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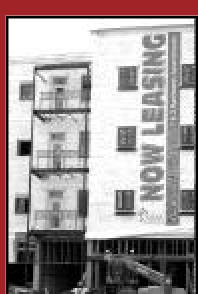
THE HOUSE THAT UNCLE SAM BUILT

The Continued Expansion of Subsidized Housing in New Orleans








INTRODUCTION

Currently, New Orleanians are in the process of reviewing and commenting on a draft master plan for the city. The plan is expansive, addressing complex subjects such as infrastructure, economic development, housing and land use. The housing element, in particular, has been a subject of intense discussion among citizens and planners.

In order for the master plan to serve as an effective guide for the city, it must be grounded in the realities of today and realistic possibilities for tomorrow. In the housing arena, this requires an assessment of multiple factors, including current and future supply and demand for both market-rate and subsidized housing. The assessment is needed to formulate a plan that meets the housing needs of the community as a whole and connects to the city's economic development goals.

Building on prior BGR research, this report provides numbers on one part of the supply equation: the existing and projected subsidized rental housing supply in the city and in the metropolitan context.

BGR first analyzed the supply of subsidized housing in the New Orleans area in a 2007 report, *Cementing Imbalance.*[1] It found that, prior to Hurricane Katrina, New Orleans had two-thirds of the region's subsidized rental households, but only 38% of its population and 38% of its low-skill jobs. BGR projected that the city's share of subsidized households would hold steady, despite the city's significant population loss and a decline in the employment base. It also projected that subsidized households as a percentage of all households in New Orleans would nearly double from the pre-Katrina level.

Since 2007, market forces and program changes have altered the prospects for some types of subsidized housing, calling into question the continued validity of BGR's earlier projections. This report provides an update that takes into account programmatic changes since 2007 and projects that have fallen by the wayside.

KEY FINDINGS

In the aftermath of Hurricanes Katrina and Rita, the federal government made available significant funding for rebuilding low- and moderate-income housing. As a result of these programs, the number of subsidized rental units in the city has already rebounded past pre-Katrina levels, and is expected to far surpass those levels by 2012. Subsidized housing will assist more of the poorest households in New Orleans than before the disaster, and a far greater number of low- and moderate-income households with incomes between 40% and 80% of median. This is occurring on a much-reduced overall population base.

BGR projects that, by 2012:

- New Orleans will have approximately 35,700 units of subsidized rental housing – an increase of approximately 15,800 units over the pre-Katrina level.
- Subsidized rental units as a percentage of all housing will more than double, rising from 10% pre-Katrina to 25%.
- The number of housing units for very low-income households will increase by 3,600 (22%) over pre-Katrina levels.
- Although it will have only 27% of the region's population,[2] New Orleans will have 70% of the subsidized housing in the region.

WHY IT MATTERS

The dramatic projected increase in the volume and market share of subsidized housing underscores the importance of carefully analyzing this segment of the market and its potential impacts on the city as a whole.

Across the United States, government subsidized housing programs have played a critical role in filling unmet housing needs. But the housing programs have also had a downside. In a number of places, such programs have contributed to the concentration of poverty and low-income residents in the core city. The asso-

GLOSSARY

Income Terms

For the purposes of this report, BGR uses certain income definitions employed by the state in its post-Katrina housing programs.

Affordable – HUD's benchmark for determining whether a renter household's housing expenditures (rent and utilities) are affordable is 30% of gross income.

Area median income – An annual HUD estimate of median gross income for metropolitan areas and non-metropolitan counties. For the seven-parish New Orleans metro area, the median income in 2009 is $59,800 for a four-person household. HUD uses the four-person median income as the basis for setting program income limits. Such limits vary by household size.

Very low income – Up to 40% of area median income, or $23,920 for a four-person household and $21,520 for a three-person household. The highest monthly housing expenditure affordable to a four-person very low-income household is $598; it is $538 for a three-person household.

