

Minority Developers and New Orleans

WHEN HURRICANE KATRINA HIT the Gulf Coast and New Orleans last August, it left in its aftermath the most destructive and expensive natural disaster in U.S. history. In addition to the estimated \$200 billion to \$300 billion in damage, more than 1 million people were displaced, creating a humanitarian crisis on a scale not seen in the United States since the Great Depression.

More than a year later, New Orleans remains at a crossroads. Past experience with disasters—whether manmade or natural—has shown that it is essential to come up with a redevelopment plan within the first 90 to 120 days. As noted in the ULI report *New Orleans, Louisiana: A Strategy for Rebuilding*, the failure to create an immediate and forward-thinking plan can result in scattered, uncoordinated, and dysfunctional redevelopment, an ineffective infrastructure policy, and a greatly impaired urban fabric.

But as a June 18 *New York Times* headline states, “In New Orleans, Money Is Ready But a Plan Isn’t.” Local officials have yet to come up with a redevelopment plan showing what kind of city will emerge from the storm’s ruins. Before Katrina, New Orleans was a city of 465,000 people, nearly two-thirds of whom were African American. The issues of the city’s post-Katrina footprint and the impact it will have on the racial makeup of the population are two of the stumbling blocks in formulating a plan that can gain consensus.

Nearly one in three African Americans in New Orleans before Hurricane Katrina lived below the poverty line. Despite the fact African American mayors have governed the city since 1978, much work remained to bring this racial group into the economic mainstream. Included in this

disparity is a paucity of African American real estate developers and building contractors available to fully participate in reviving the city, raising the question of whether there is a role for minority developers to play in the rebuilding.

Among the key findings and recommendations relating to small business in the ULI report on New Orleans are the following:

▷ Diversity, equity, and cooperation are of critical importance. The recovery must not be held back by the racial issues that have slowed progress in the past.

▷ Business leaders must work in partnership with government.

▷ A diversified economic development strategy that takes into account and builds on businesses and industries that were present before Hurricane Katrina, as well as those that may be appropriate in a renewed city, is critical to the city’s redevelopment.

▷ The city should be rebuilt in a strategic manner.

▷ People who cannot rebuild should be given fair compensation for their property.

Is there a role for minority developers in rebuilding New Orleans?



▷ Planning for the rebuilding of each neighborhood must involve the residents of that neighborhood.

▷ The city needs diverse economic development and housing. Jobs and housing will be the backbone of the city’s rebirth.

Small business is the foundation of the U.S. economy, and its role is perhaps even more important in the New Orleans economy than in that of most major metropolitan areas. Even before Katrina, New Orleans was not a city of big corporations, but rather of mom-and-pop groceries, family-

owned barbecue joints, lawyers who hung out a shingle instead of joining a big firm, and bar owners who knew their customers by name. Of the 22,000 businesses in Orleans Parish before the storm, 21,000 had fewer than 99 employees.

Hurricane Katrina devastated small businesses, including minority-owned real estate development companies and those in the building trade. In the short term, in order to get back on their feet to compete for the billions of dollars in federal, state, and private dollars that are flowing into the city for rebuilding purposes, these minority-owned development companies need what most other small businesses require in this kind of daunting situation—access to capital. The ULI report recommended that small-business programs offering

financial assistance include the following: funding for loans and grants, partial government guarantees of small-business loans to private sector lenders, flexible use of proceeds, use of existing infrastructure to expedite delivery of these dollars, a streamlined application process, and nontaxable government grants. Other recommended short-term actions include technical assistance and other non-monetary support.

Addressing the subject of long-term needs, the ULI report recommended that an investment fund be created to mobilize the business community to help rebuild the local economy. This fund would invest in local businesses, with a particular focus on minority-owned companies, and in other economic development projects. It would provide both debt

and equity, and be an evergreen fund whose returns would be reinvested in other businesses.

The ULI report also proposed that the process of rebuilding New Orleans be a major source of economic activity and growth for the city. Other parts of the country have experienced this process of rebuilding and growth after natural disasters. However, it has been noted elsewhere that unless specific steps are taken, much of the planning and construction likely will be carried out by national and regional companies that do not have much of a local presence. This is, indeed, what is now occurring in New Orleans. As the rebuilding efforts in New Orleans slowly unfold, low-income city residents either remain displaced or have been relegated to low-wage

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jobs that offer little opportunity for career growth.

The physical process of rebuilding New Orleans will require the combined skills of planners, architects, engineers, real estate developers, construction managers, building contractors, laborers, and stakeholders throughout the city, along with a great deal of money—from both the public and private sectors. It is unrealistic to expect that the proportion of federal dollars flowing into the city will be distributed to an African American business community that is anywhere near its pre-Katrina percentage of the city's population. What then is possible in terms of a real role for minority developers and other land use professionals in the rebuilding of New Orleans?

