

“Two Years After the Storm: Housing Needs in the Gulf Coast”

Congressional Testimony of
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Presented before
Senate Committee on Banking, Housing and Urban Affairs
United States Senate
September 25, 2007

Chairman Dodd, Senator Landrieu, members of the Committee, I am pleased to appear before you this morning and very much appreciate your invitation.

The purpose of my testimony today will be to provide an overview of the population, housing and economic recovery of New Orleans and its larger region, based on the wide array of data we at Brookings have been collecting since Hurricane Katrina hit the Gulf Coast in 2005. The hope is that this overview will help provide the basic context for current legislation to provide affordable housing in the region and any future legislation aimed to accelerate the recovery of New Orleans and other Gulf Coast communities.

Overall, the good news is that, two years after Katrina and the levee collapse, greater New Orleans has recovered the majority of its population and economic base. Yet, the region-wide trends mask the lag in recovery of the two most hard-hit parishes, Orleans and St. Bernard.

Although the population in New Orleans region continues to rebound, most of the growth has been occurring in the outlying parishes. Furthermore, demographic shifts have been

occurring, with fewer black residents in the city, a larger share of Hispanic students in the outlying parishes and many former low-income and minority New Orleanians remaining dispersed across the country in metropolitan areas like Houston, Dallas, and Atlanta.

Background

Since the fall of 2005, the Brookings Institution Metropolitan Policy Program has been tracking the recovery trends in post-Katrina New Orleans and evaluating the federal, state and local response to date.

The main resource we provided was a publication called *The Katrina Index*, which relied on 40 indicators to track the population, housing, and economic recovery of the New Orleans region. For two years, we issued *The Katrina Index* on a monthly basis to members of the media, key decision makers, nonprofit and private sector groups, and researchers. The *Index* served as an independent, fact-based, one-stop resource to monitor and evaluate the progress of on-the-ground recovery in New Orleans, Louisiana and some of Mississippi.

In 2007, *The Katrina Index* was renamed *The New Orleans Index* and is now a joint collaboration between the Greater New Orleans Community Data Center and the Brookings Institution in order to bring an even better, more tailored assessment of recovery of the New Orleans region.

The following overview derives from the new quarterly *New Orleans Index* and our recent analysis of latest Census trends. These and other Katrina-related studies can be found on the website at www.brookings.edu/metro/katrina.htm.

Overview of the Recovery Trends in New Orleans

1. Who is back in the city? And who has yet returned?

Just a few weeks ago, Brookings released a study entitled, “Resettling New Orleans, The First Full Picture from the Census.” The study analyzes new data from the Census Bureau as well as data from the IRS to determine, for the first time, who lives in the city and region and who moved in, stayed, or remain displaced approximately one year after the 2005 hurricane.

First, the population of New Orleans is smaller. By July 2006, Census estimated that the city had recovered just half of its 2005 population, declining from 452,000 to 223,000 residents. The metro area as a whole lost about 22 percent of its pre-Katrina population.

Second, the city lost over 173,000 of its black residents, a 57 percent decline from 2005. Prior to Katrina, blacks made up 67 percent of the city’s population. But even with the losses, the city remained a majority minority city one year after the storm, with blacks making up 58 percent of its population and whites about one-third. Meanwhile, the racial

and ethnic composition of the surrounding parishes, as a whole, essentially stayed the same.

Third, the population living in New Orleans one year after Katrina was older, more educated, less poor, with fewer renters, and fewer households with children than was recorded in Census 2000. For instance, the share of residents in the city with a college degree jumped 6 percentage points, from 26 percent in 2000 to 32 percent in 2006. The loss of families with children in the city was more dramatic. Pre-Katrina, 30 percent of households in the city were families with children. Post-Katrina, that share dropped to just 17 percent. The share of single moms dropped by half, from 14 percent in 2000 to 7 percent in 2006. And finally, the share of persons living below poverty in New Orleans after the storm dropped by 6 percentage points to 22 percent.

