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New Orleans Affordable Housing Case Study

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Executive Summary

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The New Orleans area has made substantial progress in the past decade to fully employ the resident population. Now the task is to raise the earnings level and skills of these workers, while continuing growth of employment at a rate faster than population growth. At the same time, the large stock of substandard housing must be replaced by new or renovated housing available at costs affordable by moderate-income families.

Economic Overview
Poverty is the result of insufficient numbers of jobs with above-poverty pay levels available for persons with low levels of skills and education. Poverty is widely dispersed geographically in the New Orleans area, including the center city and many suburban locales. Home ownership rates are steadily rising but lag behind the national rate of 68%. In Orleans Parish, only 46.5% of all households are homeowners, which is a 10% increase since 1990.

Falling crime rates and rising property values in many low-income neighborhoods have restored the appeal of these locales for owner occupants. The housing stock remains affordable, with over one-third of all existing houses for sale priced below $100,000.

Employment has been decentralizing to suburban areas for the past 30 years. Moderate-income households have moved to suburban areas but at a far slower rate than the jobs. This imbalance between place of residence and place of new available jobs has left a much higher density of poor households in the center city than elsewhere in the metro area.

The group most severely impacted is single mothers with one or more children. They lack job opportunities where they live, and they are in need of housing subsidies, day care, transportation subsidies and job skills training. This difficult to serve group needs housing and represents 34% of the below-poverty households.

Community Development Efforts
Louisiana has responded to the problems of poverty through aggressive education programs with free tuition for many persons at trade schools, junior colleges and universities. Infrastructure expenditures for hurricane protection, drainage, highways, airport upgrades, new port facilities, convention center expansion and direct capital funding for high-tech facilities have all been accelerated. Over $2 billion has been spent or has been committed to be spent on these endeavors in the New Orleans area in the past 6 years. At the same time, aggressive efforts to coordinate crime reduction programs among many police forces have resulted in a 50% reduction in the crime rate.

Federal housing initiatives through Hope VI grants have begun the long process of replacing thousands of substandard public housing units with renovated or new housing in a more dispersed setting. Demolition and forced relocation has happened rapidly, but the renovating and building of new units has occurred far more slowly.

Fannie Mae (FNMA) and the Federal Home Loan Mortgage Company (FHLMC) have directed $450 million in affordable housing loan funds into the New Orleans area over the past 6 years, which has been a major factor in raising the owner-occupancy rate.

From 1987 to 1998, Orleans Parish also received low-income housing tax credits (LIHTC) funding for 3,220 units. Today, tax credits are much less focused on Orleans Parish and are now widely disbursed throughout the state.

Through a survey of 180 non-profit and neighborhood-based organizations, a profile of successes and problems has been assembled. During the typical year, these organizations built 150 new units and renovated 130 to 220 existing units. Most housing production organizations were small groups with a staff of 7 or fewer full-time and 3 part-time persons. Many of these organizations were faith based. The majority of the units were created by a handful of larger, better staffed non-profits who also often were faith based.

Bank redevelopment efforts have been focused on individual neighborhoods mostly in Orleans Parish. Their efforts often affect 50 to 100 units per neighborhood over a multiple year period. Coordinated efforts between bank community development subsidiaries and local neighborhood community-based development corporations (CDCs), along with Federally supported funding, have resulted in more units being created or renovated than any other organizational structure.

The Preservation Resource Center (PRC) is one of the largest local historic preservation organizations in the nation. The center has led an effort to successfully restore 350 housing units between 1997 and 2001. Using a staff of 19 full- and part-time professionals, the center is a strong advocate both for maintaining the historic external character of structures in pre-1930 neighborhoods and for supporting the renovation of existing units.

The need for home ownership counseling and housing-related social services is greater than the available funding or staffs within the non-profit community. The three largest providers of social services are mostly dependent on Federal funds through a combined staff of 985 full-time and 685 part-time employees and offer a huge range of social services across the metro area. The three largest social service providers are Catholic Charities, Volunteers of America and Goodwill. More funding for these social service providers is essential to improve the economic future of low-income households.

Immigrants have proven to be one of the more self-sufficient groups for acquiring owner-occupant housing. Hispanic and Vietnamese immigrants rapidly entered the suburban job and housing market of the New Orleans area, although there have been very few immigrants to the New Orleans area since 1990.

