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Commercial Real Estate in a Post-Katrina Market

On August 29, 2005, the commercial real estate market in New Orleans took a direct hit due to Hurricane Katrina. Since the storm, the market has seen many ups and downs, thus forcing area agents to reexamine the situation. Such fluctuations in the market are part of a larger issue – the Katrina Effect, a presence that has dominated everyone's lives since the storm. Now that we are approaching the one year mark, it is time to look at the changes that have occurred since last August; the changes that have completely reshaped the commercial real estate market in New Orleans.

Industrial

One of the industries that survived the storm relatively unscathed has been the industrial market. Before the storm, vacancy was at approximately 11% for the 55 million square feet market. Within the weeks directly following Katrina, vacancy dropped to less than 5%. The other 95% of properties were thriving due to the demand from government agencies, communications companies, roofing, and remediation companies – anyone involved with the rebuilding process. There are many reasons that explain the success of the industrial market post-Katrina. For starters, undamaged properties were (and still are) in high demand, and have thus been the driving force in the market. Even damaged industrial properties have come into play since the rehabilitation and renovation process is relatively simple compared to the processes needed with the office and retail markets.

Office

For the office market, post-Katrina progress is much slower. Because such a large portion of the city suffered serious damage from the storm, receiving multiple feet of water as well as wind damage, many properties became unusable, taking them off the market completely. A drop in available properties crippled the market initially. However, available properties are being used wisely, and there are many plans for future growth. One plan in particular is a \$715 million revitalization on the north end of Poydras, including 1,000,000 square feet of public buildings, a National Jazz Center, park, and amphitheater.



Not surprisingly, the market in suburban areas benefited from the Katrina Effect. Current market statistics show an increase in rent rates by at least \$1 per square foot. Such success is attributed to the lesser damage acquired by the market's suburban area as opposed to the devastation in the urban market area.

Retail

The retail market was one of the hardest hit by the storm. The recovery process is gradual and will take many years to remedy. For most, the issue faced is repopulation. Should businesses return to neighborhoods and hope for repopulation, or should people return to neighborhoods and hope for businesses to return? This chicken-and-egg roadblock will stall the market for time to come. Locally-owned businesses have been more successful post-Katrina than their nationally-owned counterparts. For example, most of the city's major malls are back in operation but do not

have all the merchants back and do not operate on the same hours. Given time, the market should recover through lots of hard work and determination – both on the part of businesses and the people that need them.

Multi-Family

For the multi-family market, many of the problems encountered post-Katrina have been similar to that of the retail market. There is a particularly high demand for middle income, affordable apartments. However, moratoriums in Jefferson Parish, as well as zoning restrictions in other parishes make it extremely difficult to develop and be informed of such nuances. There have been some sections of the market that have been successful, such as condo development. Conversions of higher end apartments into condos have increased both occupancy and rent rates. Currently, there are over 1,000 condominium units either in the planning or pre-sale stages.

One of the greatest issues that have affected the market is population. Pre-Katrina, New Orleans had a MSA of approximately 1,350,000; the figure dropped significantly as a direct result of the storm. However, the increase in people returning to the area has been steady. Currently there are an estimated 1,000,000 people living in the city, surpassing the predicted 900,000. What fuels the commercial real estate market? People. So what the market needs to return to pre-Katrina normalcy are people, people willing to take the road to recovery.

Our research department has compiled an extensive set of market statistics. Go back and select the file entitled "Post-Katrina Market Stats" or contact our office directly at (504) 838-0001 for more information.



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