Fourth, who has yet returned to the city? Of the approximately 197,000 residents who have moved out or remain displaced from the city of New Orleans one year after Katrina, 70 percent were African American. Further, the households who had not yet returned to the city were younger, poorer, more likely to be black, and more likely to have children, compared to those who “stayed” in New Orleans after the storm.

Approximately 10 percent of the residents in the city one year after the storm were returnees or new in-migrants. Since the storm, approximately 23,700 have returned or moved into the city. Of these, 10 percent are Hispanic, and the rest are equally split between blacks and whites. Further, the largest shares of those moving back or coming

into the city are middle- to- upper income households – 41 percent. But, more than one-quarter of the returnees—approximately 27 percent—were low-income residents.

Thus, we know that many low-income and African American families have yet returned to the city. But this latest Census data also gives us one additional sense of the nature of the diaspora, how widely dispersed were the households? One year after the storm, black New Orleanians were most likely to have moved or be relocated to the Houston metro area and other parts of Louisiana and the South. Whereas whites were most likely to stay nearby, relocating elsewhere in the New Orleans metropolitan area. If you look at the trends by income, low-income “displaced” residents were living in far flung metropolitan areas like Houston, Dallas, and Atlanta one year after Katrina, while wealthier households stayed in the New Orleans metro area. In-migrants to New Orleans were more likely to arrive from suburban parishes, which were also home to higher-income New Orleanians right after the storm.

2. Two years after Katrina, the population of New Orleans and the region continues to rebound, but demographic shifts continue, with fewer minority families in the city and greater diversity in the suburbs.

To track population and demographic shifts in the region on a more regular and current basis than the Census, we looked at U.S. Postal Service delivery data and public school enrollment data.

As of July 2007 postal estimates, the city of New Orleans has regained 68 percent of its pre-storm households.

However, the city's population now makes up less than one-third of the region's population, pointing to a dramatic shift toward a more regional economy in the two years since Katrina with increasing populations in the northern and western suburbs.

The outlying parishes of St. Charles, St. John the Baptist and St. Tammany all have more households today than they did before Hurricane Katrina (St. Charles – 104 percent; St. John – 106 percent; St. Tammany – 103 percent). Jefferson Parish has also recovered 98 percent of its pre-Katrina population.

The recovery in Orleans and St. Bernard Parish has been much slower. While Orleans Parish has restored 68 percent of its pre-storm households, many of those living in zip codes that cover heavily flooded areas have yet returned. St. Bernard has had the most trouble reviving its pre-Katrina population, reaching 37 percent.

Data on student populations in the public schools can also give us a sense of who has returned to the city. According to the latest figures, 17,000 more students returned to public schools in New Orleans between the spring semester of 2006 and spring semester of 2007, up from just 9,000 students last year (we don't have the latest data for this fall semester). This represents 40 percent of pre-Katrina levels in Orleans Parish. Across the

New Orleans metro area, total enrollment in public schools reached 70 percent of pre-Katrina levels in the spring semester of 2007, up from 59 percent one year ago.

While the overall socioeconomic composition of the student body in the New Orleans region has not changed dramatically since the storm, there are two notable trends—a smaller share of black students are attending public schools in New Orleans while Jefferson and St. Tammany have seen increasing shares and numbers of Hispanic students.

To start, the make-up of the student body served by public schools in Orleans has not changed dramatically since the storm suggesting that these children come from returning families rather than newcomers to the area. The post-Katrina student body is predominantly African American (89 percent) and low income (76 percent free/reduced lunch). However, the share of black students has dropped by 4 percentage points since the storm, in part explaining the increasing shares of white, Hispanic, and Asian students now in the school system. This may indicate that black students have been disproportionately challenged to return to the area and/or to enroll in school.

The public schools in the surrounding parishes are serving a smaller and slightly more diverse student body. Jefferson Parish has seen its public school enrollment drop by almost 8,000 students, yet there are 300 new Hispanic students in that parish.

