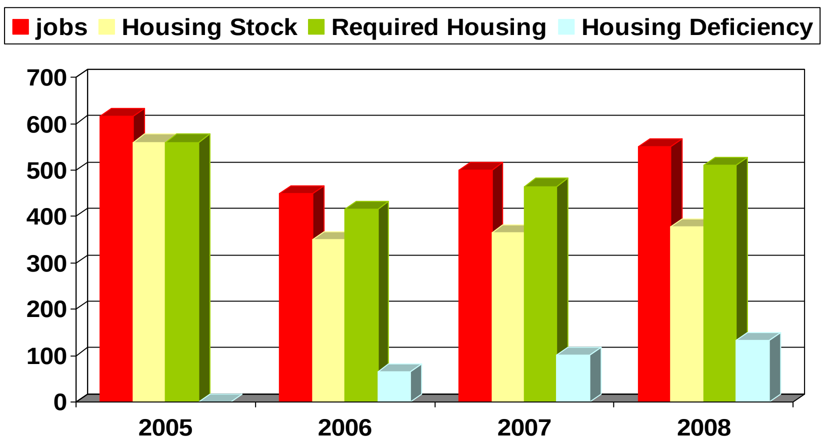
Katrina disrupted the economy and destroyed a large part of the housing stock. By the end of 2006 employment is up to close to 450,000 persons or about 73 percent of pre-Katrina employment while the housing stock is about 63 percent of pre-Katrina housing. There is a housing deficiency of just about 70,000 homes. This deficiency is being made up with trailers, some manufactured homes, commuting by persons from parishes outside the New Orleans Metro, and families and friends making more productive use of the existing housing stock. Trailers peaked at just over 73,000 in July 2006 but by January 2007 trailers had dropped to just over 60,000. Obviously, families have found alternatives to trailers during the last six months.

If employment were to grow to 500,000 jobs by the end of 2007 or just over 80 percent of pre-Katrina employment, the housing deficiency will grow to over 100,000 homes; and, if employment were to grow to 550,000 jobs by the end of 2008 or just about 90 percent of pre-Katrina employment, the housing deficiency will amount to over 130,000 homes. New jobs can grow faster than replenishment of the housing stock, but this employment growth and economic recovery will be limited by the ability to replenish the housing stock. For New Orleans to grow economically the citizens must be willing to continue living in trailers or in other temporary housing arrangements or continue to commute from outside the New Orleans Metro if the rebuilding of permanent housing cannot be accelerated.

Projections for the New Orleans economy tend to plateau in about two years because the housing deficiency will prevent other segments of the economy from what would be their natural growth. Projections for 2008 for New Orleans suggest a smaller number of jobs being created than in 2007—the infrastructure to support additional workers is simply not available. Long-term projections have a wide margin of error at this time since there are so many unknowns about the re-development of the New Orleans area such as the workability of the new Unified New Orleans Plan, the success of the housing programs now in place, the success of business development plans such as the true impact of the Go Zone tax incentives, and any new program that might be geared to accelerating the recovery.

The dynamics of the economic recovery becomes more complicated as it takes longer to get families back to the New Orleans Metro. If the families could have moved back to their homes just after Katrina, the recovery would be proceeding along nicely. But because that was not possible due to the extent of the damage, many questions have to be answered before a family can make a commitment. Housing must be available or at least highly probable that it will become available; however, now the family must make sure jobs are available, schooling is available for their children, and basic social services are available. In a perfect world we would solve all of these issues simultaneously. In reality, we have to start with one issue and find a solution for it and then cope with other issues as they come along. Hence, the focus on housing is the starting point for accelerating and maintaining the recovery.

Table 1. Dynamics of Katrina:
Estimated Housing Stock and Estimated Required Housing
2005 – 2008
(in thousands)



As would be predicted the imbalance between workers and families trying to return to the New Orleans area and the deficiency of available housing, housing prices have risen. As an example, the military allowance for housing for military personnel working in Louisiana rose from the 2005 rates to the 2007 rates by 42 percent in the New Orleans region and by 33 percent in the Baton Rouge region. Statewide the military allowance for housing rose by just over 16 percent. These military allowances are based on surveys of the designated areas. In New Orleans apartment rents as reported in the Brookings Institution's ***The Katrina Index*** increased by just over 44 percent from 2005 through 2007. A survey by the New Orleans *Times-Picayune* recorded a surge in apartment rents from $800 to $1,357 or almost 70 percent from pre-Katrina apartment rents to October 2006 apartment rents.

The cost of housing does not reflect other costs associated with living in an area that incurred a significant catastrophic storm, such as insurance costs, utility costs, and other living costs.

Moving the Housing Market Forward

If housing has had such a restraining effect on the overall recovery of the New Orleans economy and is projected to continue to have a limiting influence on the rate of recovery of the New Orleans economy, the question is how can the housing market be moved forward. Is there a public policy or policies that will accelerate the recovery of New Orleans?

Many public policies are focused on the demand side of the housing market—subsidies to provide assistance for persons with certain income characteristics. low interest loans to attract more shoppers to the mix; and, other policies to direct money to households. However, the real constraint is on the supply side at this time. Any large effort to influence the demand for housing will create upward pressure on housing prices, at least in the short term. The higher prices will attract more housing developers, but the market process will not work itself out in several months. This simple fact leads to the first ingredient in any public policy.

