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OCCASIONAL
PAPER

Rebuilding Housing Along the Mississippi Coast

Ideas for Ensuring an Adequate Supply of Affordable Housing

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Summary

Hurricane Katrina made landfall on August 29, 2005, near the Mississippi-Louisiana border, causing extensive damage along coastal Mississippi as well as in the neighboring states of Louisiana, Texas, and Alabama. Federal disaster declarations in the wake of Hurricane Katrina covered about 90,000 square miles. Mississippi took the brunt of the storm, with winds of up to 125 miles per hour and a storm surge that rose to more than 30 feet. More than 134,000 homes sustained some damage and at least 65,000 were completely destroyed. To date, more than a million households have received federal assistance, and countless agencies, organizations, and volunteers have responded to assist affected communities and individuals. More than 50,000 Mississippians from more than 18,000 households are living in trailers, while others live in hotel rooms scattered across 44 states and the District of Columbia. As in New Orleans, the challenge of recovering from Hurricane Katrina has been exacerbated by the fact that some of the poorest communities were also some of the hardest hit. Within Mississippi, many of the devastated areas are located in the six heavily populated counties closest to the coast, which are characterized by relatively high levels of poverty and relatively low levels of home ownership. To make matters worse, a substantial share of the homes in these areas that were exposed to high winds, flooding, and the coastal surge were built before 1980 and thus did not adhere to current, more-stringent building safety codes.

In October 2005, RAND Corporation researchers traveled to Mississippi to work with the Governor's Commission on Recovery, Rebuilding, Renewal and, more specifically, to assist the Affordable Housing Subcommittee of the Infrastructure Issues Committee. During the engagement, RAND researchers provided support in identifying and developing a list of policy and implementation options that could help local communities address affordable-housing issues in their rebuilding efforts. In developing this list of options, RAND researchers considered the following important questions:

- How is "affordable housing" defined, and what are some of the general affordable-housing issues faced by different regions in the United States? What are the critical challenges in providing affordable housing and what strategies are available to deal with these challenges?
- How have affordable-housing issues been addressed in the wake of other natural disasters in the United States? What lessons have we learned and what best practices can we take away from previous natural disaster experiences?

- What are the extent and scope of damage sustained by Mississippi relative to affordable housing? What types of affordable-housing needs should the state of Mississippi consider addressing during the rebuilding process, and at what scale?
- What affordable-housing policy options seem best suited to Mississippi's current needs?

RAND's analysis of these four questions is outlined in the sections below.

Critical Challenges in Providing Affordable Housing

Housing is typically considered "affordable" when a family does not need to spend more than 30 percent of its income on rent or on mortgage payments, insurance, and property taxes (Feldman, 2002), and when the housing is physically adequate and not overcrowded. By this definition, finding affordable housing is not a problem limited to the poor, and shortages of affordable housing at one income level can ripple upward to affect other income groups as well. For example, when lower-income families must live in homes or apartments that are beyond their means, it reduces the supply of housing for the next higher income group. This forces families in the next group to pay more for housing than they otherwise would, resulting in a domino effect that can extend through multiple levels of the available housing stock. Another common difficulty, one that occurs most frequently in suburban locations, arises where zoning codes limit the variety of housing types that can be built within a community. Because of this limitation, moderate-wage earners such as retail employees or blue-collar workers cannot find affordable housing within the community and must therefore either commute long distances or pay more for housing than they can afford. With such considerations in mind, we assume in this report that a key goal for Gulf Coast communities will be to ensure not only that there is an adequate supply of affordable housing across multiple income levels, but also that the affordable housing is located within a reasonable distance of suitable employment opportunities.

To put the affordable-housing challenge in Mississippi into a broader context, it is useful to note that, as of 2003, 7.5 million households nationwide were "severely burdened" by their housing costs. In more specific terms, this refers to households that must spend more than half of their income on rent or mortgage payments. In addition, estimates suggest that the supply of affordable housing within the United States is at least 1.6 million units short of what is needed (U.S. Department of Commerce, 2003).

This affordable-housing gap persists despite the variety of programs and subsidies put in place by federal and state governments. This gap exists in part because many government housing policies are aimed at home ownership, and people with the greatest needs often cannot afford to buy a home even with assistance. Another factor is that many of the projects developed through low-income housing tax credits still need other subsidies in order to become affordable for the lowest-income populations.

