



Rebuilding Affordable Housing on the Gulf Coast

Lessons Learned in Mississippi from Hurricane Katrina

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Abstract

Policymakers in Mississippi continue to look for ways to develop more affordable housing for residents displaced by Hurricane Katrina and for new workers. To support this goal, researchers from the RAND Gulf States Policy Institute studied Mississippi housing and recommended that policymakers implement innovative financing and home-ownership strategies, develop needed data, create capacity for coordinating the rebuilding, reduce costs with durable and energy-efficient homes, and balance short-term recovery goals with long-term risk-mitigation measures.

In August 2005, Hurricane Katrina compounded what was already a shortage of affordable housing in Mississippi’s hard-hit coastal counties. Three years later, recovery is proceeding, but it is uneven and slow. Prior to the global economic crisis that began in the fall of 2008, the RAND Corporation estimated that, at the current pace, recovery will take at least another three years and cost an estimated total of more than \$4 billion.

Before Katrina, one-third of the homes in Mississippi’s coastal counties were occupied by renters, 40 percent of whom were spending more than one-third of their incomes on housing or were living in subsidized or public housing. Since Katrina damaged 60 percent of the region’s housing stock, the supply of housing declined significantly at the same time that employment and incomes fell. As a result, the supply of *affordable housing*—housing options that meet minimum building codes and require no more than 30 percent of a household’s gross annual income for rent or mortgage payments—declined significantly.

Not surprisingly, housing that sustained only limited or moderate damage is being rebuilt faster than units that were severely damaged. Repairs are costly, the construction industry is overburdened, and homeowners and landlords face difficulties in obtaining financing for repairs and reconstruction.

These are some of the findings from a 2006 study of the housing market in Hancock, Harrison, and Jackson counties (see the figure) conducted by researchers from the RAND Gulf States Policy Institute. Later in 2007, RAND reevaluated the recovery and described remaining obstacles and promising strategies in a second report. The summary of findings and recommendations presented in this research brief is intended to support efforts to rebuild the areas devastated by Hurricane Katrina and reduce the affordable-housing gap in all areas of the Gulf Coast.

Lagging Recovery of Affordable Housing Threatens Economic Recovery

In a review of similar disasters, RAND researchers found that affordable housing, especially affordable rental housing, is typically slower to

The RAND Gulf States Policy Institute Studied Pre- and Post-Katrina Housing

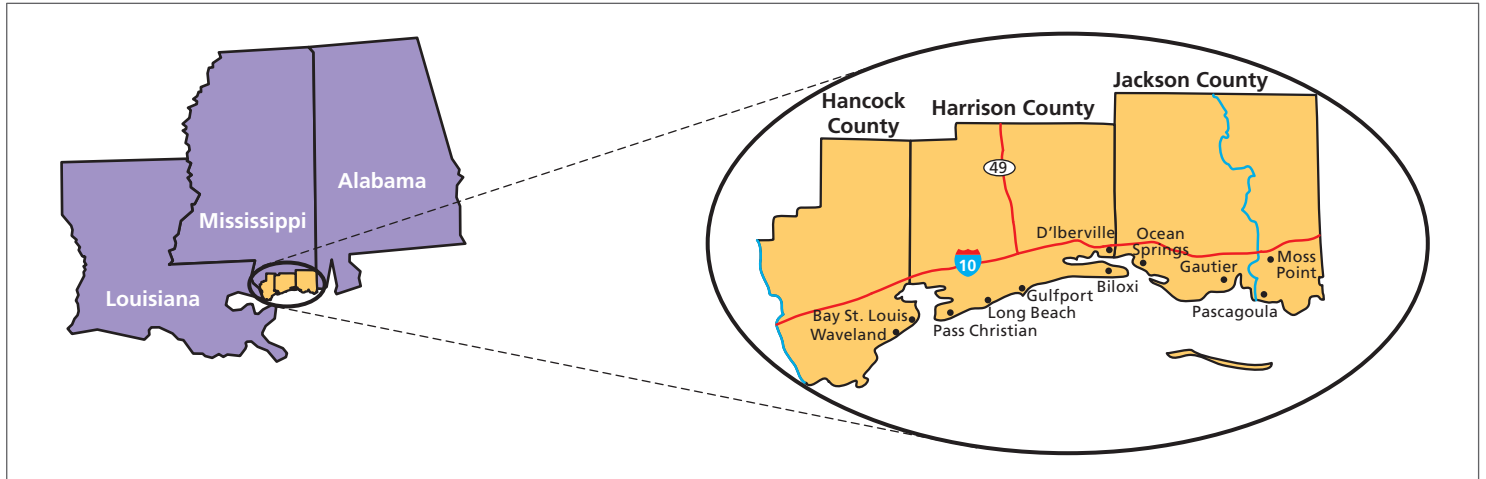
The RAND Corporation joined the national hurricane recovery effort immediately after Katrina hit in August 2005 and, in December 2005, established the RAND Gulf States Policy Institute. RAND has made a significant commitment to the region, opening offices in Jackson, Mississippi, and New Orleans, Louisiana. RAND Gulf States works with several local universities and assists long-term recovery efforts by providing evidence-based policy guidance to facilitate and speed regional recovery and growth.

