

LIHTC MONTHLY REPORT

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When Disaster Strikes – The Gulf Area One Year After Katrina

By Thomas Stagg, Novogradac & Company LLP

The June National Council of State Housing Agencies (NCSHA) convened a conference panel to discuss ways in which the Gulf Opportunity Zone (GO Zone) has changed following last year's hurricanes and what the housing agencies have learned from the tragedy.

Lessons Learned

One of the largest conundrums facing the GO Zone following the hurricanes of 2005 was matching displaced tenants with vacant units. The Red Cross disaster assessment (as of September 18, 2005) indicated that 416,894 housing units were destroyed (uninhabitable and beyond repair). In addition, the National Association of Home Builders publication *Eye on the Economy* reported nearly 85,000 units suffered "major" damage and 130,000 incurred "minor" damage. Louisiana was hit the hardest, with 348,000 units destroyed and another 43,000 damaged. As a result, many people were left homeless. The housing agencies wanted to help these people and knew there were vacancies in affordable housing units that could house some of these displaced individuals but had no way of knowing which projects had vacancies or how many vacancies there were. Valuable days and weeks were lost while the housing authorities tried to compile a list of vacancies. The problem was so large that Louisiana had a phone bank running 12 to 16 hours a day just to field calls from owners and property managers informing the housing agencies of the vacancies they had. The housing authorities now realize that having an updated database of vacant units before disaster strikes will, when disaster strikes again, help them find housing more quickly for displaced residents.

All of the state agency representatives on the panel discussed how they now have plans to create a database of available units. Missouri has created a database in St. Louis and Kansas City and is moving it out to the smaller cities in the state. Florida has contracted with a third party to create a database and keep it up to date. Louisiana has a vision of not just having each state maintain a database of vacant units, but to have a common network for all states so that when disaster strikes in one place, the neighboring states can help house displaced tenants efficiently and quickly.

Building in the Go Zone

When President Bush signed H.R. 4440, the Gulf Opportunity Zone Act of 2005, increasing the amount of low-income housing tax credit (LIHTC) authority available in the Gulf area, LIHTC housing in the region was changed dramatically. Debra Washington, of the Louisiana Housing Finance Agency, said that her agency, which normally receives around 70 applications for tax credits, received more than 230 applications following the signing of H.R. 4440. This is more than a 300 percent increase. The increase was so large that Louisiana had to rely on help from other state agencies to be able to process all of the applications. Staff from numerous other state agencies came and helped process applications so that the LIHTCs could be awarded in a timely manner and building could begin.

Mississippi Home Corporation has also been very active in rebuilding in the GO Zone area. Katina Pace said her agency is working with developers of projects that received LIHTCs in 2005 but that have not begun construction, to move their projects into areas that were most affected by the hurricanes. She reported that 544 units have been moved to the areas that need the housing most.

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Increasing Cost

Even though there has been a large increase in the number of LIHTCs allocated to states in the GO Zone, the increase in tax credits is not leading to a proportionate increase in units. Costs had been increasing even before the hurricanes in 2005 and have since skyrocketed. In 2001, Florida was able to use its tax credits to generate 15,000 units; however, in 2005 the number of units generated decreased to 8,500.

One of the largest problems facing new construction is mounting insurance costs. Tax credit deals have historically been anything but cash cows; they tend to scrape by just above the break-even point. So when skyrocketing insurance costs are added to the mix, the projects do not project a positive cash flow. Many panelist stated the need for subsidized insurance for LIHTC projects. Since the rent limit is set by the government, the project owners cannot pass on the increased insurance costs to the tenants and they end up having to take the whole hit.

Insurance costs are not the only costs that are increasing in the GO Zone; construction costs are also escalating a great deal. There has been a major shift in the demand for construction workers in the region while at the same time there has been a major decrease in the supply of construction workers, all of which leads to higher construction costs. Everyone is racing to build in Louisiana's areas hit hardest by Hurricane Katrina. Neighboring states are also feeling the pressure, as construction crews leave states that were not hit by the hurricanes to cash in on the increased demand. As these crews leave, construction costs are driven up. Texas has seen increased construction costs essentially ruin deals that were in the works before the hurricanes hit. To help alleviate this, Texas is working to allocate more LIHTCs to those properties that were already in the works before disaster struck.

Difficulties for Construction

One unintended problem arising from the GO Zone legislation is its tight timeline. In order to take the bonus depreciation offered in the GO Zone legislation, the property must be placed in service by December 31, 2008. This is causing a lot of problems in areas like New Orleans, where a lot of the land is tied up in lawsuits involving insurance money or where the owner of the land cannot be located. There are a lot of reports of people who want to build in this area but are not going to be able to get everything done before 2008. The byproduct is that much of the new housing is being built on the outer edges of the GO Zone where there was the least amount of damage. This is the area that has the most stability and the fewest number of unknowns (i.e. will the levies break or hold).

Overbuilding or Rebuilding?

One of the concerns brought about by the inflow of new LIHTCs and developments into the GO Zone is fear that it will result in overbuild-

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ing. All the panelists agreed that the risk of overbuilding was very low. Shortly before Hurricane Katrina struck, Louisiana had just finished a market analysis that indicated there was a severe shortage of housing in the state. Then Hurricane Katrina knocked out more than 300,000 units in New Orleans, further exacerbating the problem. Everyone on the panel agreed that based on the large volume of units lost and the shortage the states were all ready feeling, overbuilding is not a major risk. Based on comments from the panel, consensus is that all of the housing could be built in a few counties and these counties would still not be overbuilt.

Optimism for the Future

Although there are many struggles still facing the GO Zone following last year's hurricanes, the area is full of optimism. There is a lot of federal and state money being put into rebuilding these areas and the rebuilding has begun. Steps are being taken to provide quality housing to the people who suffered greatly during the devastation.

Conclusion

The panel members reported being very optimistic and said they are pleased with the progress that has been made. And while there has been a lot of help from the federal government and local and state housing organizations to try and rebuild the area as quickly and efficiently as possible, potential snags such as rising insurance costs could slow down the process.

The NCSHA panel, moderated by Katina C. Pace of the Mississippi Home Corporation, consisted of: Murray A. Calhoun of Murray A. Calhoun & Associates LLC; Paul Davis of Fannie Mae; Timothy Leonhard of Charter Mac/Related Capital Company; George Littlejohn of Novogradac & Company LLP; Vicki Robinson of Florida Housing Finance Corporation; and Debra Washington of Louisiana Housing Finance Agency. ❖

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