

“Federal Housing Response to Hurricane Katrina”

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Testimony of

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Chairman Frank, Ranking Member Bachus and distinguished members of the Committee, my name is Kirk Tate and I am the Chief Executive Officer for Orion Real Estate Services based in Houston, Texas. Orion manages over 16,000 apartment homes throughout Texas and Colorado. I have over 30 years of experience in the apartment industry, and I am the past president of the Houston Apartment Association and the Texas Apartment Association. I served on Mayor Bill White's hurricane task force for the City of Houston. In the days, weeks and months following both Hurricanes Katrina and Rita I acted as a liaison between apartment owners and operators and the City of Houston.

I am here today on behalf of two trade associations that represent the private apartment industry—the National Multi Housing Council (NMHC) and the National Apartment Association (NAA). NMHC and NAA represent the nation's leading firms participating in the apartment industry. Their combined memberships include apartment owners, developers, managers, builders and lenders.

The National Multi Housing Council represents the apartment industry's largest and most prominent firms. NMHC members are the principal officers of these organizations. NAA is the largest national federation of state and local apartment associations, with 190 affiliates representing nearly 50,000 professionals who own and manage more than six million apartments. NMHC and NAA jointly operate a federal legislative program and provide a unified voice for the private apartment industry.

Before I discuss the housing issues related to Hurricane Katrina, I would like to offer some background on the apartment industry in general. Apartments account for about 14 percent of the entire housing stock, and house approximately 16 million American households. These households represent the full spectrum of America's population; they are young and old, single and married, wealthy and poor.

Rental housing is an important economic driver in the American economy. Apartment revenues total almost \$120 billion annually, and approximately 550,000 people are employed in apartment management. More than 210,000 new apartment homes have been added to the housing stock for the past five years at an average value of \$30 billion annually. New apartment construction provides jobs to more than 220,000 workers.

Apartments are owned by a wide range of investors, including individuals, partnerships, real estate investment trusts, publicly traded corporations and nonprofit organizations. They are financed by an array of lenders including commercial banks, thrift institutions, life insurance companies and government-sponsored enterprises. A growing share of the financing comes from publicly traded mortgage-backed securities.

We commend you, Chairman Frank, for your leadership, and we thank the Members of the Committee for your valuable work addressing the important issues surrounding the federal housing response and housing reconstruction efforts in the areas affected by Hurricane Katrina. We appreciate the dedication of the Committee on this issue.

NATIONAL IMPEDIMENTS TO HOUSING THE EVACUEES

Hurricane Katrina will go down in the record books as the nation's largest and most costly natural disaster ever. According to Red Cross estimates, at least 416,894 housing units across the Gulf region were destroyed, nearly ten times more physical damage than any previous U.S. natural disaster. In addition, 85,000 housing units suffered major damage and 130,000 suffered minor damage. Forty-seven percent of the units destroyed throughout the region were rental units; in New Orleans 55 percent were rental units.

The record-breaking 2005 hurricane season caused the largest mass migration of Americans in the past 150 years, leaving more than one million people homeless.

As our nation struggled to recover from this unprecedented disaster, one of the most pressing needs was to find safe and decent housing for hurricane victims. Moving displaced families from temporary shelters into more suitable housing is the first step in helping them rebuild their lives. These were extraordinary times that called for the private sector and the federal, state, and local governments to respond accordingly.

In the immediate aftermath of hurricanes Katrina and Rita, the apartment industry stepped up to the plate and took a leadership role in the relief efforts to house the displaced people of Louisiana, Mississippi and Alabama. The response was immediate, creative and generous.

In the early days following Katrina, federal officials reached out to the apartment industry, and the industry responded enthusiastically by submitting thousands of available units into a national database. They also answered FEMA's call for blocks of apartments that the agency could rent directly.

