Post-Katrina housing affordability challenges continue in 2008, worsening among Orleans Parish very low income renters

Based on 2004, 2007 and 2008 American Community Survey data from the U.S. Census Bureau

Allison Plyer, Elaine Ortiz, and Kathy Pettit
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In 2008, homeowners in New Orleans were more likely to face unaffordable housing costs than homeowners nationwide. And renters across the entire metro area faced a housing affordability crisis more severe than the nation.

INTRODUCTION

Housing costs skyrocketed in the New Orleans area after Katrina. The multiple levee failures and hurricane-force winds destroyed hundreds of thousands of homes[1] causing an immediate escalation in home prices and rental rates for the remaining habitable housing.

High housing costs can limit a region's ability to attract and retain the workforce essential for a healthy economy. To be sure, federal programs have gone a long way toward subsidizing homeowners' efforts to rebuild. For example, in Orleans Parish alone, more than 38,000 homeowners had received Road Home grants averaging approximately $60,000 by the end of 2008.[2] But anecdotes abound that increases in taxes, insurance, and utilities have made homeownership less affordable in the New Orleans metro post-Katrina.

Federal funds have also helped to rebuild rental housing, albeit to a much lesser degree. For example, by the end of 2008, using tax credits and other federal subsidies, some 2,000 rental housing units had been built or rehabbed in Orleans Parish, about 1,700 more were under construction and another approximately 4,100 had been awarded funds but were not yet under construction.[3] Despite the slow pace at which federally subsidized rental housing is being rebuilt and rehabbed, the supply of rental housing in the region seems to be increasing as evidenced by increasing vacancy rates[4] and falling fair market rents.[5] But the flooding following Katrina caused tremendous demographic shifts across the region.[6] Moreover, there is evidence that wages have increased since the storm[7]. With good reason, decision-makers wonder whether additional rental housing, particularly low-income rental housing, is really needed.

This brief examines homeowner and renter affordability in the New Orleans metro in 2008.[8] Both are crucial to New Orleans' economic competitiveness. In addition, the rate at which current residents bear unaffordable housing costs is one indicator of demand for low-cost rental units. Recently released American Community Survey (ACS) data from the U.S. Census Bureau allows us to examine the extent to which incomes covered housing costs as recently as last year. We compare 2008 data to 2004 benchmarks to identify changes in housing affordability from pre- to post-Katrina, and we compare 2008 data to 2007 data to determine whether increases in available rentals reduced demand for low-cost rentals over that interval.

The ACS gathers data on rents, mortgages, insurance, taxes, utilities and incomes from a sample of households. Using this single data source we can examine the rate at which local households are *housing cost burdened*, that is, spending more than 30 percent of their gross income on housing costs. We also can examine the rate at which local households are *extremely cost burdened*, that is, spending more than 50 percent of their gross income on housing costs. While this indicator is a key way to monitor affordability, it understates the full extent of housing challenges by excluding families that are homeless or squatting in blighted buildings and households who are not able to afford housing in the region at all, including displaced households priced out of the market.

By providing data only from a single source, we reduce errors associated with combining data from different data sources that rely on different methodologies. This same-source data also allows for valid comparisons with the nation and other cities. Throughout the report, we indicate whether the differences between geographies or time periods are statistically significant, that is, whether the gaps are larger than the potential variation due to the sampling error alone. The large sample for the nation allows for smaller changes to be detected; with the smaller sample sizes of the parishes, only major shifts are likely to meet the statistical significance test.

FINDINGS

Homeowners

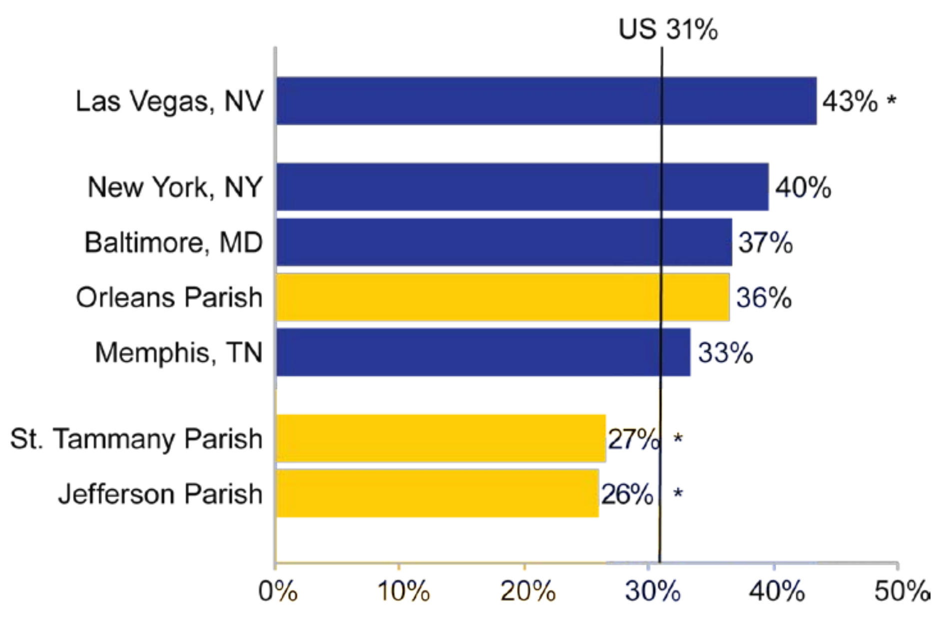
Across the metro area, the share of homeowners with unaffordable housing costs increased significantly from pre-Katrina to 2008, but remained below the national average. The share of cost burdened homeowners in Jefferson and St. Tammany specifically was lower than the national average. However, Orleans Parish's homeownership affordability challenges exceeded the national rate.

