

HIGHLIGHTS

Initial Indications of Hurricane Katrina's Effects on Housing Markets in Louisiana and Mississippi

This is the first HPI release to contain any significant evidence concerning Hurricane Katrina's impact on real estate markets in Louisiana and Mississippi. The hurricane's impact on the region's economy and the housing stock is reflected in the housing price and mortgage activity data provided by the Enterprises. In this report, the empirical evidence is reviewed for New Orleans and other nearby cities. Significant increases in purchase activity are found in the period after Katrina's arrival, with volume in Baton Rouge showing a particularly dramatic uptick. Pricing data suggest that, outside of the most heavily-flooded parts of New Orleans, prices for existing homes experienced sharp increases in Katrina's wake.

Because Hurricane Katrina came ashore mid-way through the third quarter of 2005, a convenient way of studying its effects on housing markets is to review data by trimester. This approach breaks the year into three periods: the first trimester (January-April), the second trimester (May-August), and the third trimester (September-December). Because Hurricane Katrina hit the region in late August, its effects on housing markets would be felt in the third trimester and generally would not have any material impact on the second trimester data.

Purchase mortgage activity and price trends are analyzed for five metropolitan areas: New Orleans-Metairie-Kenner, Baton Rouge, Lafayette (Louisiana), Hattiesburg, and Gulfport-Biloxi. Given the severity of the impact on New Orleans, special attention is paid to that city. Maps provided by the Greater New Orleans Community Data Center are used to identify areas of the city that experienced the most severe flooding.¹ Price movements and market activity are monitored separately for that area distinct from the rest of the New Orleans-Metairie-Kenner Metropolitan Statistical Area (MSA).²

Figure 1 shows changes in purchase activity for the area of heaviest flooding and other parts of the MSA. To remove seasonality and long-term trends, the graph plots the share of overall U.S. purchase activity accounted for by volume in the different parts of the MSA. The share in the first trimester of 2000 is set as a reference level; future periods' activity is reported relative to the share for that period.

As is evident in the figure and as one would expect, purchase mortgage activity in the heavily flooded area declined dramatically in the third trimester of 2005. The share of national volume accounted for by activity in that area dropped to approximately one-twentieth its level in the first trimester of 2000. The graph shows that volume volatility for

¹ See www.gnocdc.org.

² Based on the flood maps provided, properties in the following zip codes were flagged as being within the most severely affected area: 70032, 70112, 70116, 70117, 70119, 70122, 70124, 70125, 70126, 70127, and 70128.

that area had previously been low, thus making this sharp decline particularly striking. By contrast, purchase activity increased in the remaining portion of the New Orleans-Metairie-Kenner MSA. The relative share of U.S. purchases was about 8 percent above the reference level in the second period, but jumped to more than 43 percent above the reference level in the third trimester.

Figure 2 reports relative purchase mortgage volumes for other cities in the Gulf region. The most striking feature of the graph is the very large increase in Baton Rouge in the third trimester. Baton Rouge's share of U.S. purchases nearly doubled its reference level in the period, a dramatic increase over the prior trimester and well above the highest rates experienced earlier in the decade. Other cities within the affected region exhibited far less dramatic changes in purchase activity in the third trimester. Relative purchase activity rose somewhat in Hattiesburg and Lafayette in the third period, although the changes are sufficiently small that they may be artifacts of sampling variability. Relative activity in Gulfport-Biloxi remained essentially unchanged between the second and third trimesters.

Figure 3 plots estimated house price appreciation rates over time for the New Orleans area. As might be expected given the data presented in Figure 1, mortgage activity in the part of New Orleans that experienced the heaviest Katrina-related flooding was not generally sufficient to produce a reliable estimate of appreciation in the third trimester. Consequently, appreciation rates for that area are not plotted in the graph. The figure reveals that, for other areas, prices increased significantly in the third trimester. Prices grew roughly 6.5 percent between the second and third trimester, a sharp acceleration in appreciation over prior periods.

Appreciation rates for other nearby MSAs are graphed in Figure 4. Prices apparently rose markedly in the third trimester in Baton Rouge, Lafayette, and Gulfport-Biloxi, a finding consistent with the expected consequences of demand pressure because of outmigration from New Orleans. It should be recognized, however, that estimating trimesterly price changes in small geographic regions is subject to imprecision because of relatively small sample sizes.

The long-term effects of the hurricane on local real estate markets will depend on a number of factors, one of the most important of which is the hurricane's transitory and permanent effects on labor markets. Historically, unemployment patterns have been one of the strongest determinants of price trends in local real estate markets. The following table reports recent unemployment rates for New Orleans and some of the neighboring cities.