Accompanying that shift is a nearly 60 percent increase in the share of the student population that has limited English proficiency, and a five percentage point increase in

low-income students. St Tammany is also dealing with more than 200 Hispanic students in its public schools. This confirms that there are more Hispanic families in the New Orleans region and that many are bypassing the city and directly settling in the suburbs.

3. The cost of housing and rent levels remain high two years after Katrina, meanwhile, housing demolitions and new construction are picking up pace while state aid remains slow.

We currently do not collect data on the status of the public- and assisted-housing stock but are looking into doing so for future analyses. In the meantime, we can provide a picture of the health of the overall housing market and the state of the housing recovery.

First, home prices and rent levels in the New Orleans region have remained high between 2006 and 2007, but the increases have leveled off.

One year after Hurricane Katrina, the limited housing supply in the hard-hit parishes led to a flurry of home-buying in surrounding parishes, such as west Jefferson and St. Tammany. The result was that both home prices and rent levels spiked dramatically in the region in the first year. By the second year after the storm, those home sale values and rent levels have remained high, staying the same or increasing only slightly between 2006 and 2007.

For example, the typical home purchase price in west St. Tammany has increased by 25 percent over the last two years. In west Jefferson, the jump was 22 percent.

Fair market rents rose an astounding 39 percent from 2005 to 2006 as renters and displaced homeowners scrambled for the little available rental housing in the New Orleans area. By 2007, rents began to stabilize at these higher levels, increasing just 4 percent from 2006 to 2007. A two-bedroom apartment in the region now rents for \$978 per month, up from \$676 in 2005.

Meanwhile, home prices have dropped in Orleans and St. Bernard parishes. Average home sales prices in St. Bernard have dropped 40 percent from pre-Katrina levels (although they did improve slightly from one year ago), and in the east bank of New Orleans, the drop was 20 percent in value—likely reflecting the large number of flooded homes sold as-is in recent months.

Second, there is a glut of homes on the market and many appear to not be adding to the housing supply, and therefore help ease the growth in home prices. Two years after Katrina, there are over 11,300 homes for sale in the region, far surpassing the 962 homes purchased, on average per month, in 2007. A high number of property owners are selling their homes, and many of these homes appear to be in serious need of repair and thus not quickly inhabitable, or they may come with high insurance rates, discouraging their purchase.

Bottomline: The overall cost of living is increasing in the city and the region. Home and rent prices are generally still rising, with an insufficient supply of habitable homes to meet demand. And this is occurring on top of the increasing cost of insurance premiums and the increasing cost of home repairs, supplies, and contractors.

Third, while the housing market is tight, there are signs that the overall pace of rebuilding and replacing homes is picking up steam. Housing demolitions and new construction of homes, in particular, are well underway, and has accelerated since the first year after Hurricane Katrina.

For instance, the total number of Army Corps demolitions in the past year, at more than 3,100, has exceeded that in the first year following the storm. In total, more than 5,500 homes have been demolished, 74 percent of which took place in the city of New Orleans.

The pace of approvals to build new housing units has also picked up pace over the last year. By August 2006, only 205 new housing units had been authorized for new construction in New Orleans. But by June 2007 an additional 2,200 new housing units had been approved.

In the metro area as a whole, approximately 9,600 units of housing have been approved for construction. Of these, the vast majority—7,200 units—are single family homes.