This product is part of the RAND Corporation research brief series. RAND research briefs present policy-oriented summaries of published, peer-reviewed documents.

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Mississippi's Three Coastal Counties



recover than the rest of the market. As of 2007, this pattern was repeating itself in coastal Mississippi for several key reasons. First, many homeowners and landlords (and the renters who depend on them) did not have adequate (if any) insurance coverage to rebuild. Second, the repair and replacement of multi-unit housing significantly lagged behind that of single-family homes because landlords were relatively unfamiliar with financing and complicated redevelopment processes. Finally, higher insurance premiums (driven by higher risk exposure) have made it more difficult to offer housing at prices that meet the definition of *affordable*.

If these trends continue, a lack of affordable housing may prevent important segments of the workforce from returning to the region. This could constrain the area's economic recovery. However, if a significant and reliable source of additional financing is made available for a prolonged period, damaged homes can be repaired and new rental units built. This will help to replace the employment and wages that were lost in the storm and encourage a resident workforce by providing affordable housing.

Promising Options for Increasing the Supply of Affordable Housing

The researchers recommended several preliminary but promising policy options for Mississippi and its coastal counties as they strive to increase the supply of affordable housing and support economic development. The state of Mississippi has already implemented some of the key recommendations.

Set Goals for Affordable Housing

In allocating recovery funds, the state can set permanent, regional affordability goals so that a significant portion of people can live in the communities in which they work. The

state also can establish state and local housing trust funds to offset the decline in federal funding for low-income housing. In Mississippi, the trust funds might be financed with contributions from retail sales taxes, tourism, gambling, or oil-production activities. Other suggestions include the following:

- Encourage employers (especially those who are trying to rebuild without an adequate labor pool) to offer housing assistance to their employees.
- Set affordability requirements or incentives for developers to include affordable housing units in their projects.
- Offer incentives to private investors to undertake housing projects that would not otherwise be profitable; for example, subsidize projects in exchange for a commitment to low rents.
- Offer subsidized mortgages to qualified individuals.
- Leverage nonprofit ownership for long-term rental units to ensure that rental housing stays affordable.

Support Decisionmaking to Encourage Affordable-Housing Development

- Develop better information to inform short-term and long-term policy decisions related to how much housing is needed, where it is needed, and what types of zoning and building standards should be employed to minimize losses in future disasters.
- Adopt zoning requirements that support dense, mixed-use development and multifamily housing.
- Pilot a public-private partnership and apply smart growth principles to develop high-density, mixed-income housing where housing subsidized by the U.S. Department of Housing and Urban Development formerly stood.
- Include community education about the benefits of such projects and show examples of their success in other

places to prevent a “not in my backyard” (NIMBY) stance by community members.

Foster Long-Term Affordability Through Lower Life-Cycle Costs

Thinking long term, the state and its cities and counties might do the following:

- Develop a rating system for housing that exceeds minimum building requirements. The state can develop a system that encompasses a broad range of factors that influence the long-term costs of owning and operating a home, including structural integrity, durability, energy and water efficiency, and access to nonautomotive modes of transport.
- Encourage Federal National Mortgage Association (FNMA, better known as Fannie Mae) lender partners to offer a single mortgage product that combines features of its existing energy- and location-efficient mortgages and adds a housing-durability component.
- Encourage private lenders to offer innovative mortgages for maintenance-efficient homes, for which operational costs are lower.
- Encourage insurers to offer innovative programs for homes that exceed minimum flood and wind safety standards.
- Offer future property-tax rebates for location- and resource-efficient housing that puts less burden on utilities and infrastructure, such as roads and sewer lines.
- Create a public benefit fund (via a small added fee on electric bills, for example) to subsidize higher-quality, energy-efficient construction.

Build Affordable Housing to Safer Codes and Standards

The researchers recommend that the state reduce the damage caused by future storms by designing homes with higher safety standards and implementing local risk-mitigation measures.

- Establish strict minimum building-safety codes.
- Review city and county building codes to make sure that the use of modular housing technologies (in contrast to older manufactured housing or the transitional use of mobile homes) are permissible.
- Regulate the shadow housing market—the rented garages and illegal additions that spring up in a market with insufficient supply.
- Prevent inappropriate zoning; for example, discourage construction of low-income housing near airports or ports.