Unemployment Rates by Month for Select MSAs

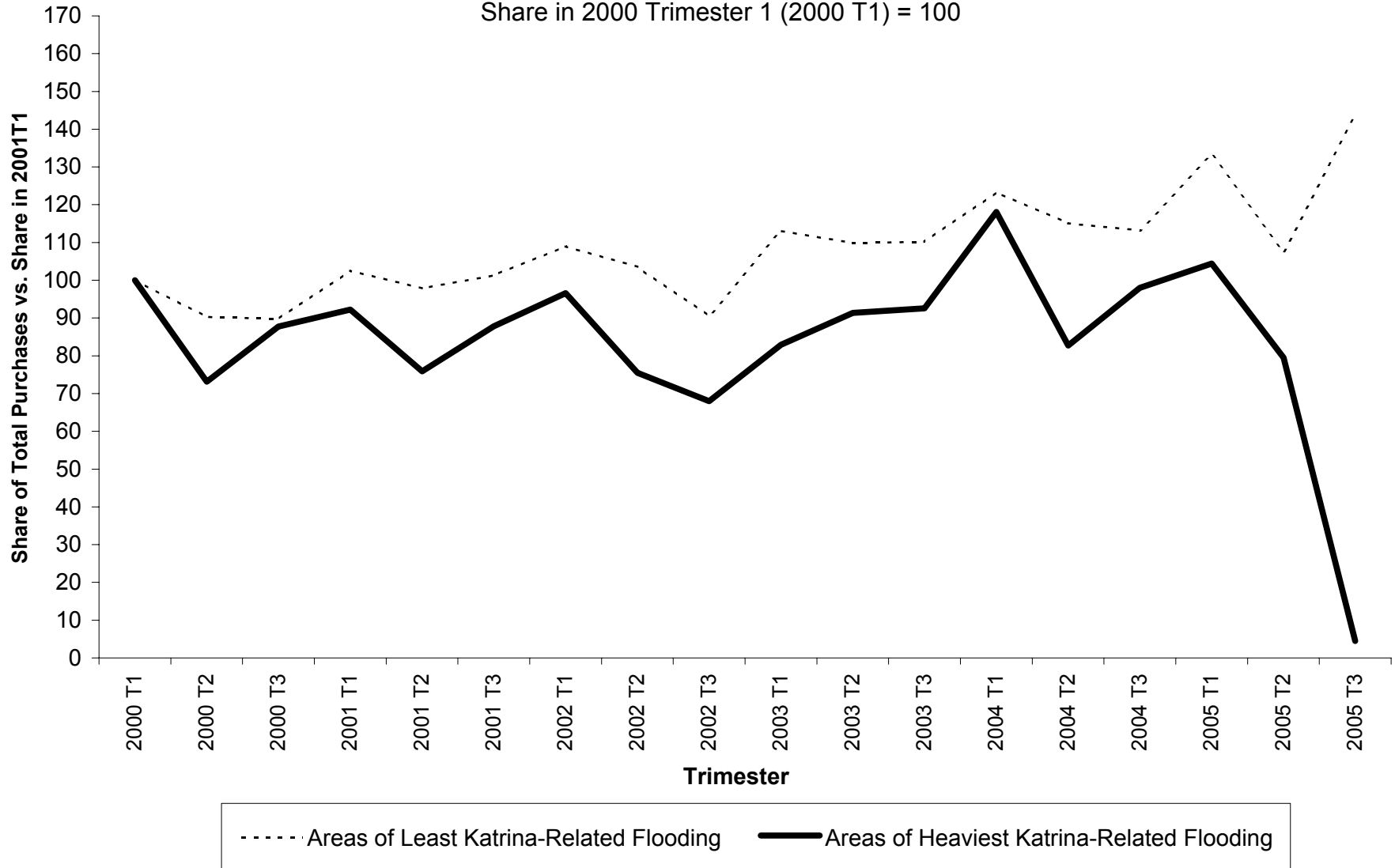
	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
New Orleans-Metairie-Kenner, LA	4.80	5.60	5.60	5.80	16.50	16.90	17.10	8.20
Baton Rouge, LA	5.10	6.70	6.20	6.00	11.20	10.30	10.20	5.60
Lafayette, LA	4.10	5.50	5.00	4.70	8.50	8.20	8.20	4.10
Hattiesburg, MS	6.00	6.90	5.80	6.50	9.10	6.60	6.80	6.50
Gulfport-Biloxi, MS	6.50	7.00	5.80	5.90	26.20	22.70	21.70	21.30

The table reveals that, for all cities except New Orleans-Metairie-Kenner and Gulfport-Biloxi, unemployment rates have generally returned to pre-Katrina levels.

