



Published by:
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HOUSTON PERFORMANCE UPDATE- KATRINA EDITION

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SEPTEMBER 2005

Hurricane Katrina brought devastation to much of the Gulf Coast and catastrophic flooding to the city of New Orleans. We extend our deepest condolences to all those affected by this tragic disaster and we encourage everyone to donate to the relief organization of their choice, be it donations of goods, time, or money. The Houston real estate community has made generous donations in efforts to provide families with homes and businesses with offices.

IMPACT

Population

The impact from Hurricane Katrina on Houston is just beginning to reveal itself, although the full extent is far from certain, as are the long-term effects. An estimated 383,000 evacuees have taken up temporary residence throughout the state of Texas, and 140,000 households have registered with the state for post-hurricane assistance. Most sources are estimating at least 125,000 New Orleans evacuees have landed in Houston, just under 10% of the New Orleans MSA 2005 population of 1.321 million before the hurricane struck (according to Claritas, Inc.). Our research indicates that the number of evacuees actually staying in Houston may well be somewhat lower.

A recent poll of evacuees living in Houston area shelters conducted by *The Washington Post*, the Kaiser Family Foundation, and the Harvard School of Public Health paints a grim picture for evacuees. The poll reported that 98% of evacuees in Houston area shelters are from New Orleans with 1% from other areas of Louisiana. Only 24% have some insurance to cover part or all of their losses, while 72% have no insurance at all. Another 68% have no savings or checking account with which to draw money, and 79% have no relatives or friends they can move in with until they are back on their feet. 92% are trying to find a place to live, be it in a shelter or apartment, and 64% are trying to find a job. 78% plan to temporarily rent a place in Houston, 43% plan to move back to New Orleans, and 44% plans to take up residence in a new city, a full two-thirds of which plan to permanently settle in Houston.

A survey conducted by O'Connor & Associates of Houston area school districts indicates additional enrollment of approximately 16,000 students as a result of the hurricane. Based on the new school enrollment of roughly 16,000 students and the proportion of the New Orleans MSA population age 5-18 (18.58%), *we estimate at a minimum an additional 86,114 people are now in the Houston area.* This number is considerably lower than most other projections from credible sources and may not fully capture all evacuees. Since population concentrations tend to parallel to the school enrollment, the enrollment dispersion suggests the largest group of evacuees are located within the HISD boundaries; while half that number lie in Fort Bend ISD, the next most concentrated area, etc. Most households with children enrolled in Houston area schools are expected to remain in through the end of the school semester, if not through the end of the school year.

Houston ISD	3,400
Fort Bend ISD	1,662
Cy-Fair ISD	1,500
Alief ISD	1,400
Katy ISD	1,200
Spring ISD	943
Clear Creek ISD	865
Aldine ISD	853
Pasadena ISD	800
Klein ISD	680
Humble ISD	566
Spring Branch ISD	526
Pearland ISD	428
Galena Park ISD	347
Lamar CISD	260
La Porte ISD	200
Deer Park ISD	134
Total	15,764

While tens of thousands of people from New Orleans will choose to permanently reside in Houston, the Houston MSA population is so large that the population increase as a result of the hurricane will be slight. Houston is poised to record substantial increases in jobs in the coming months, with job fairs being held daily and many companies increasing their staff. The long-term change in population demographics will likely be more evident at low-income levels, as households with low incomes are less likely to be able to afford to rebuild their lives in New Orleans. Many evacuees, particularly those living in emergency shelters, do not have bank checking or savings accounts, credit cards, or property insurance – no means with which to return to New Orleans and restart. Once they find semi-permanent shelter and a job, the prospect of staying in Houston may be a better option than uprooting again for a less certain future.

Apartment Market

The Houston apartment market has benefited greatly from the influx of new residents. Many private apartment owners have expedited the process of signing leases in order to provide housing for hurricane victims. Owners have made exceptions to allow evacuees to obtain short-term housing, signing short-term leases with no penalties, reducing or eliminating deposits and application fees, and relaxing proof of income verification. The Internal Revenue Service approved a waiver giving the Texas Department of Housing and Community Affairs permission to temporarily suspend income restrictions and the prohibition of transient housing requirements for housing tax credit units. The suspension allows owners of tax credit properties to provide shelter to those left homeless because of Hurricane Katrina.

Based on a preliminary survey, *O'Connor & Associates estimates a total of 17,663 apartment units absorbed since Labor Day. Preliminary estimates indicate that for September we will see more than 10 times the normal monthly absorption.* Previous monthly apartment surveys recorded absorption levels of 1,606 units in June, 1,440 units in July, and 1,669 units in August. *Estimated overall occupancy has risen 2.4 points, reaching 90% over the same time period.* While we have heard reports from other sources that “no Class A units are currently available in the Houston area,” our research indicates that such claims are overblown, with *Class A occupancy now up to just over 92%.*

The influx of evacuees has no doubt had a dramatic short-term impact on the Houston apartment market, but the longer-term effects will be more muted. It is not likely that these absorption levels will be sustained, although occupancy levels will likely remain elevated for a prolonged period of time.

Office Market

As people are finding temporary homes, businesses are trying to set up temporary offices. The impact is expected to be minimal, as the Houston office market has a glut of available space. An estimated 1.5 to 3 million square feet are expected to be leased on a short-term or month-to-month basis, not exactly a boom when there is more than 26 million square feet of available space, not including space available for sublease.

The Houston real estate community has offered admirable support for the victims of the hurricane through coordinated efforts for shelter and office space, donations of space and money, as well as offering flexibility and relaxing industry lease standards in order to provide the necessary accommodations for families and businesses. We would not have expected anything else.

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