Low income – Up to 60% of area median income, or $35,880 for a four-person household and $32,280 for a three-person household. The highest monthly housing expenditure affordable to a four-person low-income household is $897; it is $807 for a three-person household.

Moderate income – 60% to 80% of area median income. Eighty percent of area median income is $47,850 for a four-person household and $43,050 for a three-person household. The highest monthly housing expenditure affordable to a four-person moderate-income household is $1,196; it is $1,076 for a three-person household.

Types of Subsidized Housing

Public housing units – Rental apartments supported by federal public housing operating subsidies. To be eligible, tenants must have incomes at or below 80% of area median income. Many have very low incomes.

Tenant-based vouchers – Federal rental subsidies, administered by a public housing authority, for units that tenants choose in the private market. This category includes the Section 8 Housing Choice Voucher and post-Katrina DHAP voucher programs. To be eligible, households must have incomes at or below 80% of area median income. However, federal law gives priority to households with incomes at or below 30% of area median income.

HUD project-based rental assistance – HUD agreements with owners of multifamily apartment complexes to pay the difference between the approved rent and what the tenant can afford. To be eligible, tenants must have incomes at or below 80% of area median income. Nationwide, two-thirds of the households in these units are elderly and disabled. Many have very low incomes.

Low income housing tax credits – Federal income tax credits administered by the Internal Revenue Service and awarded to developers by the Louisiana Housing Finance Agency. Developers typically sell the credits to raise equity capital for their projects. The tax credits may be claimed annually for 10 years against eligible development costs for units restricted to low-income households. The units are generally affordable to households with incomes between 45% and 60% of area median income. Federal tax law requires the owner to comply with rent and income restrictions on designated units for 30 years after they are made available for occupancy. GO Zone Housing Tax Credits are a form of low income housing tax credits.

Small Rental Property Program – A rental housing initiative, formulated by the Louisiana Recovery Authority and the state Office of Community Development, that uses CDBG funds to provide forgivable loans to landlords for the repair of hurricane-damaged small rental properties, primarily those with one to four units. In return for financing, landlords must comply for 5 to 10 years (longer for nonprofits) with certain tenant income and rent restrictions. Depending on the level of CDBG assistance, the landlord sets maximum rents per restricted unit at levels affordable to households earning 50%, 65% or 80% of area median income.

Subsidized housing – Rental units with tenant income, and in some cases rent, restrictions imposed by the above programs. **Subsidized households** refer to the households that occupy those units.

ciated problems are well known. They include a negative impact on the quality of life in cities, greater burdens and a declining tax base for core city governments, limited opportunities for economic advancement by the poor, and a mismatch between jobs and affordable housing at the regional level.

The extent to which subsidized housing benefits or hurts a city depends on many factors including location, concentration, the income level of tenants and the quality of management. Any housing analysis or plan must begin with a firm grasp of the numbers.

BACKGROUND

Prior to Hurricane Katrina, there were more than 19,800 subsidized rental units in Orleans Parish. They included units in the private market rented by 9,100 households using Section 8 vouchers and 5,200 units in the city's public housing developments.[3] The balance consisted of units in tax credit and HUD-assisted developments. Subsidized rental units made up 10% of the city's total housing, and 19% of its rental housing.[4] An estimated 83% of the subsidized rental units assisted households with very low incomes.[5]

Many other renters resided in low-cost, unsubsidized, small rental properties. The 2005 disaster inflicted significant damage on these and other rental properties. Renters returning to the city faced higher rents for the limited number of available units, while landlords confronted higher construction costs plus higher insurance, maintenance and other operating costs.

To help address the rental housing crisis, Congress provided three types of assistance: a special allocation of low income housing tax credits (GO Zone Housing Tax Credits); Community Development Block Grant (CDBG) funds; and temporary rental assistance vouchers for displaced households in the private market (DHAP vouchers). The state used the CDBG funds to provide supplemental funding for some tax credit developments and, through its Small Rental Property Program, forgivable repair loans to landlords who agreed to rent restrictions.