The literature we reviewed during the background-research phase of this study describes some strategies for reducing the affordable-housing gap in the United States. These strategies include the following:

- *Education.* Educating people on financial and housing options can improve their ability to find high-quality, affordable housing.
- *Lowering housing costs.* Lowering the costs by reducing fees, changing codes and zoning ordinances to allow for new technologies and housing styles to be introduced, reducing mortgage and insurance costs, providing additional finance options, and fostering public-private partnerships are strategies that provide more opportunities for families to find affordable housing.
- *Increasing the building and design standards for affordable housing.* Much of the affordable housing stock is also in disrepair and expensive to maintain. By applying more-stringent building codes, higher standards for neighborhood development, and improved inspections, newly developed housing units will likely remain affordable—through lower life-cycle maintenance and repair costs—and desirable over the long term.

These strategies, along with others discussed in the affordable-housing literature, informed RAND's work in the development of policy options for rebuilding affordable housing along Mississippi's Gulf Coast.

Lessons Learned and Best Practices from Previous Natural Disasters

Several common themes emerge in studies about on the short- and long-term effects of natural disasters on the supply of affordable housing:

- Recovery in the housing market often takes longer in low-income neighborhoods and for multifamily rental units than for middle- and upper-income neighborhoods and single-family homes. This was observed, for example, following the Loma Prieta and Northridge earthquakes in California as well as Hurricane Andrew in Florida (Comerio, 1998).
- A marked decline in the supply of low-income housing often follows a disaster. This occurs because, during the rebuilding process, private markets do not find it profitable to replace multifamily, affordable rental housing. This happened, for instance, after Hurricane Andrew in Florida in the early 1990s (Comerio, 1998).
- The disbursement of federal recovery funds may not adequately address the more difficult financial challenges faced by lower-income households in the rebuilding process. After the 1994 Northridge earthquake, for example, regions composed of wealthier homeowners with higher damage costs received more federal assistance than did poorer areas that suffered lower monetary damages but also had fewer alternate sources of financial support (Loukaitou-Sideris and Kamel, 2004).

Combining elements from the literatures on affordable housing and the recoveries from previous natural disasters, RAND researchers distilled four key lessons that may prove valuable in helping to shape Mississippi's efforts to rebuild a sufficient quantity of safe and affordable housing to meet the needs of the displaced population:

- Decisionmakers require timely and accurate data and information about the scale and scope of the damages and about the demographics of the displaced population in order to make effective planning and development decisions.
- In the distribution of federal recovery funds, special priority should be devoted to the needs of lower-income households with limited access to alternate financial resources at their disposal.
- Private-sector capital may play an extremely important role in helping to redevelop the stock of high-quality affordable housing, particularly given current budget challenges at the state and federal level. To maximize the benefits of private investment, public and private sector funds can be coordinated through innovative public-private partnerships, nonprofit arrangements, and market-based incentives.
- To mitigate damages in the event of future natural disasters, new affordable-housing units should incorporate stringent minimum building-safety codes (such as higher wind-resistance ratings in coastal areas subject to hurricanes or higher foundations in areas prone to flooding or storm surge).

Preliminary Assessment of the Extent and Scope of Damage Sustained by Affordable Housing in Coastal Mississippi

To improve our understanding of the scale and nature of the affordable-housing problem currently facing Mississippi, several key data sources were analyzed to develop a preliminary estimate of the hurricane damages. Our preliminary analysis indicated that the hurricane hit hardest in the more developed areas of the three coastal counties of Mississippi—Hancock, Harrison, and Jackson. This area has many households with incomes below the federal poverty level (FPL), and many more with below-average income. Across the three counties, households with income below the U.S. median level occupied two-thirds of the housing units; in Hancock and Harrison counties, the figure was closer to three-quarters.

For the three coastal counties, RAND estimated that about 81,000 units—representing more than half of the total housing stock—were exposed to potential damage from the storm surge or flooding, and that about one-third of these units were occupied by households living below the U.S. median income level. This suggests that at least 27,000 affordable housing units may need to be rebuilt within the three coastal counties alone. These estimates, however, are likely to understate the actual size of the problem. First, the estimates are based on 2000 census data and thus do not account for new housing units that have been built in the intervening years. Second, the estimates do not account for potential damage in nonflooding zones due to high winds. As such, the actual number of affordable housing units that may need to be rebuilt within the three counties could be much higher.

In some areas, the percentage of units devastated by the storm was much higher. In a sample of 6,404 housing units on the Biloxi peninsula, for example, over 80 percent experienced extensive or catastrophic damage, and most of these were occupied by families living below the U.S. median income level. Households with incomes below 150 percent of the FPL occupied 40 percent of the housing units in this sample area.