Given the integral relationship between housing and jobs in the creation of a community, an important and immediate opportunity for minority developers lies in the production of housing stock to enable people to return to the Crescent City and, thus, create a workforce for local businesses. As noted in a March ULI report *Rebuilding Housing in New Orleans: A Proposed Approach*, the fundamental question for the people of New Orleans is "How can I rebuild?" The ULI plan, created in conjunction with the housing subcommittee of the Bring New Orleans Back Commission and the New Orleans Neighborhood Development Collaborative, offers strategies for combining public and private funds to rebuild 74,000 owner-occupied homes and

47,500 low-income and workforce rental units. This plan provides the options needed to begin the rebuilding of neighborhoods by creating housing for more than 300,000 residents. In addition, in late July, the Business Roundtable, an association of 160 chief executives of major companies, launched an effort to recruit and train as many as 20,000 new construction workers for the Gulf Coast region.

The goal of this housing production plan is to encourage residents to return to New Orleans by developing financing tools to provide all homeowners affected by Katrina with options to rebuild their home in place, when appropriate. The plan also would offer homeowners who cannot rebuild in place the option of selling their home and would pro-

vide incentives for them to build or buy a new home in Orleans Parish. In addition, it would seek to create opportunities to turn 10,000 renters into first-time homeowners. In all, the plan could provide housing for an estimated 185,000 residents.

Among the 64,000 flooded owner-occupied homes in New Orleans, 52,000 were within the floodplain. Of the flooded homes, 40,000 had flood and hazard insurance, with 35,000 of these within the floodplain. That leaves 24,000 flooded owner-occupied homes with no flood insurance, with 17,000 of these falling within the floodplain.

The ULI plan estimates that it will cost \$3 billion to \$3.7 billion, funded through federal community development block grant (CDBG) funds and loans, to rebuild housing, whether

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it is in or outside the floodplain. It estimates a total cost of \$1 billion to build housing for first-time homebuyers, with money coming from sources such as CDBG funds and tax-exempt bonds. For rental housing, the plan's goal is to provide incentives to landlords to rebuild 47,500 units—24,000 as low-income rental units and 23,500 as workforce housing. In total, the plan estimates that 118,750 residents would be provided with affordable housing.

The plan identifies five housing types—for homeowners, low-income renters, workforce renters, first-time homeowners, and special-needs renters—and identifies the sources of financing as CDBG funds, tax-exempt bonds, the Section 8 voucher program, HOPE VI, insurance, and new private investment. These housing proposals build on ULI's broader

New Orleans report recommendations, which are based on the premise that New Orleans's property owners are entitled to fair compensation and equitable redevelopment opportunities that provide sufficient resources to rebuild in place or in developable areas of the city.

With these billions in housing funds in the pipeline, along with the billions needed in public and private dollars to rebuild public schools, commercial properties, YMCAs, churches, shopping centers, and other structures, ample opportunities clearly exist for real estate developers citywide. How, then, do minority developers get a piece of the action? Currently, there is no plan in place to guide the redevelopment process—nor is there a plan to bring minority developers into the mainstream to take advan-

tage of this opportunity.

A July 7 *Boston Globe* article, "Flawed Solutions in New Orleans," stated that city hall has decided to minimize government meddling in the recovery and rely instead on the magic of the market to allocate Washington's billions and shape the "new New Orleans." This laissez-faire approach will ultimately lead to a new New Orleans coming about via decisions largely made by the insurance industry. Such a market-based approach also will do no favors for minority developers, who will find themselves on the outside looking in as billions are spent to rebuild their city by national and regional real estate development firms.

Currently, Mayor Ray Nagin, members of the New Orleans City Council, and other local elected officials have done little to address the difficult



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rebuilding questions facing their city. One year after Katrina destroyed New Orleans, little progress has been made in translating ULI's strategies for rebuilding into a plan with consensus that can guide the redevelopment process. While crises often bring leadership to the fore in ways not

seen before, this type of leadership has yet to surface in New Orleans.

One tangible way to try to regain the high ground is for public officials at the city, state, and federal levels to be aggressive in demanding that minority developers and other land use professionals get their fair share

of the billions of dollars to be spent in rebuilding New Orleans, regardless of what the city's footprint ends up looking like. With billions at stake, Nagin can guide motivated developers to make sure they do the right thing. In addition, part of his agenda should be to guide a chunk of this money to local African American-owned banks that have been hurt in Katrina's aftermath.

The other side of this coin is whether the minority development community in New Orleans has the capacity and capability to participate fully in a multibillion-dollar rebuilding program. This question could be answered through the use of partnerships and joint ventures. It is also incumbent upon national and regional developers to look to partner with smaller minority development companies. **U**

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(This article is based on Hart's remarks at the ninth annual African American Business Summit in Palm Springs, California, this past June.)

ADDENDUM: On October 2, New Orleans Mayor C. Ray Nagin issued an executive order that requires large businesses to use as many local and minority-owned firms as possible when they seek millions of dollars in tax incentives and grants for Hurricane Katrina recovery.