The influx of federal recovery aid has provided funding for a host of new apartment complexes, increased the number of mixed-income developments and accelerated the overhaul of the city's public housing. It has also greatly expanded the pool of subsidies targeted to low- and moderate-income working households. It has not, however, contributed significantly to the restoration of small rental properties. Nor has it addressed the regional imbalance in the provision of subsidized housing among jurisdictions.

CURRENT AND PROJECTED NUMBERS

Although most of the housing units financed by post-storm programs have not yet materialized, the number of subsidized rental units already exceeds pre-storm levels by 4,100 units. This is due primarily to an 82% increase in the number of housing vouchers. In total, BGR estimates that the programs reviewed for this study provide 24,000 subsidized rental housing units in Orleans Parish. Approximately 7,400 are units with

METHODOLOGY

BGR compiled data on subsidized households and units from a variety of public reports, data sets, maps, and other documents prepared by the U.S. Department of Housing and Urban Development (HUD), the Housing Authority of New Orleans (HANO), other local public housing authorities, the Louisiana Housing Finance Agency, the state Office of Community Development, the University of New Orleans Institute for Economic Development and Real Estate Research, and the U.S. Census Bureau. BGR also conducted interviews and site visits. Unless otherwise indicated, the data are current as of April 2009.

BGR examined the five types of subsidized rental housing that account for the vast majority of the New Orleans area's subsidized rental supply: public housing, low income housing tax credits, tenant-based vouchers, HUD project-based rental assistance contracts and the Louisiana Recovery Authority's Small Rental Property Program. BGR did not include housing built under other federal programs, such as tax-exempt bonds and parish housing funds received from HUD. It did not include properties that will be funneled through the New Orleans Redevelopment Authority for development.

Table 1: Change in Subsidized Rental Units, Orleans Parish, 2005 to 2012

Program	Pre-Katrina Subsidized (2005)	Current Subsidized (April 2009)	Projected Subsidized (2012)	Change in Units, 2005-2012	Change in Units, 2009-2012
Tenant-Based Vouchers (1) (2)	9,122	16,617	16,660	+7,538	+43
Public Housing:					
Public Housing Units	5,146	2,474	3,433	-1,713	+959
Other Subsidized Units (3)	36	269	2,135	+2,099	+1,866
Low Income Housing Tax Credits (4)	2,493	2,419	4,291	+1,798	+1,872
HUD Project-Based Rental Assistance (5)	3,068	1,399	2,628	-440	+1,229
Small Rental Property Program (6)	0	821	6,557	+6,557	+5,736
Total	**19,865**	**23,999**	**35,704**	**+15,839**	**+11,705**

(1) Tenant-based vouchers pre-Katrina consisted only of Section 8 vouchers in use. The current total includes both Section 8 and DHAP vouchers in use as of March 31. The projected vouchers consist only of Section 8 vouchers. HANO expects voucher usage to remain near its current level, approximately 98% of funding capacity.
(2) Section 8 vouchers can be used in units built with low income housing tax credits. BGR has not reduced the number of Section 8 units to reflect overlaps with tax credit units. HANO has indicated that the overlap is currently small. It may, however, increase in the future as new tax credit developments come on line.
(3) "Public housing units" are those that receive public housing operating subsidies. "Other subsidized units" refers to all other subsidized units included in public housing redevelopments. The pre-Katrina total does not include 2,233 public housing units that HANO had removed from leasing or slated for demolition. The projected total reflects all subsidized rental units in HANO's current redevelopment plan, assuming they are completed by 2012. Market-rate units associated with the redevelopments of public housing sites are not included.
(4) This category does not include low income housing tax credit units associated with public housing redevelopments; those are included in Public Housing above. Nor does the category include market-rate units associated with tax credit developments.
(5) Project-based rental units do not include units in projects that also received low income housing tax credits. Those units are counted in the totals for low income housing tax credits. Market-rate units associated with the projects are not included in the above figures.
(6) The Small Rental Property Program is a new post-Katrina program. The current figure consists of units in properties with closings scheduled as of April 16. The projected figure consists of units in properties that had been mailed commitment letters as of April 16. Market-rate or owner-occupied units associated with the properties are not included.