By 2008, homeownership was less affordable in New Orleans than the nation, but still more affordable than in cities like New York and Las Vegas.

In 2008, 36 percent of New Orleans homeowners spent more than 30 percent of their household income on housing costs, which is the limit the federal government sets for determining that housing is unaffordable. This indicator includes homeowners with and without mortgages and incorporates taxes, insurance and utilities in housing costs. Compared with an only 31 percent owner cost burden nationwide, the New Orleans rate is high. In contrast, the share of cost burdened homeowners in Jefferson and St. Tammany was lower than in the nation (26 and 27 percent respectively).

Although the New Orleans percent of overburdened homeowners is still less serious than in high priced cities like Las Vegas, homeowner costs relative to income in New Orleans merits concern. Cities with similar cost burden rates, such as New York, Memphis and Baltimore, have seen many of their financially stretched owners forced into foreclosures in recent years.

Figure 1: Percent of homeowners spending 30% or more of income on housing, 2008

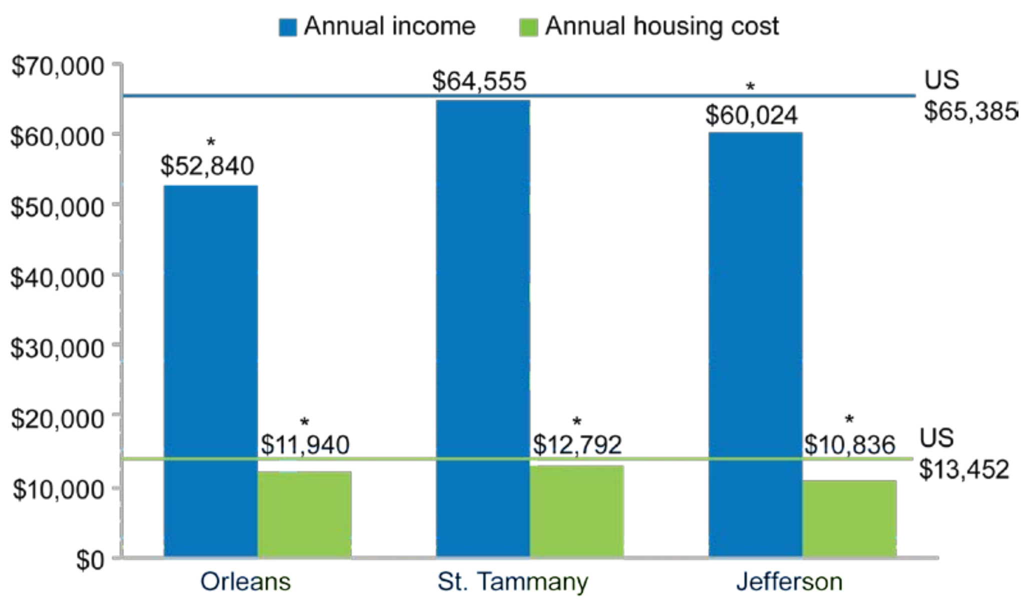


* Statistically different from Orleans value at 95% confidence level
Note: All geographies are statistically different from U.S. value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2008.

New Orleans homeowners bear housing costs close to national averages but with significantly less income.

Cost burden rates can vary due to differences in household incomes or housing costs. While homeowners' incomes increased in the metro area post-Katrina, this change was not statistically significant after controlling for inflation. By 2008, Jefferson homeowners had median household incomes lower than the nation, but their monthly housing costs were also lower so they were less likely to be cost burdened than homeowners nationwide. St. Tammany homeowners, too, enjoyed slightly lower than average housing costs *and* had household incomes on par with the nation, also resulting in lower cost burden rates than the U.S. Meanwhile, lower household incomes in New Orleans were not matched by reductions in housing costs, so homeowners there were much more likely to pay too much for housing than their local or national peers.