When it became clear that the federal government was not going to quickly offer official guidance or assistance to house the newly homeless evacuees, the apartment industry initiated several programs of its own. In Texas, where the largest number of evacuees were sent, many NMHC and NAA member firms forged relationships with local charities and created programs to award free rental units and other support services to needy families. In all, hundreds of free apartments were donated to the United Way and the Urban League.

Around the country, apartment owners submitted their available units into a national housing registry, www.hurricanehousing.net, complete with offers of waived security deposits, reduced rents, flexible leases and other concessions.

The first few months of the recovery effort were marked by a series of different FEMA assistance programs, nearly constant changes in rules and deadlines and a level of confusion and chaos. Three different government assistance programs were created to help move the evacuees out of shelters and hotels. Some people were eligible for housing assistance through a special Katrina voucher program created by the U.S. Department of Housing and Urban Development (HUD), others received housing assistance directly through the Federal Emergency Management Agency's (FEMA) Individuals and Households Program, and still others were helped by FEMA-funded city voucher programs through the FEMA public assistance programs.

The information provided to both the evacuee and the apartment owners was and remains inadequate and continues to lead to significant confusion. For example, many evacuees were unaware that their assistance checks could only be used for rent. Instead they used the money for pressing needs like food, clothing and medicine and found themselves unable to pay their rent at the end of the month. Even now, nearly a year and a half after the hurricane, confusion reigns. We look forward to working with the Administration, Congress, FEMA and HUD to resolve current problems and develop solutions for the future.

THE HOUSTON RESPONSE

Since I am from Houston, and my firm manages 48 properties throughout the Houston area, I thought my on-the-ground insight would be helpful as we begin to plan for future disasters. In all, the City of Houston worked with state and federal officials to assist more than 150,000 hurricane evacuees who were in the midst of a crisis. The city's response was an overwhelming success, with the majority of people being housed in a matter of weeks.

As with any endeavor on this scale, there were wonderful moments, and there were lessons to learn. Evacuees arrived in Houston homeless and confused, having just been through a life-threatening experience. But the City of Houston, the local apartment owners and the people of Houston did the right thing—we did not ask questions, we just housed people. We knew one of America's strongest traditions is to help our neighbors in need. And while our response did help those people, it is not a template that we would recommend for future disasters.

Emergency Housing—Lessons Learned

At the onset of any disaster FEMA should have a process to quickly determine, as best as it can, whether the need for post-disaster housing will be a short-term or a long-term event. While apartments are not an appropriate response for disasters where evacuees will be moving home to rebuild within a matter of days or weeks, hotels and cruise ships are not a cost-efficient mechanism to house people in the long term.

For the first several months after Katrina, FEMA relied heavily on hotels to house the evacuees. This inappropriate response to what was clearly a long-term housing crisis resulted in millions of wasted federal dollars. The average hotel/motel rate of \$59 per day works out to \$1,770 a month, which exceeds the median cost of rental housing even in some of the nation's most expensive housing markets. Moreover, moving people from hotels to apartments allowed them to begin rebuilding their lives by allowing them to enroll their children in school, find a job and return to some kind of normal routine while waiting for the rebuilding effort.

The lesson to be learned from this experience is that when long-term housing will be required, FEMA should have an apartment-based housing program, with clear guidelines in place and ready to implement.

In the case of Katrina, many apartment owners offered free housing to the neediest evacuees and many others lowered rents, waived security deposits and application fees and offered flexible lease terms. Although the apartment industry stepped forward to do what was asked of them when Katrina struck, our industry would not be as eager to assist in future disasters unless we learn from the many mistakes made at the federal level. Below are several issues that any future long-term housing plan will need to consider to be effective.

- **Clear Guidance**

From the beginning of the disaster, the lack of clear guidance was the single most frustrating and counterproductive issue experienced by the apartment sector. Despite the time that has passed, this remains the case today. As recently as January 20, FEMA granted a six-month housing extension to the evacuees, but it offered very few details in its announcement and no direct guidance for the evacuee, the City of Houston or the apartment owners. This ongoing haphazard approach to disaster housing is a major problem for everyone involved and should not be repeated in future disasters. The Administration should also be planning ahead for what will happen to these residents, many of whom are elderly and disabled, at the end of the six-month extension, given that there remains a critical shortage of rental housing in most of the hurricane-affected area.