Such findings present a compelling motivation for the state of Mississippi to devote explicit consideration to the needs of the lower-income population during the planning and rebuilding efforts, working to ensure that the region includes an adequate supply of affordable housing. The task of rebuilding affordable housing, however, involves an array of daunting challenges. This report presents a suite of policy options that may help Mississippi to overcome these challenges.

Policy Options

In this paper, we present more than 25 policy options to support the development of affordable housing in Mississippi. In keeping with the goals of the Governor's Commission, many of these options are designed to be implemented by government bodies at the state and local levels. Some of the options, however, will require partnerships with federal agencies, with nonprofit organizations, or with private-sector participants. For clarity, the options can be organized into five categories that address different specific needs:

- *Improving Oversight and Coordination:* The options in this category are designed to ensure that the necessary institutional capacity is in place to oversee the affordable-housing redevelopment efforts, and that thorough, objective analysis is available to inform long-term policy decisions. In particular, this category includes several specific analysis tasks as well as the formation of a new institution to coordinate the rebuilding efforts.
- *Increasing the Quantity of Affordable Housing Units:* This category comprises options to promote the development of a sufficient quantity of affordable-housing units to support the area's residents and employment base. The options include additional potential sources of subsidies for affordable housing, regulatory or incentive-based programs to encourage developers to increase the supply of affordable housing, innovative financing options to reduce the cost of affordable housing, and strategies to ensure that the stock of affordable housing does not decline over the long term.
- *Increasing the Quality and Safety of Affordable Housing:* These options are designed to ensure that affordable housing conforms to stringent minimum health and safety codes. In order to keep costs low, developers may feel pressed to compromise on the construction quality of affordable housing. Designed to prevent this problem, the options in this category will help to improve residents' quality of life in the short run and to mitigate damage in the event of future disasters.
- *Increasing Long-Term Affordability Through Lower Life-Cycle Costs:* This category includes options for increasing the long-term affordability of housing through lower maintenance and utility costs. While mortgage and rental payments are important, the amount of money that households must spend on monthly utility bills and periodic repairs represents another important ingredient the affordability of housing. Accordingly, the options presented in this category create opportunities and incentives for builders, lenders, and insurers to include consideration of the long-run operational costs of a home during the development and marketing of their products.

- *Promoting Local Involvement:* The options provided within this category are designed to promote greater local involvement in planning decisions as well as in the rebuilding efforts. Lower-income residents and affordable-housing advocates have the largest stake in the outcome of Mississippi's efforts to redevelop the stock of affordable housing, and thus they should be well represented within the planning process. At the same time, Mississippi communities will certainly benefit if local contractors and the local workforce can plan a larger role in the rebuilding efforts. The options in this category reflect these considerations.

Of the many options presented in the paper, several appear to be especially important in supporting Mississippi's efforts to rebuild a sufficient quantity of safe, affordable housing to meet the needs of the displaced population. Three of these require action as quickly as possible in order to provide the maximum level of benefits. First, there is a clear need to develop more accurate information to support planners and policymakers in the Gulf region, as decisions are currently being made without sufficient data on how much housing is needed, where it is needed, and what types of zoning and building standards should be employed to minimize losses in the event of future disasters. In particular, policy researchers should address three critical questions in the near term:

- What are the long-term housing needs for different regions and population groups?
- What are barriers that Mississippi will face in ensuring an adequate supply of affordable housing, and how can these be overcome?
- What are some of the best practices from around the country that can be applied in Mississippi?

Second, to ensure that the process of redeveloping affordable housing in Mississippi is managed as effectively and efficiently as possible, the state might consider forming a new institutional entity to oversee the housing recovery efforts. Among other roles, this entity would coordinate and prioritize funding allocations, provide outreach and education to residents and local communities, and coordinate with other regional planning efforts. Third, to mitigate damages in the event of future natural disasters, state and local jurisdictions could institute minimum building-safety codes and enhance the institutional capacity for permitting and inspecting new construction before the rebuilding efforts begin in earnest.

Two additional options also appear to hold much promise, though the time line for these is less urgent. First, state and local governments can set regional goals for affordable housing to ensure that a significant portion of workers can live in the communities in which they are employed. Strategies to achieve these goals include developing affordable-housing trust funds, working with lenders to develop lower-rate mortgages for affordable housing, encouraging employers to offer affordable-housing assistance, providing incentives to stimulate public-private affordable-housing partnerships, and restructuring zoning and building codes to allow for efficient, safe, and lower-cost modular-home construction. Second, policymakers can create incentives for builders to construct homes that use less water and energy and that are easier to maintain in order to facilitate longer-term housing affordability.