While this rebound has likely contributed to the appreciation that has been seen in the most recent period, ultimately supply factors also play an extremely important role in determining real estate prices. This fact is clearly illustrated by the dramatic appreciation in Gulfport-Biloxi in the third trimester. The table above reveals that Gulfport-Biloxi's robust price appreciation occurred at a time when the metropolitan area's unemployment rate exceeded 20 percent. At least in the short-run, the severity of the housing supply shock has clearly overcome any unemployment-related demand weakness to spur much higher prices.

Figure 1: Trends in the Share of U.S. Purchase Activity Accounted for by Purchases in the New Orleans-Metairie-Kenner, LA MSA

Share in 2000 Trimester 1 (2000 T1) = 100



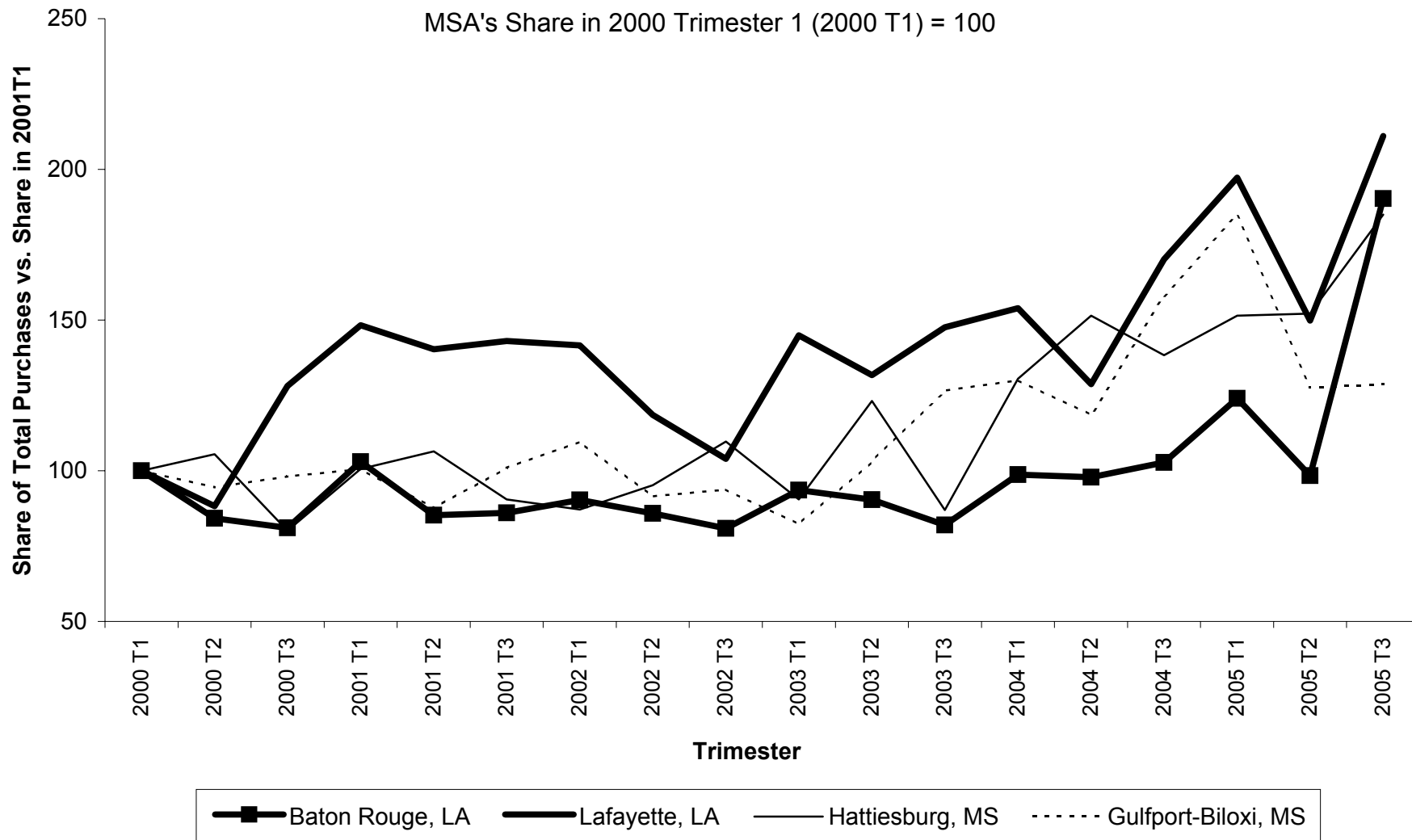
Notes:

Purchase mortgages are those provided by the Enterprises in their HPI data productions. Mortgages on properties that do not have repeat transactions (i.e., properties that are not included in OFHEO's HPI calculations) have been removed.