Improve Oversight, Coordination, and Communication

The scale of the damage that Katrina caused means that recovery requires a huge range of resources. It needs not just

labor and materials but also organizational skills to coordinate the efforts of public, private, and nongovernmental organizations. Recovery organizers should do the following:

- Broadly disseminate timely and accurate information and include all parties in the decisionmaking process to prevent discrepancies among the expectations of these parties, their perceptions of the progress of the recovery effort, and the reality of the situation.
- Gain access to accurate information and data for community planning and investment decisions to ensure that community needs are met.
- Create the institutional capacity to coordinate the recovery. Appoint an individual from the private sector (rather than from the government, since the private sector will drive much of the effort) to act as a coordinator. The coordinator will receive and disseminate information, review and evaluate developments, identify problems, and alert the recovery team to important issues.

Promote Local Involvement in the Planning and Rebuilding Processes

Engaging community groups in rebuilding can support regional efforts to identify needs and channel funds to streamline rebuilding efforts, communicate needs to outside agencies, and support community development through local nonprofit housing corporations.

- Establish an emerging-contractor program that enables small contractors to compete for large contracts and take an active role in the rebuilding process.
- Increase the local capacity to conduct building inspections by borrowing officials from other locations and hiring and training new inspectors.
- Take advantage of the knowledge of local low-income residents and advocacy groups by including them in policy and investment decisions.

Implementation Requires Balancing Short- and Long-Term Goals

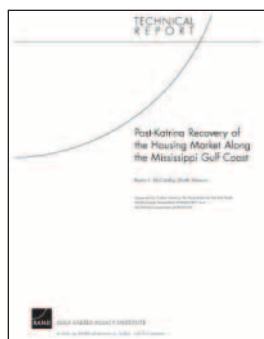
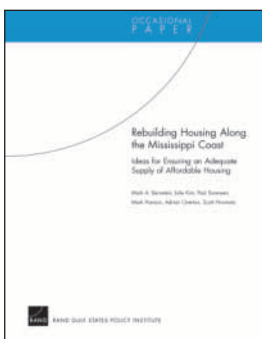
Most of these recommendations can be implemented by the state of Mississippi; by Hancock, Harrison, and Jackson counties; by the region’s cities and towns; or by some combination of these. Others will require partnerships with federal agencies, nonprofit organizations, or private-sector participants. For example, state and local officials could implement land-use plans, environmental policies, and structural guidelines. Local officials, property owners, and developers could ensure that properties in the floodplain are elevated.

It is important to recognize the potential tensions between the short-term goal of a speedy recovery and long-term goals, such as the need to protect the housing stock

from future storms. Katrina is not the first devastating hurricane to hit the Mississippi Gulf Coast, and it will not be the last. A successful approach to limiting future disasters in flood-prone areas combines integrated water management (for example, zoning that leaves otherwise valuable land uninhabited to serve as a buffer), building codes that minimize damage to existing structures, and comprehensive planning for future economic development. In contrast, adding structural barriers, such as levees, to enable increased development in flood zones often increases flood risk. However, stricter zoning regulations and other smart growth principles have increased the cost of rebuilding. If housing prices in the

region continue to increase, political pressure may build to dispense with those measures in favor of faster and less-expensive construction.

Policymakers at the state and local levels in Mississippi, as well as in Louisiana and Alabama, have an opportunity not only to expedite the short-term recovery process, provide displaced citizens with affordable housing, and mitigate the effects of future major storms—they can also create dynamic, diverse, and economically strong communities. If they succeed, Katrina will have provided an opportunity for creating an even more vital and sustainable future for the Gulf Coast. ■



This research brief describes work done for RAND Infrastructure, Safety, and Environment documented in *Rebuilding Housing Along the Mississippi Coast: Ideas for Ensuring an Adequate Supply of Affordable Housing*, by Mark A. Bernstein, Julie Kim, Paul Sorensen, Mark Hanson, Adrian Overton, and Scott Hiromoto, OP-162-RC (available at http://www.rand.org/pubs/occasional_papers/OP162/), 2006, 92 pp., \$20, ISBN: 978-0-8330-3949-1; and *Post-Katrina Recovery of the Housing Market Along the Mississippi Gulf Coast*, by Kevin F. McCarthy and Mark Hanson, TR-511-OA/MAR/NAR (available at http://www.rand.org/pubs/technical_reports/TR511/), 2008, 102 pp., \$25, ISBN: 978-0-8330-4293-4. This research brief was written by Shelley Wiseman. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark.

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