Source: BGR analysis of tenant-based voucher and public housing data provided by HANO; low income housing tax credit data from HUD and the Louisiana Housing Finance Agency; data on supplemental CDBG funds for tax credit projects and Small Rental Property Program operation status reports provided by the state Office of Community Development; and project-based rental assistance contract data provided by HUD.

project-based subsidies, such as tax credits, HUD contracts, CDBG funds and public housing funds. Approximately 16,600 units are supported by Section 8 or DHAP vouchers, which move with the tenant in the private market.

The DHAP voucher program will be phased out by August 31, 2009. Approximately 70% of households on DHAP vouchers will transfer to Section 8 vouchers. The balance will not be eligible for Section 8 vouchers. However, the funding currently used for these households' DHAP vouchers will go toward Section 8 vouchers for other lower-income households.

BGR estimates that by 2012 New Orleans will have approximately 35,700 units of subsidized rental housing. This represents an increase of 15,800 units over the pre-Katrina level, and 11,700 units over the current level. In percentage terms, the number of subsidized units is now 21% higher than its pre-Katrina level and is expected to be 80% higher by 2012. Table 1 summarizes the projected changes by program.

In making its 2012 estimate, BGR assumed that all units that currently have tax credit or Small Rental Property Program awards and those included in HANO redevelopment plans would proceed to completion. Some might not, for a variety of reasons:

- The Small Rental Property Program has been struggling, and only 13% of the Orleans units with award commitments have scheduled closings. In December 2008, the LRA addressed one impediment by offering property owners the option of receiving repair funds up-front, rather than on a reimbursement basis.

- A weakened economy and less demand from traditional purchasers of tax credits are taking a toll on tax credit developments.[6] To date, 24 developments in New Orleans have already lost GO Zone Housing Tax Credit awards.[7] Six other developments containing 962 units have not closed on their financing.[8]

- HANO has not yet secured funding for approximately 1,200 of the subsidized rental units planned for its public housing site redevelopments.[9]

Distribution of Subsidies by Income Levels

As first discussed in *Cementing Imbalance*, the post-Katrina federal subsidies will significantly increase the supply of subsidized housing available to households making between 40% and 80% of area median income. BGR estimates that the percentage of subsidized rental housing for such households will rise from 17% to 44%.

Due to the conversion of many DHAP vouchers into Section 8 vouchers, BGR estimates the number of subsidized housing units for very low-income households will increase from pre-Katrina levels by approximately 3,600 units (22%), rather than decline as projected in 2007.[10]

Subsidized Housing as a Percentage of Total Housing

Prior to Hurricane Katrina, subsidized rental housing comprised 10% of total housing in New Orleans. At present, it accounts for 18% of the total.[11] BGR projects that subsidized housing units will represent 25% of total housing in 2012.[12] The dramatic post-Katrina percentage change is due to both an increase in the total number of subsidized rental housing units and a decrease in the total number of housing units in the city.

Affordability Trends

Prior to Hurricane Katrina, many renters experienced an affordability problem, although this was driven more by low incomes than high housing costs. Housing expenditures (rent and utilities) for nearly half of New Orleans' renter households exceeded 30% of income – HUD's benchmark for determining affordability. Not surprisingly, the affordability problem was most acute for those reporting annual incomes below $20,000.