The "area of heaviest flooding" is defined as the following zip codes: 70032, 70112, 70116, 70117, 70119, 70122, 70124, 70125, 70126, 70127, and 70128.

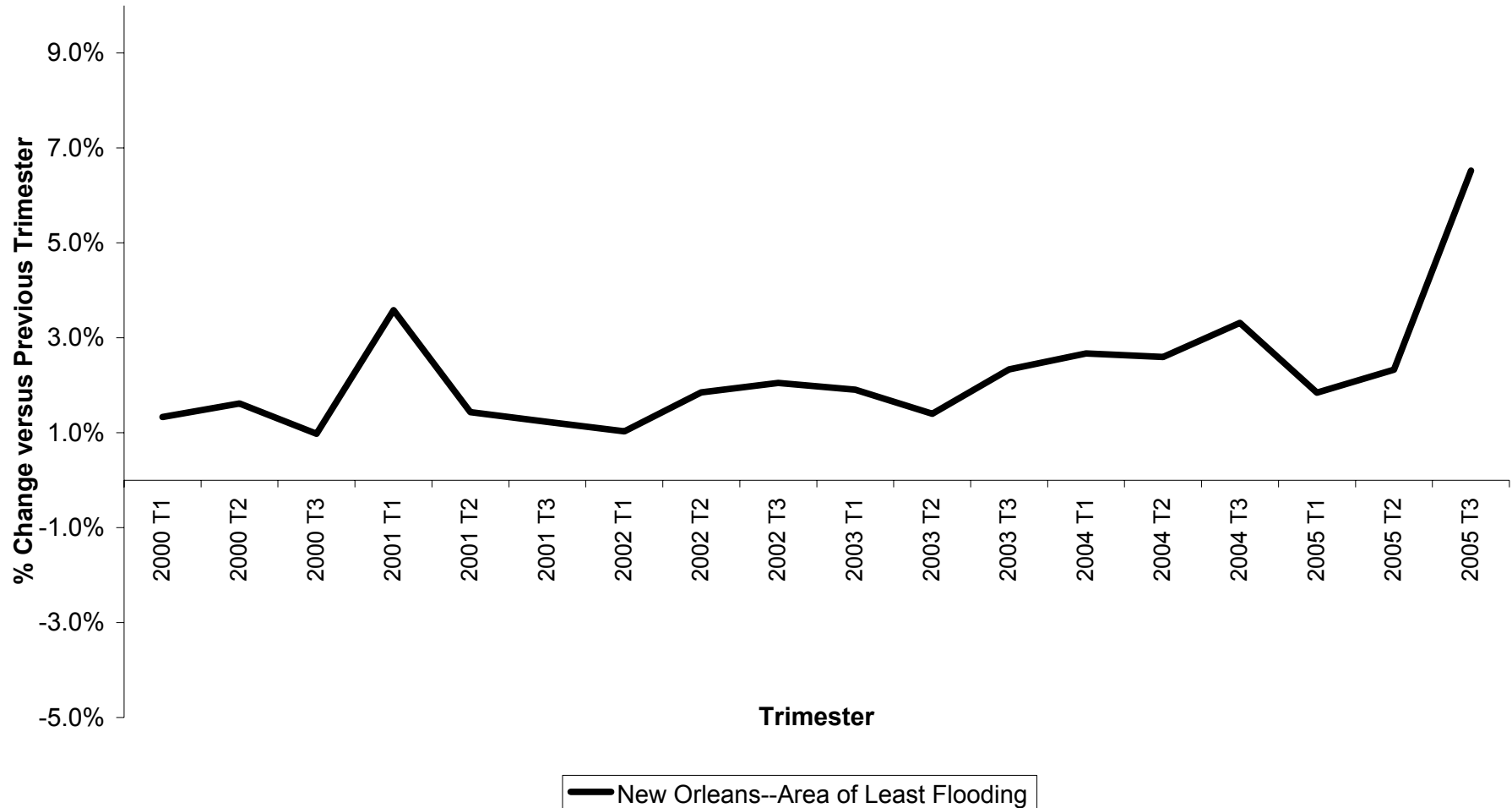
Figure 2: Trends in the Share of U.S. Purchase Activity Accounted for by Volume in Select Louisiana-Mississippi MSAs

