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# Factors Impacting Redevelopment in the Gulf Opportunity Zone

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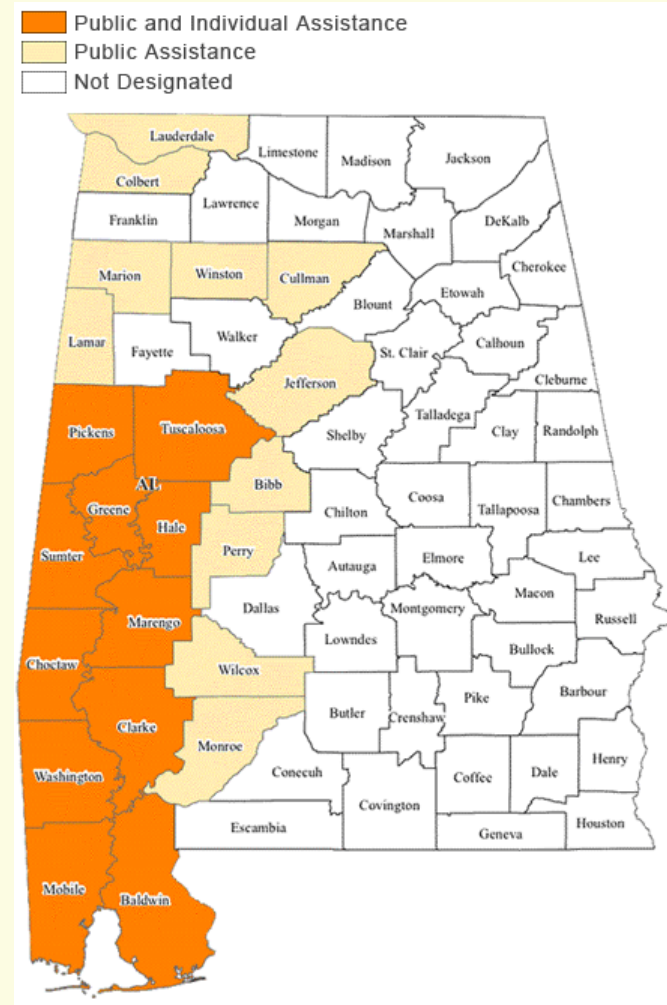


## Gulf Opportunity Zone



## Gulf Opportunity Zone: Alabama

- The Go Zone Act covers 11 counties in Alabama.







## Positive Factors Impacting Region:

- Rebuilding and improving infrastructure including roads, bridges, hospitals, schools, pumping stations, levees.
  - » Example: A new I-10 bridge span and widening of and modernization of the Huey P. Long Bridge will result in \$1.5 billion in construction spending in the New Orleans area over the next 5 years.
  - » Example: Three new pumping stations will be constructed along Lake Pontchartrain in New Orleans at an estimated cost of \$2.5 billion over the next 4 years.

## Positive Factors Impacting Region:

- Homeowners will spend billions of Federal Community Development Block Grant (CDBG) funds and insurance proceeds to repair their homes over the next few years.
  - » Example: Estimates are that New Orleans area banks have approximately \$10 billion in insurance proceeds on deposit.
  - » Example: Louisiana and Mississippi have over \$10 billion in CDBG to disburse to homeowners.

## Positive Factors Impacting Region:

- Allocation of over \$300 million in additional LIHTC's to Go Zone will help rebuild and improve affordable housing.
  - » Example: LHFA has approved over \$2 billion in projects which will be placed in service before the end of 2008
- Sales Tax Collections in the aftermath of the storms created major surpluses in State Revenues.
  - » Example: Louisiana estimates it will have an \$800 million surplus in fiscal year 2006-07.

## Positive Factors Impacting Region:

- Approval of Offshore Oil Royalties Legislation in 12/06 will generate revenue to deal with coastal erosion.
  - » Impact: Substantial recurring income stream now available to Gulf States (partially LA) to combat coastal erosion which was a major contributor to the devastating impact of Hurricane Katrina.
- Go Zone benefits extended including bonus depreciation and special bonding capacity.
  - » Impact: The majority of new development in the region utilize some combination of tax-exempt bond financing, new market tax, bonus depreciation, and State/Federal historic tax credits.

## Negative Factors Impacting Region:

- High cost of insurance in coastal and low lying areas may limit recovery.
  - » Example: Many apartment owners have seen traditional insurance premiums increase – 400% with significant increases in deductibles. One of the regions largest apartment owners had an annual increase from \$350 per unit to \$1450 which is typical of increases observed.
  - » Example: Builders Risk and Difference in Conditions (DIC) Coverage is unavailable or available at 10 times the pre storm rates.

## Negative Factors Impacting Region:

- High construction costs have delayed reconstruction and made many pre-storm projects not economically viable.
  - » Example: Typical residential construction costs are at a 40% premium to pre storm levels in some areas. Commercial Construction can run 50% higher.
  - » Example: There are no Post Katrina market rate apartment properties currently under construction in the New Orleans Metro Area.

## Negative Factors Impacting Region:

- Delays by local, state and federal government to issue rebuilding guidelines:
  - » Example: FEMA did not issue new guidelines for the National Flood Insurance Program in most impacted areas until the Summer of 2006, which was a prerequisite for many property owners to begin repairs.
  - » Example: The City of New Orleans is operating with less than 25% of pre-storm staffing in its construction permit department resulting in substantial delays in issuing new permits.

## Negative Factors Impacting Region:

- Delays by state and federal government in funding Federal Recovery Monies.
  - » Example: The Louisiana “Road Home” Program is charged with distributing \$4.5 billion to an estimated 123,000 eligible homeowners. As of 12/19/06 only 87 homeowners had received benefits totaling under \$4 million.

## Negative Factors Impacting Region:

- Psychological Impact of Katrina
  - » Fear of future storms and the safety of Hurricane Protection Systems has paralyzed some residents.
  - » Mental strain of protracted recovery with constant delays as the norm is impacting people's decision to rebuild or relocate.
  - » Inability of leadership to instill confidence that government understands and can deal with critical issues is negatively impacting both the local and national view of the recovery effort.

## Changing Market Trends:

- Major population shift from coastal and low lying areas to higher ground growth corridors.
  - » Permanent population shift to surrounding communities of Baton Rouge, Hammond, Jackson, Hattiesburg and St. Tammany of over 100,000 people.
- Major shift in retail, office and industrial space users to growth corridors.
  - » Chevron's relocation from New Orleans CBD to St. Tammany Parish.
  - » Announcement of Two "million square foot" life style shopping centers in St. Tammany Parish.

## Changing Market Trends:

- Slow recovery of areas with greatest storm impact.
  - » Combination of negative factors previously sited have virtually stopped reconstruction in some neighborhoods like Bay St. Louis in coastal Mississippi and parts Eastern New Orleans.
  - » New developments in the coastal areas of the region require “GO Zone” benefits to offset negative factors and remain viable.

## Changing Market Trends:

- Major influx of Hispanic workers and families to fill needs of construction industry and other blue collar jobs is changing the ethnic makeup of the region.
- Slow recovery of affordable housing has negatively impacted the ability of large numbers of former residents to return home.

## Conclusion

- Recovery will take longer than many people anticipated. Five years is optimistic.
- Recovery will ultimately have a positive regional impact particularly related to replacement of aging infrastructure.
- Recovery will not be evenly spread with some communities experiencing dramatic growth and others questioning their very survival.