

November 21, 2007

SQUARE FEET

In New Orleans, a Test of Mixed-Income Housing

By [TERRY PRISTIN](#)

NEW ORLEANS, Nov. 15 — Despite the havoc wrought by [Hurricane Katrina](#) around this city, one slice of the devastated housing market is showing resurgence. The multifamily sector is more active than it has ever been, with nearly 5,400 units being created or undergoing major rehabilitation, according to a recent brokers' report covering rental apartment complexes with 100 units or more.

In a long-neglected neighborhood near the central business district, for example, the 183-unit Preserve will replace a plant where Crystal Hot Sauce, a staple of Cajun cooking, used to be bottled, and the 228-unit Crescent Club is rising on the site of a former car dealership. Nearby, the century-old Falstaff Brewery complex — shuttered for three decades — is being transformed into 147 rental apartments.

“People have come to the conclusion that there is a viable market here,” said an author of the report about the city's multifamily housing market, Larry G. Schedler, a principal of a brokerage firm in Metairie, La. “It might be a little smaller than it was, but they're not going to close the place down.”

To be sure, all this development is hardly likely to compensate for the rental housing wiped out by Hurricane Katrina. Before the storm, renters were 53 percent of the population, most in homes with one to four units. In all, 51,681 rental homes, about half the total in the city, were destroyed or damaged, the [Louisiana](#) Recovery Authority said. Efforts to replace four battered public housing projects with mixed-income developments have stalled.

The report, which surveyed 27,000 apartments, found that rents had climbed an average of 27 percent since the storm. Rates have since stabilized, Mr. Schedler said.

Developers of rental housing have faced significant challenges since the storm. Insurance premiums have more than tripled, deductibles are higher, and construction costs have risen by 50 percent or more, he said.

The new construction is occurring largely in or near the city's historic center, which suffered less extensive damage than eastern neighborhoods. And it is being heavily subsidized, mostly through federal low-income-housing tax credits and additional incentives. These complexes will have a mixture of low-income and market-rate tenants; such a mix of income levels is largely untested in this city.

“It is impossible now to develop conventionally financed apartment housing,” said Pres Kabacoff, chief executive of HRI Properties, a national company based here. HRI, a pioneer in developing mixed-income housing in New Orleans, expects to break ground early next year on a 310-unit apartment complex, the next phase of its River Gardens development on the site of a former public housing project.

A few developers are drawing upon other incentives like the post-Katrina enhanced tax credits for historic preservation and they are creating housing from older buildings. Marcel Wisznia, for example, recently converted the 1927 Western Union building on Carondelet Street into 32 apartments with high ceilings, midcentury modern furniture and original art. These apartments are aimed at young professionals or out-of-towners seeking a foothold; monthly rents range from \$1,600 to \$3,075. Mr. Wisznia is also developing three other larger projects.

Only a modest amount of subsidized apartment development is occurring in heavily damaged East New Orleans, a middle-class African-American enclave, where residents “are not anxious to have affordable housing on their doorstep,” Mr. Schedler said. On Nov. 13, the city planning commission rejected an Indianapolis developer’s plan to build a 276-unit apartment complex. “It doesn’t break down on racial lines,” Mr. Kabacoff said. “It breaks down on economic lines.”

But some developers are using their own money to rehabilitate flood-damaged garden apartment complexes along Interstate 10 in East New Orleans.

After more than four feet of water destroyed the first floor of his 216-unit Copper Creek complex, Gene Ratchford, the owner of Triangle Real Estate, a multifamily-housing developer in Gastonia, N.C., rebuilt the damaged units and renovated the upstairs floors. Today, the well-tended, cream-colored structure stands out among its boarded-up, decrepit neighbors and is nearly fully occupied. Monthly rents range from \$635 to \$795.

Since the storm, Mr. Ratchford has bought four nearby complexes, giving him a total of 1,750 units in East New Orleans. He said he did not accept tenants with federal housing vouchers. “We try to take people with good credit who want to live with other people with good credit,” he said.

Instead, he markets his properties by running advertisements in newspapers in Baton Rouge and Houston. “People are coming back,” he said.

Like Mr. Ratchford, the developers of the Preserve and the Crescent Club are from out of state — in their case, New York. But Matthew G. Schwartz, 30, and Chris N. Papamichael, 33, the principals of the Domain Companies, had experience using low-income tax credits to build income-restricted housing in [Staten Island](#) and Ithaca, N.Y., among other places.

One of 17 areas named by the city as recovery zones ripe for private investment, Tulane Avenue is lined with boarded-up buildings and bail bond offices. But Mr. Schwartz said the neighborhood seemed ideal for apartment construction because it will offer easy access to downtown and to two large new hospitals being developed nearby. But there were hurdles to surmount. Faced with insurance costs that threatened to eat up half his profits, Mr. Schwartz said he made several concessions, including putting parking, rather than apartments, on the ground floor.

For the two projects, which are expected to cost \$100 million, Domain got \$56.1 million in financing from the Centerline Capital Group, a New York company with which they had a long relationship. Both Mr. Schwartz and Mr. Papamichael are graduates of [Tulane University](#) in New Orleans, as is Justin E. Ginsberg, Centerline’s senior managing director for affordable housing. “Without that relationship, attracting financing would have been a real challenge for us,” Mr. Schwartz said. Another \$35.5 million came from other Gulf Opportunity Zone incentives.

Sixty percent of the units will be market rate, with the rest reserved for people whose income is 60 percent or less of the area's median.

Real estate specialists predict that these projects will serve as catalysts for the neighborhood's revival. "The Tulane corridor will transform into something it hasn't been for 50 or 60 years," said J. Mark Madderra, a principal in Madderra & Cazalot, a mortgage banking firm, who is a co-author of the multifamily report. Domain is also planning a third apartment house, with 72 units, in the neighborhood, on Jefferson Davis Parkway.

There is concern about whether market-rate tenants in New Orleans will accept the idea of living with poorer neighbors. But John McIlwain, a senior fellow for housing at the Urban Land Institute, a nonprofit research group in [Washington](#), said the timing seemed right for these developments because of the scarcity of rental housing and the spike in rents. Since market-rate tenants in such projects can expect to pay less than they would in a conventional building, the mixed-income buildings may be welcome.

"They stand a better chance," he said. "There's a ready market for them."

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