MSA's Share in 2000 Trimester 1 (2000 T1) = 100



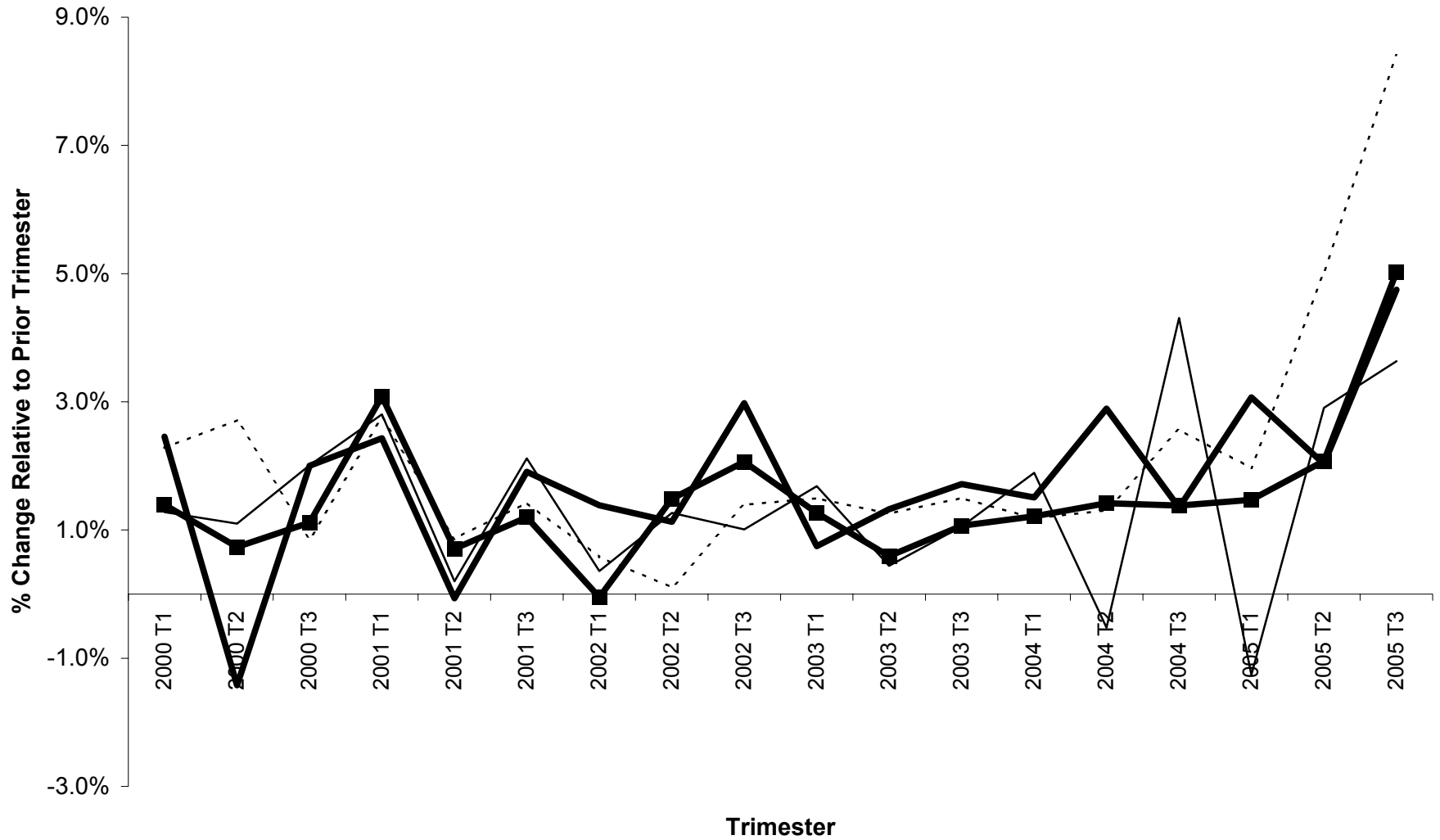
Note: Purchase mortgages are those provided by the Enterprises in their HPI data productions. Mortgages on properties that do not have repeat transactions (i.e., properties that are not included in OFHEO's HPI calculations) have been removed.

**Figure 3: Trimester-over-Trimester House Price Change for
New Orleans-Metairie-Kenner, LA MSA
(Area with Least Flooding)**



Note: The "area with the least flooding" is defined as all parts of the New Orleans-Metairie-Kenner MSA outside of the following zip codes: 70032, 70112, 70116, 70117, 70119, 70122, 70124, 70125, 70126, 70127, and 70128.

Figure 4: Trimester-over-Trimester House Price Changes for Select Louisiana-Mississippi MSAs



Baton Rouge, LA Lafayette, LA Hattiesburg, MS Gulfport-Biloxi, MS