Figure 2: Homeowner annual income and annual housing costs, 2008

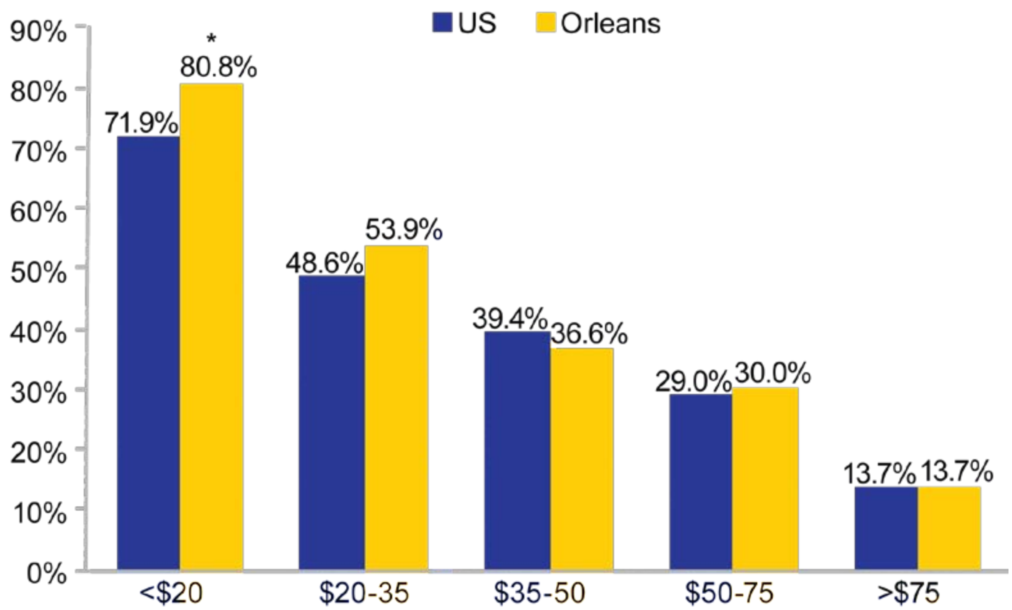


* Statistically different from U.S. value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2008.

Homeowners with household income less than $20,000 were significantly more likely to experience unaffordable housing costs in New Orleans than in the nation as a whole.

Looking at housing cost burdens by income level, homeowners earning less than $20,000 per year in Orleans Parish were significantly more likely to be housing cost burdened than the national average for such low-income homeowners (81 percent compared to 72 percent nationwide). All other homeowners in New Orleans faced about the same likelihood of being housing cost burdened as homeowners nationwide. And Jefferson and St. Tammany homeowners faced either the same likelihood of being housing cost burdened as their national peers, or were significantly less likely to be housing cost burdened depending on their income.

Figure 3: Percent of homeowners spending 30% or more of income on housing by income range, in thousands of dollars, 2008



* Statistically different from U.S. value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2008.

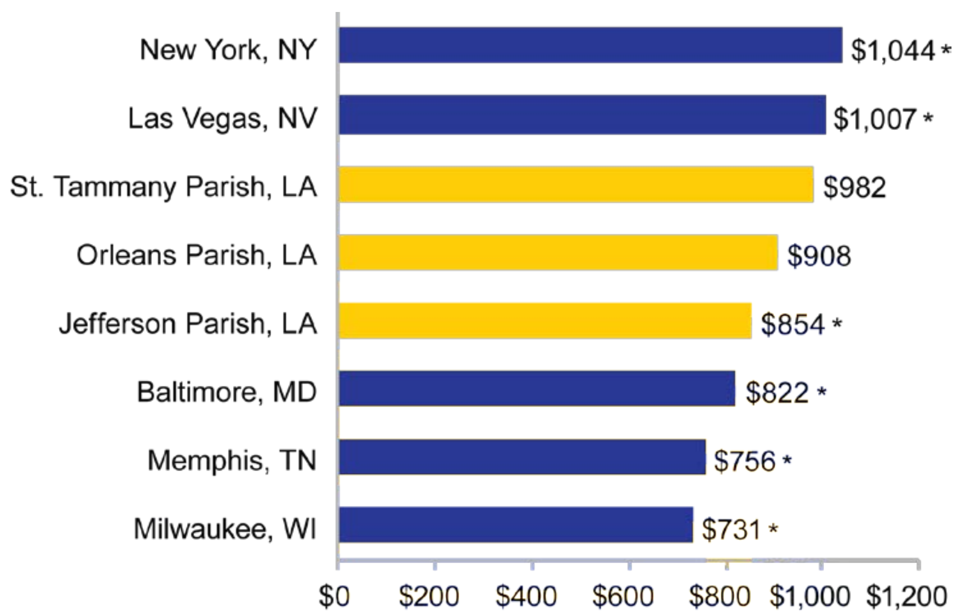
Renters

Despite being somewhat shielded from the national recession, New Orleans area renters were more likely to have too little income relative to housing costs than renters nationwide. In 2008, 58 percent of metro area renters spent at least 30 percent of their before-tax pay on rent and utilities, compared with only 50 percent of renters nationwide. And 31 percent were severely cost burdened, paying half or more of their incomes on housing, compared with 25 percent nationwide. This is driven by higher rents across the metro area and significantly lower incomes in Orleans Parish.