Where the housing recovery appears to have slowed down is in the residential repairs. The issuance of residential building permits in New Orleans has slowed dramatically in the past year, despite the availability of Road Home funds. In the first year post-Katrina, the city issued almost 46,000 residential building permits. In the following 10 months, only an additional 14,000 permits were issued. The high number of permits issued in the first year after Katrina likely reflects the number of homeowners who rushed to meet an August 29, 2006 deadline to receive free permits, and to ensure that their properties could be repaired without being subject to new elevation standards

Finally, the renovations and new constructions of homes appear to be happening in spite of the Road Home program. The state's Road Home program primarily aims to help homeowners repair their severely damaged homes, with greater incentives provided to those who keep their homes or stay in the state. However, the program, launched in the summer of 2006, has been off to a slow start, frustrating many homeowners. As of August 6, 2007, more than 180,000 households had applied for assistance, far higher than the 123,000 the program was originally designed for. Of the total applicants, only 22 percent had gone to closing, and the average benefit per applicant had fallen by more than \$12,000 to about \$68,700.

4. The New Orleans region has recovered the bulk of its economic base, but the thin provision of basic infrastructure and services may be slowing down the economic recovery in the city.

The economy in the New Orleans metro area took a major hit after Hurricane Katrina. Two years later, many aspects of the economy are nearly restored to pre-Katrina levels.

For instance, the city of New Orleans' fiscal base is stronger today, with revenues from sales taxes reaching 84 percent of pre-Katrina levels, despite having two-thirds of the pre-Katrina population. Much of that fiscal recovery has been buoyed by visitors but also from existing residents' need for basic goods—such as the massive replacements of household and personal items and for supplies and materials to gut and rehab homes—began to fuel the economy.

According to the most recent estimates, by fall of 2006, the city and the metro area had reached 72 percent and 85 percent of its pre-Katrina employer base. As a whole, the New Orleans region has lost 4,000 firms since the storm. All parishes across the five-parish area have lost a net number of employers since the storm. The exception is St. Tammany, which has seen a net gain of 44 employers in this time period.

One bright spot: All parishes saw new business start-ups. New Orleans has had 1,014 employers move in or open new businesses; St. Tammany, 1,094; Jefferson, 1,644. Even St. Bernard Parish welcomed 70 new employers that moved in or began new businesses since Katrina.

The New Orleans region has recovered 79 percent of its labor force since Hurricane Katrina, making minimal gains in the past year; but, the unemployment rate has worsened

since August 2006. The unemployment rate in the New Orleans metro area fell from 5.3 percent pre-Katrina to as low as 3.8 percent in April 2007, but has climbed back up to 5.1 percent in June 2007, still below pre-Katrina levels.

Since Hurricane Katrina, the region has lost 118,500 jobs, primarily in health and education, and leisure and hospitality. Both of these sectors are still missing one-quarter of their pre-Katrina workers, which are needed to bolster the tourism industry and to ensure that all schools, colleges and health care facilities are properly staffed for families and children.

The two sectors that have seen slight job gains over the two year period since Hurricane Katrina are the construction industry (2,700 new jobs) and mining and natural resources (approximately new 400 jobs). The former experienced the bulk of the job gains in the first year since the storm, holding steady in the second 10 months. The growth in mining and natural resources jobs mirrors the trend in the nation as a whole.

Finally, critical to the economy is a functioning city with the basic delivery of services and infrastructure. Without decent schools, safe streets, and overall quality public services, many families and businesses may not stay and vote with their feet.

At the two year anniversary of Katrina, basic essential services and infrastructure have not been significantly restored and the level of services has barely improved in the past year.

Less than two-thirds of the original public schools have re-opened in New Orleans; and, student achievement has declined across the region, likely reflecting stresses and learning interruptions related to the disaster. St. Tammany, Jefferson, and Plaquemines parishes have re-opened all or almost all of their public schools since Katrina, while St. Bernard still has only three of 15 schools in operation. In Orleans Parish, 80 public schools are now open as of September 2007, representing 62.5 percent of the original number.

A large portion of the other key public services, like public transportation and health care facilities, remain closed two years after Katrina—with very little capacity added in the past year. The level of public transportation services in New Orleans has remained virtually the same since August 2006 when only 17 percent of buses were back in operation on 45 percent of pre-Katrina routes. As of July 2007, only 19 percent of buses are running on 50 percent of the pre-Katrina routes.

