Headline:	New Orleans real estate market is healthier than the rest of the country, speakers say
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The New Orleans area real estate market is much healthier than in the rest of the country, but the region is not immune from national woes and still faces its own unique challenges stemming from Hurricane Katrina, speakers at the annual University of New Orleans Economic Outlook and Real Estate Forecast Seminar said Thursday.

Until the national housing situation improves, allowing businesses to expand and consumers to spend and move, the New Orleans area will continue to be stymied. And while much has been made of the New Orleans area's low unemployment rates, job growth is stagnant, and until that changes, nothing in the area will change significantly.

"Get more jobs in, bottom line," former Latter & Blum Realtors Inc. president Arthur Sterbcow said in his concluding remark, echoing a stream of other speakers all morning at the Marriott New Orleans Convention Center.

Building on presentations about the region's economic development efforts, tourism challenges and economy, real estate professionals offered their views on commercial, industrial, apartment and single family home dynamics in the region.

David Quinn, president of Max Derbes Inc., said that the movie business has been a bright spot for the local warehouse market, with many warehouses being converted into studios, such as the Second Line Sound Stages in the Lower Garden District, which opened last year. Demand is also high for space to store metals transiting through New Orleans on the London Metals Exchange between when they are produced in developing countries and before they are actually needed on construction projects around the world. The problem, Quinn said, is that there aren't enough warehouses around the area that are reinforced enough to hold such heavy cargo without sinking.

But overall, the picture of the industrial market isn't great. Available space increased from 5.8 million square feet in 2008 to 6.2 million in 2009, and rental rates are expected to remain flat or decrease slightly as owners try to retain their tenants. Indeed, since the scramble to house goods or relocate facilities after Hurricane Katrina, the volume of industrial activity in the market decreased from 4.7 million square feet in 2006 to 2.1 million in 2009.

Ivan Miestchovich Jr., the director of the UNO real estate research center, said the office market is "holding its own," but will be hampered the fact that companies aren't moving to the area, existing companies in the city aren't expanding and there's negligible job growth. As a result, tenants are in a strong position to negotiate concessions.

Occupancy for Class A office buildings in the area is stable, and Class A rents are higher in Jefferson Parish than they are in Orleans Parish. When the renovated Benson Tower comes on line this summer, it will cannibalize tenants from other buildings. Class A office space is considered the most desireable.

In St. Tammany Parish, office occupancies have fallen because of the construction of new office buildings.

The local retail market is in better shape than elsewhere in the country because homeowners aren't in the position of being stuck in mortgages worth more than their homes, Miestchovich said. Malls are freshening up their offerings as evidenced by the new Target going into the Esplanade Mall and the redevelopment of Hammond Square as a lifestyle mall. Retail is even coming back in storm-shattered St. Bernard Parish.

But until home values stabilize and job growth gives people more disposable income, the retail picture won't change significantly. "It means there could be some free-standing buildings out there for a while," Miestchovich said.

The story of the apartment world is how the market will change as it absorbs the thousands of new units of affordable and mixed income housing built with tax credits in the first significant construction of new apartment buildings since the 1980s, said apartment broker Larry Schedler.

The new units have significantly raised the bar on apartment living in the New Orleans area and have given the city some of the nicest affordable housing in the country. But the success of the new units has come at the expense of the many 1970s and 1980s vintage properties in the suburbs and eastern New Orleans, even though basically all of them were refurbished after Hurricane Katrina.

The impact is reflected in softening rents and generous concessions and give-aways. In fact, Schedler said, he believes that real rents in many areas are actually 10 percent to 15 percent below what's reported in the latest edition of his newsletter because the concessions are so rich. "The greatest amenity right now in the marketplace seems to be cheap rent," Schedler said. "We are certainly in a situation where our supply exceeds our demand."

The fall-off is felt most acutely in eastern New Orleans, Algiers and in Kenner, where occupancies are below 80 percent. The West Bank of Jefferson Parish is holding up because of moratoriums on new supply.

The bright spot in the apartment market, Schedler said, is the "historic center" of New Orleans, where apartments in the Garden District, downtown and Mid-city have seen occupancies increase and rents be stable or rising despite the creation of new supply.

The most significant of the new apartment buildings downtown, Schedler said, is the 250-unit 930 Poydras building, the first new-construction residential high-rise built in a generation.

The U.S. Department of Housing and Urban Development is basically the "only game in town" for financing new apartment construction or conversions, Schedler said.

Since Hurricane Katrina, about 10,000 apartment units, or a quarter of the metro area apartment stock, have changed ownership, a fairly unusual development. Schedler said he expects sales activity to increase in the latter half of the year.

On the residential housing side, Sterbcow said that locally, the market isn't that bad. While average sales prices in the New Orleans area went down by 2.5 percent last year, the price per square foot of homes sold increased by 1.9 percent.

Meanwhile, while distressed sales have increased a bit and are now about 5 percent to 10 percent of the market, it's nothing like the situation nationally, where 25 percent to 30 percent of sales are distressed homes.

But the New Orleans area is significantly affected by the situation nationally. Job transfers are down by 51 percent, Sterbcow said, cutting off a pool of people who often bought in St. Tammany Parish. And while the problems of the sub-prime mortgage crisis have largely worked their way through the system, adjustable rate mortgages will reset over the next few years, creating a new wave of foreclosures that will take a while to work through. With banks bracing for problems on that front, credit and down payment requirements are unlikely to ease anytime soon, preventing the New Orleans area market from blossoming.

"I think the market you have now is the market you're going to see next year and the year after that," Sterbcow said.

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