The New Orleans metro had median rental costs well above similar cities.

From 2004 to 2008, metro area median gross rent (which includes utilities) rose from $702 (stated in 2008 dollars) to $892. This was a 27 percent increase after controlling for inflation. The increase was greatest in Orleans Parish where rents rose 41 percent. By 2008, rents in Jefferson, Orleans and St. Tammany were well above similar cities such as Baltimore, Memphis and Milwaukee. [9]

Figure 4: Median rental costs, 2008

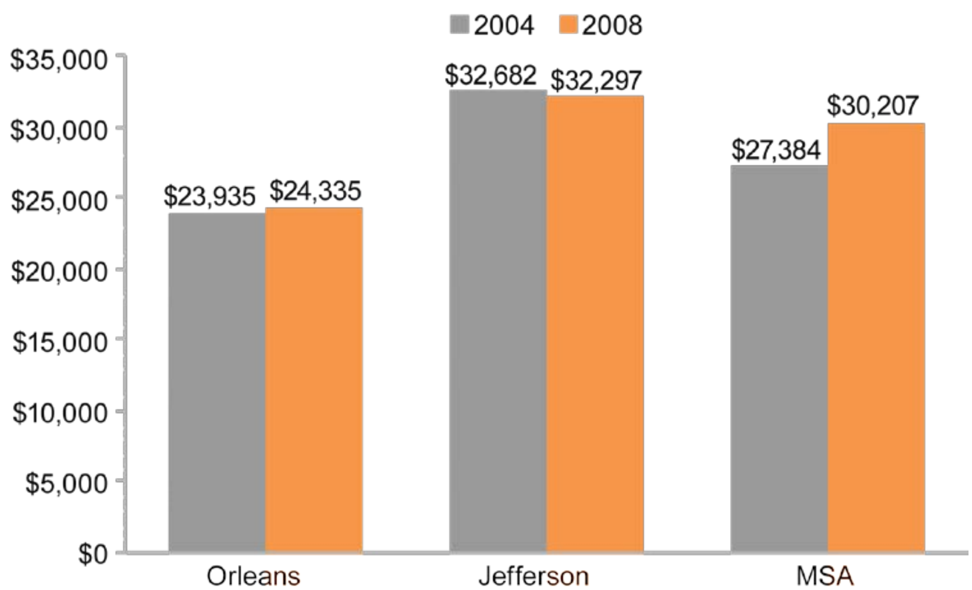


* Statistically different from Orleans value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2008.

Renter household incomes in Orleans did not rise significantly from 2004 to 2008, and were only $24,355 on average last year.

ACS data indicate that renters' incomes across the metro area increased from 2004 to 2008 but this change was not statistically significant after controlling for inflation. By 2008, the median household income for renters in Orleans Parish was only $24,355 suggesting that a very large number of rental households in Orleans would be eligible for moderately subsidized low-income tax credit housing units.[10]