From 2004 to 2007, the median rental housing expenditures as a percentage of household income rose from 30.6% to 37.9%.[13] More renter households with incomes in excess of $20,000 experienced affordability problems. The median rent and utilities totaled $892 per month in 2007, compared to $566 per month in 2004.[14]

Post-Katrina wage increases have offset some of the higher housing costs. With workers displaced, many companies faced labor shortages and responded with higher wages. The U.S. Department of Labor reports that as of April 2008 a worker at the 10th percentile in the region's earnings distribution made $8.25 an hour, up 28% from $6.45 an hour pre-Katrina. The median wage rose by a similar percentage, going from $13 to $16.83 an hour.[15]

In 2007, the median cost for rent and utilities ($892 per month) was affordable for the median full-time wage earner.[16] While the median wage earner may be keeping up with the post-Katrina rent hikes, others continue to face difficulties paying the rent. Struggling renters include people working lower-wage jobs, part-time or not at all, as well as low-income elderly and disabled residents. The increase in subsidized units projected through 2012 will help offset this burden for some residents.

THE METRO PERSPECTIVE

As noted in *Cementing Imbalance*, prior to Hurricane Katrina subsidized housing was concentrated heavily in Orleans Parish. Although that parish had only 38% of the region's population, it held two-thirds of its subsidized households. The post-Katrina subsidized housing programs have reinforced the pre-Katrina distribution. BGR projects that New Orleans' share of the region's subsidized rental housing will increase despite its dramatic population loss. Jefferson Parish, current-

Table 2: Projected supply of subsidized rental housing units in the seven-parish region in 2012

Parish	Tenant-Based Vouchers (1)	Public Housing Sites (2)	Low Income Housing Tax Credits (3)	HUD Project-Based Rental Assistance (4)	Small Rental Repair Program (5)	Total	% of Parish's Total Housing	% of Region Total
Orleans	16,660	5,568	4,291	2,628	6,557	35,704	25%	70%
Jefferson	4,732	637	2,245	1,713	706	10,033	5%	20%
St. Tammany	526	174	1,048	335	164	2,247	2%	4%
St. Bernard	490	0	200	230	766	1,686	11%	3%
St. John the Baptist	357	318	92	115	0	882	5%	2%
St. Charles	349	129	68	0	0	546	3%	1%
Plaquemines	0	0	0	0	25	25	0%	0%
Total	**23,114**	**6,826**	**7,944**	**5,021**	**8,218**	**51,123**		

(1) Projections assume that funding capacity remains at current levels and the voucher usage rate is 98% of capacity.
(2) Calculations for public housing sites include both traditional public housing units and, in Orleans only, 2,135 units of other subsidized housing. The projected Orleans total reflects all subsidized rental units in HANO's current redevelopment plan, assuming they are completed by 2012.
(3) This category does not include low income housing tax credit units associated with Orleans Parish public housing redevelopments; those are included in Public Housing Sites above. Nor does the category include market-rate units associated with tax credit developments.
(4) Project-based rental units do not include units in projects that also received low income housing tax credits. Those units are counted in the totals for low income housing tax credits. Market-rate units associated with projects are not included in the above figures.
(5) The Small Rental Property Program is a new post-Katrina program. The projections consist of units in properties that had been mailed commitment letters as of April 16. Market-rate or owner-occupied units associated with the projects are not included.

Source: BGR analysis of tenant-based voucher and public housing data provided by parish housing authorities and HUD reports; low income housing tax credit data from HUD and the Louisiana Housing Finance Agency; data on supplemental CDBG funds for tax credit projects and operation status reports for the Small Rental Property Program, provided by the state Office of Community Development; project-based rental assistance contract data provided by HUD; and ESRI forecasts for total parish housing units in 2013.

ly the most highly populated parish in the region, will have 20% of the region's subsidized rental housing. St. Tammany Parish will have 4% of such housing.

Table 2 presents the projected supply of subsidized rental housing in Orleans and the suburban parishes. In each of the suburban parishes, subsidized rental housing will represent a significantly smaller percentage of the parish's total housing than in Orleans (for example, 5% in Jefferson and 2% in St. Tammany, compared to 25% in Orleans.)