- **Choice is Important**

In the initial phase of the hurricane housing program, the city attempted to contract for specific vacant apartment units with the idea of then assigning individual evacuee families to these units. This approach did not meet anyone's needs, though. Evacuees, naturally, wanted some choice in where they lived, particularly those looking to locate near friends and family. The pre-assignment process was slow and labor intensive.

Ultimately, city officials shifted to a voucher-based program, giving every evacuee family a voucher for a unit with a specified number of bedrooms. This voucher, which came with an accompanying instruction sheet, was good at any apartment property participating in the program. Once the participating apartment owner activated the voucher and signed a Housing Assistance Payments (HAP) contract with the city, the evacuee could move in. The city provided taxi vouchers and bus tokens to facilitate transportation, and the Red Cross had volunteers to help drive evacuees around.

- **Vacant Units Are Not Necessarily Ready Units**

Properties with vacant units do not keep them in move-in condition. Getting large numbers of units ready simultaneously takes money and, more importantly, time. It was difficult for officials to understand why thousands of families couldn't just move into vacant units during the first days after the storm.

- **Moving In Takes Time**

Officials also had a hard time understanding why they couldn't send a bus-load of evacuees to an apartment property to be handed keys and shown to their new homes. Officials need to understand the difference between an apartment property and a hotel. An apartment unit needs to be prepared for move-in, and federal officials need to understand that. In addition, under normal circumstances, the move-in process involves running credit and background checks and completing applications for utilities. Because the court systems in the affected areas were effectively shut down by the hurricane, it

was not possible to run background checks on most of the evacuees. Apartment owners did the right thing and housed people without this information because of the emergency situation, but we encourage any future disaster housing plan to allow an owner to evict criminals who pose a danger to other evacuees and residents.

○ **Utilities**

Utilities were another problem. Although the evacuees clearly needed utilities, many were not in a position to file the appropriate papers required to set them up. This was complicated by the fact that only certain portions of federal programs cover utilities. The city solved this by establishing a master account with the local utilities and then transferred all the evacuees' individual accounts to that master account. In some cases the owners did the same. Nevertheless, future responses should anticipate the need to provide evacuees with necessary utilities and should address both the logistical (paperwork required for applications) and the financial (ensuring evacuees have the resources to pay for the utilities).

○ **Furniture and Furnishings**

Initially, some officials did not understand that most apartments are unfurnished. At first, city officials and apartment firms wanted to outfit every evacuee apartment with furniture, linens, pots and pans and groceries before they moved in. Many apartment owners tried to at least have food in the refrigerator and provide options for furniture. This is a noble idea, but one that turned out to be very time consuming and logistically challenging. In the future, it would be better to have apartment firms concentrate on housing and have separate operations such as the Houston Food Bank handle groceries.

RECOMMENDATIONS FOR THE FUTURE

Many of the problems cited previously will hopefully be rectified with the passage of the FY 2007 Homeland Security Appropriations bill (P.L. 109-295). This new law requires the creation of a National Disaster Housing Strategy (NDHS), and it amends current law to explicitly allow disaster victims to use their cash assistance for security deposits and utility bills.

It also directs the FEMA Administrator to create a pilot program to make better use of existing rental housing located in disaster areas. As part of the pilot program, FEMA has said that it will enter into lease agreements directly with property owners and will make repairs to the damaged apartment properties. This is imperative for future disasters. With that in mind, we thought the following items should be highlighted:

• **Housing Programs**

We learned from this disaster that FEMA programs were not designed to handle long-term housing needs. There have been several different housing programs employed to deal with the Katrina disaster, including Section 403 Housing, Section 408 Housing, the HUD Disaster Voucher Program, and several programmatic changes and deadline extensions related to each. Many of these changes were implemented with little notice and few details. This caused unnecessary pain to the evacuees and confusion for the apartment owners participating in the programs. In the future, a single entity should administer the housing response to any disaster. There should also be a single communications path between the government, the evacuee and the owner with clear guidelines as to how the program will operate.