Figure 5: Median renter household incomes, in 2008 dollars



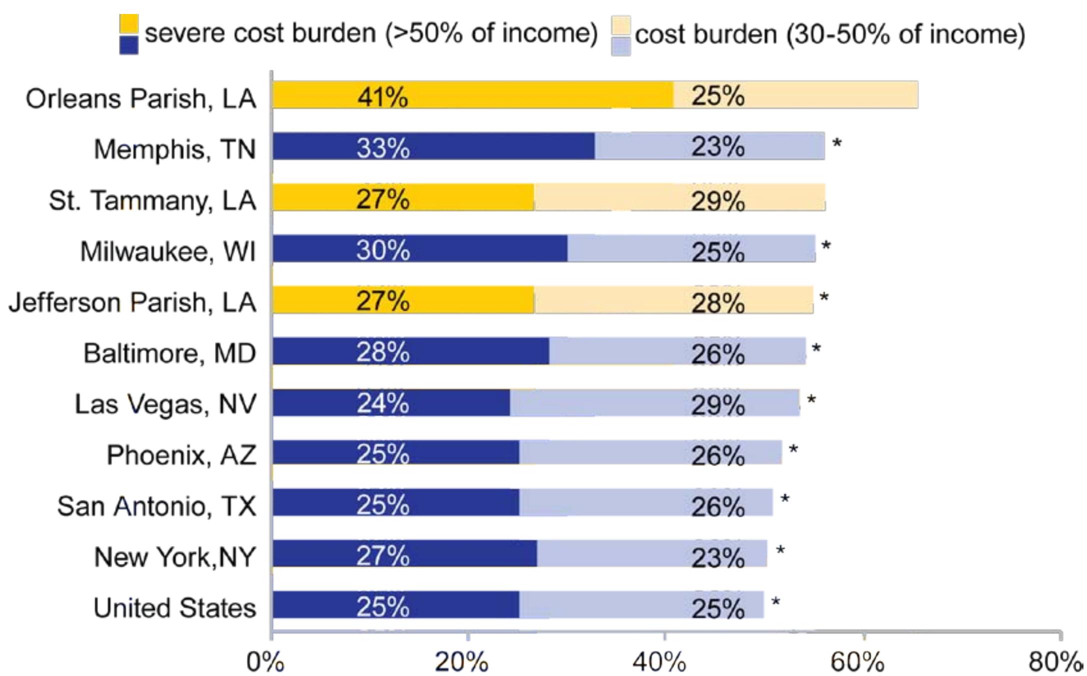
Note: Differences between 2004 values (after controlling for inflation) and 2008 values are not statistically different at the 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2004 and 2008.

In 2008, renters in New Orleans were more likely to spend at least half of their pre-tax household income on rent and utilities than renters in many other cities.

With flat incomes and rising rentals costs, it is not surprising that the percent of renters in the metro area bearing unaffordable housing costs increased significantly from 2004 to 2008. In 2004, metro area renters paid unaffordable costs (at least 30 percent of their income) at the same rate as renters nationwide – namely 48 percent. By 2008, despite the onset of a severe recession, the national rate had risen to only 50 percent, while locally the percent of renters bearing unaffordable costs ballooned to 58 percent. This problem was most severe in New Orleans where the incidence of renters bearing unaffordable costs rose from 51 to 65 percent.

More concerning are renters with *severe* housing cost burdens of more than 50 percent of household income. In 2004, 22 percent of renters metro-wide were severely cost burdened. By 2008, nearly one in three (31 percent) were severely cost burdened – significantly above the national rate. This problem was most serious in Orleans Parish where 41 percent of all renters paid more than half of their pre-tax income on housing costs. In fact, New Orleans renters were more likely to pay at least half of their household income on rent and utilities than renters in all the cities in this study (San Antonio, Memphis, Milwaukee, Baltimore, Las Vegas, Phoenix and New York).

Figure 6: Percent of renters who are cost burdened and severely cost burdened, 2008



* Statistically different from Orleans value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2008.

Housing cost burden rates among renters did not significantly change from 2007 to 2008

As of last year the increase in the supply of available subsidized rental properties had not measurably relieved this crisis. The percent of renters who were cost burdened and severely cost burdened increased in Orleans and Jefferson between 2007 and 2008, and decreased in St. Tammany, although none of these changes were statistically significant.

Table 1: Percent of renters with housing cost burdens and severe housing cost burdens

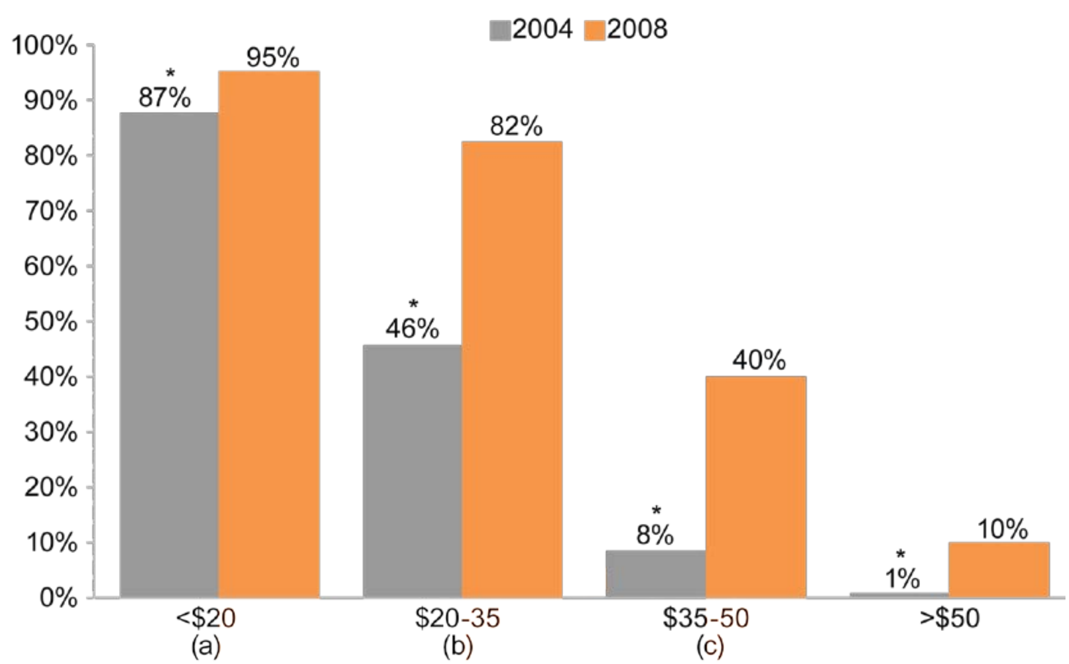
	Cost Burden	2004	2007	2008
Orleans	Cost burdened (>30% of income)	51%	60%*	65%*
	Severely cost burdened (>50% of income)	24%	34%*	41%*
Jefferson	Cost burdened (>30% of income)	44%	51%*	55%*
	Severely cost burdened (>50% of income)	22%	27%	27%
St. Tammany	Cost burdened (>30% of income)	na	61%	56%
	Severely cost burdened (>50% of income)	na	29%	27%

