"Rebuilding Housing in the Aftermath of Hurricanes Katrina and Rita"

Testimony of

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The American apartment industry…working together for quality, accessible, affordable housing.

Chairman Ney, Ranking Member Waters and distinguished members of this Subcommittee, my name is Larry Schedler and I am the President of Larry G. Schedler & Associates in Metairie, Louisiana. I have been representing buyers and sellers of apartment communities for the past 20 years, and have successfully handled the sale of more than 20,000 multifamily units. My multifamily brokerage firm is unique in that I focus exclusively on the Gulf Coast Region. During my tenure, I have worked with clients ranging from nonprofit housing organizations to institutional investors and from insurance companies to private investors. I also have experience in conventionally-financed transactions and affordable housing transactions financed through tax-exempt and taxable bonds, Low-Income Housing Tax Credits (LIHTC) and various other HUD/FHA financing programs.

I am here today at the request of two trade associations that represent the private apartment industry—the National Multi Housing Council (NMHC) and the National Apartment Association (NAA). NMHC and NAA represent the nation's leading firms participating in the apartment industry. Their combined memberships include apartment owners, developers, managers, builders and lenders.

The National Multi Housing Council represents the apartment industry's largest and most prominent firms. NMHC members are the principal officers of these organizations. NAA is the largest national federation of state and local apartment associations, with 190 affiliates representing nearly 50,000 professionals who own and manage more than six million apartments. NMHC and NAA jointly operate a federal legislative program and provide a unified voice for the private apartment industry.

Before I discuss the housing issues related to Hurricane Katrina, I would like to offer some background on the apartment industry in general. Apartments account for about 14 percent of the entire housing stock, and approximately 16 million American households live in apartments. These households represent the full spectrum of America's population; they are young and old, single and married, wealthy and poor. Rental housing is an important economic driver in the American economy. Apartment revenues total almost $120 billion annually, and apartment management is responsible for approximately 500,000 jobs. More than 200,000 new apartment homes have been built each year for the past three years at an average value of $23 billion annually. New apartment construction provides jobs to more than 220,000 workers. Apartments are owned by a wide range of investors, including individuals, partnerships, real estate investment trusts, publicly-traded corporations and nonprofit organizations. They are financed by an array of lenders including commercial banks, thrift institutions, life insurance companies and government-sponsored enterprises. A growing share of the financing comes from publicly traded mortgage-backed securities.

We commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of housing in the aftermath of the 2005 Gulf Coast hurricanes. In particular we would like to commend you, Chairman Ney, and Ranking Member Waters for convening the recent Roundtable discussions and public hearings on recovering from Hurricane Katrina, and for coming to New Orleans for this hearing today. We appreciate the dedication of the Subcommittee on this issue.

NATIONAL IMPEDIMENTS TO HOUSING THE EVACUEES

Hurricane Katrina will go down in the record books as the nation's largest and most costly natural disaster ever. According to Red Cross estimates, at least 416,894 housing units across the Gulf region were destroyed, nearly ten times more physical damage than any previous U.S. natural disaster. In addition, 85,000 housing units suffered major damage and 130,000 suffered minor damage. Forty-seven percent of the units destroyed throughout the region were rental units; in New Orleans 55 percent were rental units.

The record-breaking 2005 hurricane season caused the largest mass migration of Americans in the past 150 years, leaving more than one million people homeless.

As our nation struggled to recover from this unprecedented disaster, one of the most pressing needs was to find safe and decent housing for hurricane victims. Moving displaced families from temporary shelters into more suitable housing is the first step in helping them rebuild their lives. These are extraordinary times that call for the private sector and the federal, state, and local governments to respond accordingly.

In the immediate aftermath of hurricanes Katrina and Rita, the apartment industry stepped up to the plate and took a leadership role in the relief efforts to house the displaced people of Louisiana, Mississippi and Alabama. The response was immediate, creative and generous.

In the early days following Katrina, federal officials reached out to the apartment industry, and the industry responded enthusiastically by submitting thousands of available units into a national database. They also answered FEMA's call for blocks of apartments that the agency could rent directly.

When it became clear that the federal government was not going to quickly offer official guidance or assistance to house the newly homeless evacuees, the apartment industry initiated several programs of its own. In Texas, where the largest number of evacuees were sent, many NMHC and NAA member firms forged relationships with local charities and created programs to award free rental units and other support services to needy families. In all, more than 400 free apartments were donated to the United Way and the Urban League.

Around the country, apartment owners submitted their available units into a national housing registry, www.hurricanehousing.net, complete with offers of waived security deposits, reduced rents, flexible leases and other concessions.

The first few months of the recovery effort were marked by a series of different FEMA assistance programs, nearly constant changes in rules and deadlines and a level of confusion and chaos. Three different government assistance programs were created to help move the evacuees out of shelters and hotels. Some people are eligible for housing assistance through a special Katrina voucher program created by the U.S. Department of Housing and Urban Development (HUD), others can receive housing assistance directly through FEMA's Individuals and Households Program, and still others are being helped by FEMA-funded city voucher programs through the FEMA public assistance programs.