CONCLUSION

Since the 2005 disaster, an influx of federal aid has propelled a radical transformation of the city's subsidized rental housing market. From accelerated public housing redevelopments to new mixed-income complexes to increased housing vouchers, the federal aid has reshaped and expanded the supply. BGR estimates that the absolute number of subsidized units is 21% higher than its pre-Katrina level and will be 80% higher by 2012. Relative to the overall market, subsidized rental units now represent 18% of total housing in New Orleans, compared to 10% pre-Katrina. BGR projects that the percentage will grow to 25% by 2012.

In planning for the future of the city, policymakers should strive for a housing market that accommodates different income levels without placing a disproportionate burden on the city. Achieving that goal requires a strategic, data-driven approach. Analysis must begin with the development of a comprehensive picture of current and future housing supply and demand. Once the picture comes into focus, policymakers can work toward ensuring the subsidized housing supply is sized appropriately to the overall market. They can also integrate housing strategy with the city's economic development and blight remediation strategies. The forthcoming Master Plan provides a prime opportunity for confronting these issues.

END NOTES

1 *Cementing Imbalance: A Post-Katrina Analysis of the Regional Distribution of Subsidized Rental Housing,* found at www.bgr.org.

2 The percentage of the region's population is based on forecasts by ESRI, a geographic information technology and data company. The forecasts project a 2013 population of approximately 335,000 for Orleans Parish and a total population of approximately 1,262,000 for the seven-parish metro area.

3 The pre-Katrina total does not include 2,233 public housing units that HANO had removed from leasing or slated for demolition.

4 BGR estimated pre-Katrina total housing units and total rental housing units using data from the U.S. Census Bureau's 2004 American Community Survey. BGR adjusted the total number of housing units reported in the survey by deducting seasonal, recreational and other vacant properties. This resulted in 190,665 total housing units. To estimate total rental housing units, BGR added the survey's totals for renter-occupied and vacant-for-rent units. This produced a total of 102,379 rental units.

5 The term "very low income" refers to households with incomes up to 40% of area median income. See the glossary of this report for definitions of this and other terms.

6 U.S. Department of Housing and Urban Development, *Post-Katrina New Orleans: The State of Affordable Rental Housing,* Impact 200 Key Initiative 8.2, November 2008.

7 With the exception of six projects that have remained viable, the developments are not included in Table 1. Fifty-eight projects in New Orleans have current tax credit awards. BGR analysis of Louisiana Housing Finance Agency, *Housing Pipeline Report*, February 17, 2009.

8 These units are included in Table 1.

9 These units are included in Table 1.

10 BGR estimated the number of subsidized units for very low-income households separately for each housing program. The estimates were based on actual units targeted to such households, to the extent such targeting occurs in the program. In other cases, BGR based its estimates on the most recent available tenant income statistics or estimates for the subsidized units provided by the program.

11 BGR estimates that New Orleans has 131,700 housing units, excluding blighted and abandoned properties. To arrive at that estimate, BGR took ESRI's estimate of approximately 122,500 households in Orleans Parish in 2008 and assumed a vacancy rate of 7%. The households estimate is similar to the 2008 households estimate of 120,500 included in an analysis prepared for the New Orleans Master Plan draft. Zimmerman/Volk Associates, Inc., *An Analysis of Residential Market Potential: The City of New Orleans, Louisiana*, March 2009, p. 31.

12 The total number is based on ESRI's projection of approximately 145,000 housing units for 2013.

13 Census, American Community Survey, op. cit.

14 Ibid.

15 U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Surveys, prepared for the New Orleans metropolitan area, December 2004 (Table 6-1) and April 2008 (Table 6).

16 BGR calculated that the rent and utilities affordable at the median full-time earnings, as reported in the U.S. Census Bureau's 2007 American Community Survey, was $881 per month.

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BGR

The Bureau of Governmental Research is a private, nonprofit, independent research organization dedicated to informed public policy making and the effective use of public resources for the improvement of government in the New Orleans metropolitan area.

This report and previous reports on the State's post-Katrina housing programs are available on BGR's web site, www.bgr.org.

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