na = not available
*Statistically different from 2004 value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2004, 2007 and 2008.

Metro area renters were more likely to pay unaffordable housing costs in all income categories after Katrina.

The incidence of renters bearing unaffordable housing cost burdens across the metro area was up significantly across all income categories. But, similar to the pattern with homeowners, the highest incidence by far was among households earning less than $20,000. These households are considered very low income and typically are eligible for deeply subsidized housing. For example, a 3-person household earning $20,000 would be eligible for a deeply subsidized housing unit[11] and a household of any size earning $20,000 would be eligible for a voucher.[12] The biggest increase was among households earning $20,000-$35,000. These households are considered low income and often are eligible for moderately subsidized tax credit housing. For example, a 4-person household earning $35,000 would be eligible for some tax credit subsidized housing units.[13] Clearly even before the storm the incidence of unaffordable housing cost burdens among very low and low income households was high in the New Orleans metro. After the storm many of the very low income households were likely priced completely out of the market.

Figure 7: Percent of renters spending 30% or more of income on housing by income range, in thousands of dollars, New Orleans Metro



(a) ~<40% AMI "very low-income"
(b) ~40-60% AMI "low-income tax credit"
(c) ~60-80% AMI
* Statistically different from 2008 value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2004 and 2008.

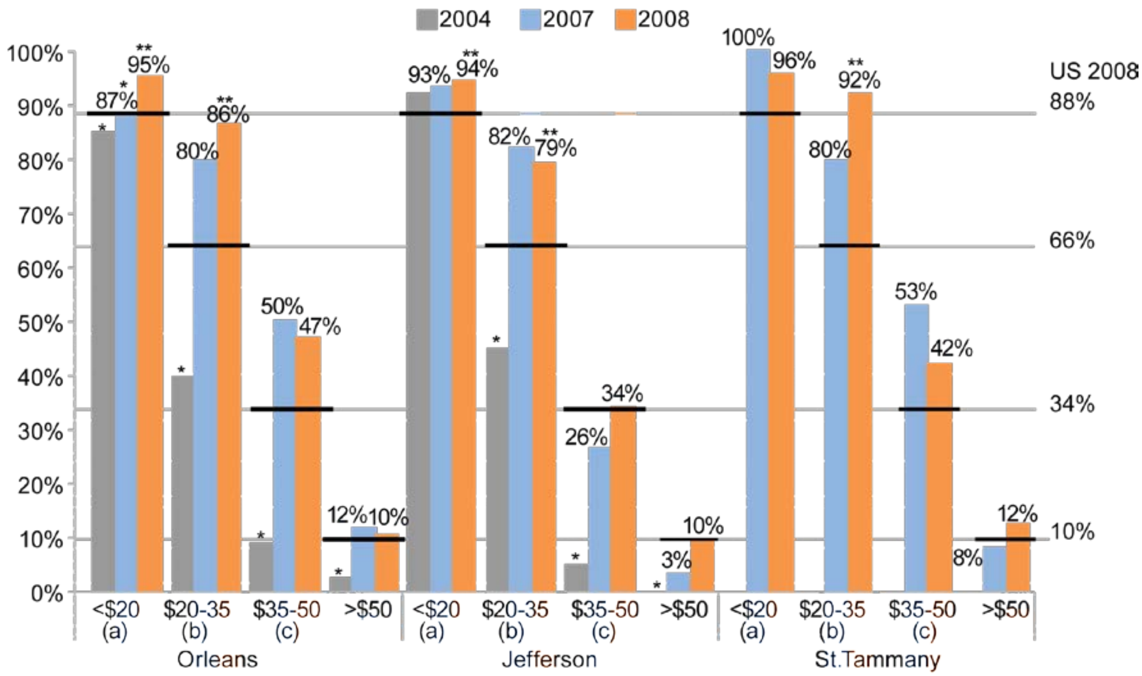
Very low and low income renters bore unaffordable housing costs in all three of the largest parishes.