• **Rental Costs**

Although FEMA set no limits on the hotel rates it would reimburse, its housing program set a rent ceiling based on HUD's "Fair Market Rents" (FMR) – which can be below the true market rate. Officials should understand that FMRs are the market rent for Class C properties. These are properties that typically show some level of deferred maintenance and are located in less desirable areas. In other words, HUD's FMRs are not sufficient to cover the rent in the majority of housing located in any American city. By limiting FEMA's payments to Houston's FMR, the Agency severely restricted the number of apartment units available to evacuees, leaving more evacuees than eligible apartment units. It is also important that accommodations be made to allow an evacuee to "pay the difference"

between the FMR and the market rent, usually a modest amount. A large disaster requires the use of all available housing types. In future emergencies, FEMA should establish rent levels that more closely reflect the average rental cost in the affected cities.

- **Utilities**

As you know, FEMA operates under the Stafford Act. While Section 403 of that Act, which covers the Emergency Shelter program, allows FEMA funds to be used for utilities, Section 408, the Individuals and Households Program (IHP) does not. Congress ultimately did pass specific language to provide utility funding for the Katrina evacuees. Had it not stepped in, however, both the city and the apartment owners would have been left with utility payments. No evacuee should have to wonder about how they will get or pay for utilities. The Stafford Act should be permanently amended to allow for utility payments under all housing-related programs.

In addition, many apartment units with rents in the FMR category have a corresponding utility allotment. Unfortunately, in many cases the utility allowance does not cover actual utility costs. Government officials should ensure that rent levels are sufficient to cover actual utility costs.

- **Rental Payment Processing**

In addition to setting rent reimbursement levels too low, the time it took for FEMA to process these rent payments was unacceptable. In many cases it took more than 60 days, because FEMA money was routed through the state to the city--a task too large for a city in the midst of a crisis. Many apartment owners do not have sufficient cash flow to cover the operating costs and mortgage payments on units where no rent is received for two months. This problem was largely resolved when FEMA finally contracted with Corporate Lodging Consultants (CLC) to make rental payments to apartment owners. Therefore, we suggest that in the future FEMA rely on a direct payment system for housing assistance that can provide timely rental payments. Although we advocate that rental payments go directly from the federal government to the property owner (and not through the evacuee or local government), we strongly believe that there should be a written lease between the evacuee and the apartment owner.

- **Security Deposits**

Because FEMA's housing program did not provide evacuees with funding to cover security deposits, many Houston apartment owners generally agreed to waive security deposit requirements. As a result, these owners now have no way to recover the costs of the extensive damage done to their apartment units by many of the evacuees. Future federal housing efforts should ensure that mechanisms and funding exists to reimburse owners for damage caused by evacuees.

CONCLUSION

When Katrina struck the nation, apartment owners did the right thing. They stepped forward and they worked with local communities to provide housing and other services to those in need. As an industry, we are very proud of our actions during that unprecedented time of national need. We took on business risks and potential costs inherent in solving such a massive housing crisis. Would we do it again? We would certainly like to, but after the Katrina experience many apartment owners will be reluctant to accept a sizeable number of evacuees unless they are convinced that the government has learned from its mistakes and has created a better disaster housing program. We look forward to working with Congress to ensure that future evacuees, and those cities that help them, are not burdened with confusion, debt and heartache.

I thank you for the opportunity to testify on behalf of the National Multi Housing Council and the National Apartment Association, and wish to offer our assistance to the Committee as you continue your important work.