As of July 2007, 10 acute care hospitals, psychiatric hospitals, long-term disability and rehabilitation facilities remain closed, out of the original 23 in New Orleans. St. Bernard Parish remains without a hospital.

Shortage of childcare services continues to serve as an obstacle for working families.

Approximately 36 percent of the 276 childcare facilities in New Orleans were open as of August 2007.

Finally, the lack of repairs on public facilities is undermining the effectiveness of policing. The violent crime rate in New Orleans is higher now than in pre-Katrina New Orleans, eliciting legitimate concerns from residents and business owners. The solutions to increase safety are broad and multi-faceted, not just limited to the level of policing. But, one critical aspect hampering law enforcement's ability to provide for public safety is the lack of repairs to essential criminal justice buildings in New Orleans. As of July 2007, no repairs have been completed on damaged police stations, and two police stations plus police headquarters continue to operate out of FEMA trailers. Further, the police have only a partially functional crime lab, and Special Operations, Traffic, Recruiting, Juvenile, Compliance and Auto Theft Divisions continue to work out of FEMA trailers.

Implications for Federal Housing Proposals and Other Responses

Two years after Hurricane Katrina and the subsequent levee failures, the New Orleans area is on the mend, with many residents back and the economy humming at near pre-Katrina levels. But behind those regional trends are stark disparities between the recovery of the Orleans and St. Bernard parishes and the rest of the region. Further, other serious challenges remain.

These trends and other facts point to several implications related to federal action, particularly as it relates to affordable housing.

First, the limited supply of housing, especially rental housing, has pushed up the cost of housing in the New Orleans area. Home prices are up and rents in the region are approximately 45 percent higher than two years ago. Housing affordability is a real challenge.

Second, while important, the strong focus on the Road Home program in the past year has overshadowed the need to better serve renters, including public housing residents. According to FEMA estimates, more than 48,000 units of rental housing in the region were severely damaged by the storm. Yet, just 2,400 units of new multifamily housing have been approved for construction. No doubt, a small portion of the 7,200 new single family housing units may be used for rental. Either way, the supply of rental housing is clearly constrained. So, strategies to boost the supply of affordable housing is critical. This includes, in the absence of new hard units, the need for the federal government to recruit existing apartment owners to accept households using federal housing vouchers.

Third, the school composition data point to the fact that a greater share of low-income families and immigrants are living in the suburbs, where the home prices have risen the most. With population and job growth continuing to shift away from the city and into the suburban parishes, especially after Katrina, it is important for leaders to consider making affordable housing, and workforce housing, available in the job centers outside of the city.

Fourth, there are still many low-income and African American families in the diaspora that must not be forgotten. According to the most recent Census data, as of 2006, there were approximately 197,000 New Orleanians who remain displaced or have yet moved back to the city. Of these approximately 70 percent were black, and 38 percent lived below poverty. And many live in Houston, Atlanta, or other far-flung parts of the country. The need for affordable housing options should not be limited to just the greater New Orleans area but to many of these new destinations.

Finally, the recovery trends affirm that this nation stands at the beginning of a long-term recovery process for New Orleans and the Gulf Coast. A strong federal, state, and local partnership is still needed. Areas of additional attention include: affordable and rental housing, adequate public services and infrastructure, the redevelopment of vacant land and properties, and targeted investments in workforce development, small business growth, and diverse industries. Further, future recovery efforts must go beyond the simple focus on speed of recovery to one of quality outcomes. Prior to the storm, New Orleans was plagued with high concentrations of poverty, a stagnant economy with a weak workforce, and a region that was growing in unsustainable ways. No doubt, the city had enormous assets. But federal investments and taxpayer dollars must not replicate the same city and metro area as before. These efforts must help greater New Orleans rebound from Katrina as a better version of itself: safe, economically robust, with opportunities for all.

I very much appreciate the opportunity to appear before you, and would be pleased to answer any questions you might have.