"For-profit" providers of housing have focused on scattered sites for renovations, conversions of rental to home ownership and Hope VI initiatives. Private partners as limited partners with non-profit general partners have used LIHTC and historic tax credits to renovate about 2,200 existing units in the 1990s and built about 500 new units. Achieving a market rate of return on invested capital is an essential requirement for the continued attraction of private capital. Much higher sustained rates of housing renovation and construction can be achieved when private capital is attracted to the area with a profit incentive. The reinvestment of profits into these businesses would allow them to grow steadily larger and to produce a predictable number of new units each year. The complexity of public/private partnership structures today has been a significant impediment to recruiting private investors to support low-income housing.

Measuring Affordable Housing Progress

Measurement of affordable housing progress in the New Orleans area focuses on six areas: (1) employment growth for moderate-income households, (2) crime rate changes, (3) production of affordable housing, (4) public housing stock conditions, (5) housing affordability and (6) first-time homebuyer activity.

The number of low skill jobs surged by 103,000 from 1990 to 2000. At the same time, the overall unemployment rate locally fell to 5% in 2001.

Crime rates in Orleans Parish and the metro area have fallen by about 50% since 1995. In the past year, violent crime declined another 14%.

Affordable housing production from all sources in the metro area has averaged 539 rehabilitated units and 105 new units annually since 1995. Production of 640 units per year is a good level of activity but is inadequate to meet the needs of tens of thousands of poorly housed families in the region.

The share of existing houses sold per month priced below $100,000 has risen from 39% in 2001 to 47% in the spring of 2002. A steady supply of moderately priced units is coming to the marketplace and is being purchased.

No new Hope VI grants have been funded in the past 4 years in the New Orleans area. Demolition of existing properties has averaged 407 units per year. As of the fall of 2002, Section 8 voucher utilization rates should exceed 95%, which would allow new Hope VI grants to be processed in Orleans Parish.

Housing prices are rising faster than household income, but the declines in interest rates have offset much of the increase in housing costs. The average existing house price of $156,000, using the current mortgage interest rate, had a monthly payment (including taxes and insurance [PITI]) to income ratio of 21%. This is well below the 28% level routinely used for home loan qualification and suggests average income buyers could afford to buy houses above the average house price.

Each year the tax-exempt bond funding for first-time homebuyers has assisted 1,400 new homeowners in the metro area. FNMA/FHLMC have announced a new initiative in the New Orleans area to help thousands of low-income households become homeowners over the next 5 years.

Overall, the New Orleans area has made real progress in supplying affordable housing, but there are still decades of effort ahead to provide safe, standard quality housing to all households. The old age of the Orleans Parish housing stock has made the efforts to upgrade the housing stock more difficult than in many other Southern cities.

Case Studies to Create Affordable Housing

Six case studies are included in this paper. The first three are project-oriented case studies, which address specific successes and failures. The next three are methodology case studies on initiatives designed to affect broad groups of persons and geographic areas. Each case study begins with a list of the "lessons learned" from the initiative, which could be of use to others. Contact information is also supplied.

The St. Thomas Hope VI Community in Orleans Parish, including a description of goals, financing sources, progress and problems to date, is indicative of the complexity of underfunded public/private partnerships for mixed-use redevelopment of low-income communities. A non-profit initiative using many complimentary forms of funding sources to produce a debt-free elderly community is presented next in the St. Ann's redevelopment of a mixed-use community.

Lease-to-own initiatives, requirements, successes and barriers to success are described next for two agencies—the Housing Authority of New Orleans (HANO) and the Louisiana Housing Finance Agency (LHFA).

A model for offering grant funds and professional staff assistance is presented in the New Orleans Neighborhood Development Collaborative (NONDC) case study for assistance in creating affordable housing at a neighborhood level. The conclusions on rendering assistance of both professional staff and targeted funding may be useful in other cities. A similar, successful methodology is followed by the PRC and some of the Bank Community Reinvestment Act subsidiaries.

The Habitat for Humanity approach to housing redevelopment is presented through a look at one local suburban affiliate (Western St. Tammany). This self-sufficiency approach to housing with massive volunteer participation has been a very successful model in creating increased home ownership rates one neighborhood or community at a time.

Finally, the availability of adjudicated property from public tax sales is presented as a model for acquiring property cheaply for redevelopment. The laws in each state for tax delinquent property acquisition vary, but the essential process often is similar to the description presented here.

Following the text are 34 pages of supporting factual tables to provide a more in-depth look at the housing market issues as related to affordable housing in the New Orleans area. For further information, contact Professor Wade R. Ragas, Director, Real Estate Market Data Center, University of New Orleans, 545 CERM Bldg, Pontchartrain Research Park, New Orleans, LA 70148; 504-280-6739; wragas@uno.edu.

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