These same patterns are evident in all the parishes for which this data is available. Among very low income households (earning less than $20,000) approximately 95% were housing cost burdened in Orleans, Jefferson and St. Tammany last year (none were significantly different than the metro area overall). By 2008 the percent of low-income, potentially tax credit eligible, renter households (earning between $20,000 and $35,000) that were housing cost burdened ranged from 79 percent in Jefferson to 86 percent in Orleans to 92 percent in St. Tammany, but none of these rates were statistically different from the metro area average of 82 percent.

It's not surprising for renters earning less than $20,000 to face unaffordable cost burdens. But in the New Orleans metro and in Orleans and Jefferson parishes last year, this problem was significantly greater than the national average. Many very low income households were likely priced out of the market entirely in 2008. And compared with national averages, all three parishes in this analysis had a significantly higher incidence of unaffordable housing cost burdens among low income tax credit eligible households.

Surprisingly this crisis actually worsened from 2007 to 2008 for very low-income renter households in Orleans Parish. The percent of very low income renters in Orleans Parish who were cost burdened showed a statistically significant increased from 2007 to 2008. The cost burden rate for low income renters also rose, but not by a statistically significant amount.

Figure 8: Percent of renters spending 30% or more of income on housing by income range, in thousands of dollars



(a) ~<40% AMI "very low-income"
(b) ~40-60% AMI "low-income tax credit"
(c) ~60-80% AMI
* Statistically different from 2008 value at 95% confidence level.
** Statistically different from US value at 95% confidence level.
Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2004, 2007, 2008

Thousands of full-time workers in the New Orleans metro earned less than $20,000 in 2008, and thousands more earned between $20,000 and $35,000.

Extremely high cost burdens among very low income and low income homeowners and renters are of concern because a large number of our region's full-time, year-round workers earned less than $20,000 last year. Specifically, food preparation and service workers earned a median of $17,608, building grounds and maintenance workers earned a median of $19,471, and personal care and service workers earned a median of $19,585. Additionally, a large number of important and prevalent occupations earned less than $35,000 in the New Orleans metro in 2008. For example, health care support occupations, material moving workers, office and administrative support occupations, motor vehicle operators including bus drivers, and community and social service occupations all earned between $25,000 and $35,000 (See Table 2 for median earnings, estimated full time workers in each category and margins of error).

Table 2: Median earnings and total employment in select occupations, New Orleans Metro, 2008

	Median annual earnings for full-time year-round worker 16 years+		Full-time, year-round employed population 16 years+	
	Estimate	Margin of Error	Estimate	Margin of Error
Food preparation and serving related occupations	$17,608	+/- 2,088	20,829	+/- 3,053
Building and grounds cleaning and maintenance occupations	$ 19,471	+/- 2,468	11,217	+/- 2,043
Personal care and service occupations	$19,585	+/- 4,186	11,524	+/- 2,356
Healthcare support occupations	$22,864	+/- 2,483	7,795	+/- 2,309
Fire fighting and prevention and other protective services including supervisors	$27,654	+/- 4,397	5,131	+/- 1,307
Material moving workers	$27,808	+/- 3,443	5,578	+/- 1,505
Office and administrative support occupations	$28,859	+/- 1,735	54,474	+/- 4,461
Motor vehicle operators including bus and truck drivers	$31,150	+/- 3,623	8,793	+/- 1,804
Community and social services occupations	$ 34,837	+/- 6,251	6,873	+/- 1,300

Source: GNOCDC analysis of U.S. Census Bureau data from American Community Survey 2008.

CONCLUSION

Despite post-Katrina increases in housing cost burdens metro-wide, homeownership in the New Orleans metro is still more affordable than the national average. The exception to this is Orleans Parish where housing costs are close to the national average but incomes are much lower. Here one out of every three New Orleans homeowners is housing cost burdened. If homeownership-related costs, such as taxes, insurance, and utilities, remain high in the city and incomes fail to rise, homeowners may be forced into foreclosure, and many will surely struggle to maintain their homes, at a minimum leading to more run-down homes and potentially to tragic results for New Orleans' historic architectural stock.

As for renters, increased supply may have put downward pressure on rents, but the current rental market seems unable to deliver housing at a cost low enough for a large number of workers in the New Orleans area. High cost burden rates among low-income renters indicate strong demand for more affordable units. Nonetheless, any increase in supply intending to put pressure on rents needs to be implemented carefully. The increased costs of insurance and utilities post-Katrina may be permanent, and if market rates fail to cover costs, over time landlords will abandon their investment, resulting in increasing levels of blight.