The information provided to both the evacuee and the apartment owners remains inadequate and continues to lead to significant confusion. In many cities, rents promised through the voucher programs remain unpaid. Many evacuees, unaware that their assistance checks could only be used for rent, used the money instead for pressing needs like food, clothing and medicine. Even now, nearly five months after the hurricane, tens of thousands remain in hotels because their applications for aid have not been processed. We look forward to working with the Administration, Congress, FEMA and HUD to resolve current problems and develop solutions for the future.

HOUSING SOLUTIONS FOR NEW ORLEANS

Since we are in New Orleans today, I would like to discuss the housing situation in this great city before and after Hurricane Katrina. The city of New Orleans is down, but definitely not out. New Orleans is a critical link to the economy of the country through its location on the Mississippi River and its rich oil and gas reserves. While New Orleans will undoubtedly survive and thrive, the new New Orleans will be a smaller and different city than the one we knew before August 29th.

Already there are many different ideas about how the city should be redeveloped. The one element everyone agrees on is the need for housing. Hurricane Katrina created the single largest need for housing in the history of our country. The redevelopment of this historical city will be the largest since the period of Reconstruction.

It is estimated that approximately 260,000 residences (both owner-occupied and rentals) in New Orleans were affected by Hurricane Katrina. It appears that 30 to 35 percent of our inventory of 50,000 apartments was critically affected by Hurricane Katrina. It is further apparent that approximately 15 to 20 percent of our inventory of rental apartments was destroyed by Hurricane Katrina. Some of these homes will not be able to be rebuilt. Those that can be rebuilt will take time.

The area that sustained the largest amount of concentrated destruction is East New Orleans. East New Orleans was developed in the early 1970s and had become predominately a moderate-income apartment market. Its approximately 7,500 rental units rented for an average of 65 cents per square foot. While these rents were sufficient to cover the operating expenses of these older properties, they are not sufficient to cover the cost of new construction, even if the buildings were built to the pre-Katrina standards. Moreover, costs for new construction all over the state will be higher because of higher cost building supplies, insurance, labor, and the costs to meet anticipated changes in the building codes. If a rebuilt New Orleans is going to include apartments, the federal government will have to be generous with incentives in the form of tax credits and grants. Otherwise, new developments will remain financially unviable.

Although other areas of the Metro New Orleans apartment market sustained significant damage, rebuilding of these communities is already well underway. However, this rebuilding effort is constrained by a shortage of land. The land shortage in New Orleans was always been a barrier to apartment construction, and this dilemma continues today. Many of the areas of the city that could be revived quickly unfortunately offer virtually no land for large garden apartment developments.

In other areas where land is available, such as the area north of Lake Pontchartrain in St. Tammany Parish, community resistance to high-density development typically limits new apartment development. These barriers to entry will need to be eliminated if the rebuilding process is going to succeed.

The good news is that there is already overwhelming investor interest in the New Orleans market. Developers have been searching for locations to develop new apartments both in the city and the surrounding parishes. Several high-end downtown condominium developments that were announced prior to Hurricane Katrina are still moving forward, including a downtown development by the Trump Organization. Many investors are also looking for damaged assets that can be quickly acquired, rehabbed and repositioned.

It is also important to note that before the storm, 95 percent of the available apartments in New Orleans were occupied. This means that the city’s apartments were virtually full, so even before the storm damaged 20 percent of the housing inventory, there was no surplus housing to help meet the rising demand.

There is an unquestioned need to build more housing in New Orleans and the surrounding area. But meeting this need will require more federal incentives and a streamlined redevelopment process. The rebuilding efforts are complicated by the fact that high demand, a limited supply of land, and rising construction costs will all combine to push the price of the resulting housing higher. If state, city and federal officials are serious about rebuilding the housing in New Orleans, they will need to make federal incentives available.

Fortunately, Congress has already passed, and the President has signed into law, new incentives to redevelop the Gulf Coast. The measure does provide an emergency allocation of Low-Income Housing Tax Credits in 2006, 2007 and 2008 in the Gulf Opportunity (GO) Zone, which includes the counties and parishes in Louisiana, Mississippi and Alabama that were designated as warranting individual or public and individual assistance because of Hurricane Katrina. The emergency allocation is $18 per capita--more than nine times the current-law allocation of $1.90 per capita. Finally, the measure increases the size of the credit from 100 percent of qualifying project costs to 130 percent of such costs by designating the GO Zone and the Rita each as a "Difficult Development Area" in 2006, 2007 and 2008.

If Louisiana is going to get the maximum value possible from the tax credit program, it needs to change its past practices of making small allocations and creating new affordable housing on a small scale. During the rebuilding period, it will be necessary to allow more credits per project. This will encourage developments that will meet the large scale need, and it will attract well capitalized developers who can utilize their skills to create more affordable housing.

CONCLUSION

Apartment owners want to do the right thing. They want to get the citizens of New Orleans back to the area they love, as soon as possible. They are ready to accept the business risks and potential costs inherent in solving the housing crisis and redeveloping cities like New Orleans. There is no doubt it will require Herculean efforts on the part of government and the private sector. If it is to succeed, though, policymakers need to help identify land for new apartment construction, maximize the use of federal housing incentives, and remove the barriers to development and unnecessary bureaucratic red tape that delay construction and push costs (and ultimately rents) higher.

I thank you for the opportunity to testify on behalf of the National Multi Housing Council and the National Apartment Association, and wish to offer our assistance to the Subcommittee as you continue your important work.