We need to have realistic expectations. During the 1990s the entire state of Louisiana added about 13,600 new homes per year. If 13,600 new homes were rebuilt in the New Orleans area each year, it would take almost 15 years to get the housing stock back to its pre-Katrina level assuming all of the damaged homes had to be totally rebuilt and assuming all families decided to return. If the New Orleans area only gets close to 5,000 new homes per year, it will take 40 years to get back to the pre-Katrina level. There is a simple physical constraint on the ability of any area to rebuild/repair almost 200,000 homes quickly. In 2006 the city of New Orleans issued just about 500 new residential building permits for single-home and multi-family units. By November 2006 the city had issued over 54,000 building permits for repairs and rebuilding existing houses. No one knows how many of these persons have started the rebuilding or exactly when they expect to initiate any rebuilding.

Second, tax credits to encourage the building of all types of housing, including affordable housing, provides the incentive to the reconstruction of the devastated housing stock. But, even this type of public assistance will have some resistance from the lack of sufficient workers.

Third, rebuilding requires skilled workers, carpenters, electricians, plumbers, and others. If all families tried to rebuild at once, labor prices would rise dramatically because such a labor pool simply does not exist. The higher wages would attract new workers to these professions. However, it takes time for these new workers to influence the market place. One goal of federal and state employment policy should be to provide training for those persons who want to become one of these skilled workers. This too has a time dimension to it—again the need for realistic expectations.

Fourth, the housing market responds to economic signals. We want these economic signals to reflect accurately the consensus of consumers. The government may want to influence the market by working through the economic signals that motivate housing developers to respond. For example, the New Orleans tourist industry needs employees to recover. Presently, the tourist industry has about two-thirds of the employees it had pre-Katrina and this number has been relatively stable for the last six months. That is, for the last six months employment in the leisure and hospitality industry has stayed at about two-thirds of its pre-Katrina employment level. This labor market will have to grow if the New Orleans tourist industry is to recover fully. Housing costs will hamper the ability of these workers to return to New Orleans. The industry can respond to the market by raising wages to an extent and this has happened, but the industry has to compete with cities across the nation that compete for the tourist trade. The ability of the tourist industry in New Orleans to raise wages sufficiently to factor in the higher housing costs in New Orleans will be limited by the existence of a very efficient market place.

Government has taken several steps in the case of workers with certain income levels to influence the market through tax credits, community development block grants, and other such processes. The Louisiana Road Home program has allocated $869 million in rebuilding incentives for rental units. Of this amount, $577 million or 70 percent of the total will be allocated to Orleans Parish, while $106 million or 13 percent of the total to Jefferson Parish.

The housing program has established loans based on the income levels of persons who will be renting the apartment. For example, if the renter is making $26,125 or less than the landlord can borrow up to $47,000 to repair a two bedroom apartment and can charge up to $590 per month. If the renter makes $41,800, the landlord can borrow up to $16,500 and charge $940 per month. Finally, the loans become a grant if the rents are maintained for ten years. The success of this program will depend on how well these parameters fit the market place. If the rent is pegged too low, the landlords will not use this source of funding.

The US Congress passed and the President signed the GO ZONE act in December 2005. In order to promote and accelerate the rebuilding of the hurricane-damaged area, this tax incentive act included termination date for the use of certain tax incentives. These termination dates of the tax incentives now needs to be re-thought because of experiences with the recovery process in the heavily damaged areas. The Louisiana Housing Finance Agency, along with the Louisiana Recovery Authority, and the Louisiana Office of Community Development, has allocated 2006 GO Zone tax credits and forward allocated 2007 and 2008 GO Zone tax credits. Current law requires projects receiving 2007 and 2008 GO Zone tax credits with a 30 percent increase in qualified basis and located outside the designated qualified census tract to be placed in service on or before December 31, 2008. About 65 percent of the units receiving these tax credits are at risk of losing them. It is imperative that the Congress extend the place in service December 31, 2007 deadline to December 31, 2009 and the place in service December 31, 2008 deadline to December 31, 2010.

The significance of these developments in areas outside the heavily damaged areas is that families are relocating to areas within the state because of the long-term recovery issues in the New Orleans area. Families must get their feet on the ground quickly—a family does not have time for a five-year plan. A community can think in terms of five-year plans. Government policy must be focused on assisting families as well as assisting the rebuilding of a community. These two focus points may require different policies or different emphasis.

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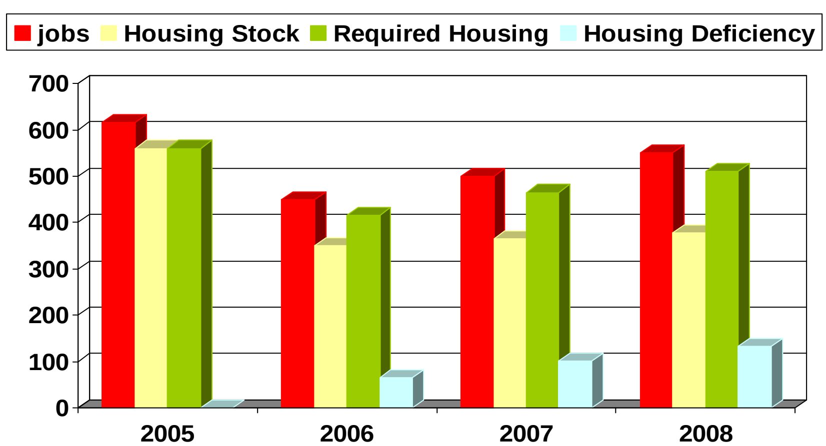

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