Policies that encourage economic development leading to higher-wage jobs will be key to the maintenance of housing stock for both homeowners and renters over the long term. Meanwhile, the New Orleans metropolitan economy demands many low wage workers. At current incomes, workers in the New Orleans area struggle to pay prevailing post-Katrina rents. Left unaddressed, the high rate at which New Orleans area households face severe cost burdens will generate negative externalities such as high job vacancies, poorer worker productivity and higher turnover, increases in public health costs and poorer educational attainment. [14] Federal subsidies could be used to relieve this burden and reduce the associated costs to employers and the public by producing additional housing units affordable for low and very low income households while at the same time remediating blight and stabilizing neighborhoods.

NOTES

The American Community Survey is based on a sample, and is therefore subject to sampling and non-sampling error. Readers should assume there is no difference between two estimates unless we have indicated in the text or graphics that the difference is statistically significant.

The Census Bureau recommends that margins of error be published alongside estimates. We have included margins of error in cases where we did not calculate statistical significance.

METHODOLOGY

The comparisons of American Community Survey (ACS) 1-year-estimates across time periods (2004 to 2008) and between selected geographies (in 2008) were performed using a statistical test of significance. All significance tests were at the 95% confidence level.

The test requires both estimates and their standard errors. We calculated standard errors using formulas in Appendix 3 of "What General Data Users Need to Know" available at: http://www.census.gov/acs/www/Downloads/ACSGeneralHandbook.pdf.

The test for significance was calculated using formulas in Appendix 4 of "What General Data Users Need to Know."

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[1] HUD, Feb 2006, "Current Housing Unit Damage Estimates: Hurricane Katrina, Rita and Wilma." http://gnocdc.s3.amazonaws.com/reports/Katrina_Rita_Wilma_Damage_2_12_06___revised.pdf [Access Oct 2009].

[2] Brookings and GNOCDC, Aug 2009, "The New Orleans Index. Table 21: Status of Louisiana Road Home Applications and Table 20: Number of Road Home Closings by Option Selected by Parish" http://www.gnocdc.org/NewOrleansIndex/ [Accessed Oct 2009]

[3] Louisiana Housing Finance Agency, GO Zone LIHTC projects report.

[4] American Community Survey 2008; U.S. Census Bureau Housing Vacancy Survey; Larry G. Schedler & Associates, Inc, Summer 2009, "Greater New Orleans Multi-Family Report." http://www.larryschedler.com/GrNOMFR/GrNOMFR_Summer2009.pdf [Accessed Oct 2009].

[5] Brookings and GNOCDC, Aug 2009, "The New Orleans Index. Table 13: Fair Market Rents in New Orleans MSA by Unit Bedrooms" http://www.gnocdc.org/NewOrleansIndex/ [Accessed Oct 2009].

[6] GNOCDC, Oct 2009, "Who Lives in New Orleans and the Metro Area Now?" http://www.gnocdc.org/2008Demographics/ [Accessed Oct 2009].

[7] Brookings and GNOCDC, Aug 2009, "The New Orleans Index. Table 29: Average Weekly Wage by Industry Sectors." http://www.gnocdc.org/NewOrleansIndex/

[8] The federal definition for the New Orleans metropolitan area includes 7 parishes: Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. John the Baptist, and St. Tammany. Of these 7 parishes, 2004 ACS data is available for Orleans and Jefferson only, and 2007 and 2008 ACS data is available for Orleans, Jefferson and St. Tammany only.

[9] In 2008, median rents in Jefferson, Orleans and St. Tammany were significantly higher than median rents in Baltimore, Memphis and Milwaukee at the 95% confidence level with the exception of Jefferson and Baltimore where the difference was not statistically significant.

[10] Households of any size earning $24,355 would be eligible for a tax credit subsidized housing unit with a 60% AMI threshold. Households of more than two persons earning $24,355 would be eligible for a Section 8 voucher or a tax credit unit with a 50% AMI threshold. FY2009 New Orleans-Metairie-Kenner, LA, MSA

[11] <40% AMI FY2009 New Orleans-Metairie-Kenner, LA, MSA

[12] <50% AMI FY2009 New Orleans-Metairie-Kenner, LA, MSA

[13] <60% AMI FY2009 New Orleans-Metairie-Kenner, LA, MSA

[14] Harvard, Mar 2007, "Taking Stock of the Nation's Rental Housing Challenges and a Half Century of Public Policy Responses." http://www.jchs.harvard.edu/publications/rental/revisiting_rental_symposium/papers/rr07-1_belsky_drew.pdf [Accessed Oct 2009]