https://www.nola.com/news/business/new-orleans-real-estate-outlook-signs-of-stress-emerging/article_1b75b338-d32f-11ed-83b4-134069c5c466.html

New Orleans real estate market shows signs of stress, few bright spots as insurance premiums rise

By STEPHANIE RIEGEL | Staff writer
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A for sale sign is seen in the front yard of a home in New Orleans on Friday, October 14, 2022. (Photo by Brett Duke, NOLA.com | The Times-Picayune | The New Orleans Advocate)

STAFF PHOTO BY BRETT DUKE

Higher interest rates, inflation and, above all, rising premiums for homeowners and flood insurance are squeezing the New Orleans residential and commercial real estate market, making it harder to build, buy and sell property, according to brokers and other industry leaders.

Panelists at the annual Economic Outlook and Real Estate Forecast held at the University of New Orleans said Tuesday that the state's insurance market, which has cratered over the past year — and sent premiums skyrocketing — is causing the most heartburn. Dozens of insurance carriers have gone out of business or discontinued writing policies in the state following hurricanes in 2020 and 2021.

The cost of insurance on an apartment complex, for instance, has increased in the past couple of years to about $2,500 annually per unit from $600 per unit, according to broker Larry Schedler, a specialist in the multi-family sector.

"People say just raise the rent," Schedler said. "Well, you can't do that because you price your tenants out of the market. You hit a tipping point on some of these properties."

Falling home sales

Homebuilders and home buyers are getting squeezed by the same forces, which are starting to have a chilling effect on the market. The number of home sales in metro New Orleans fell by nearly 13% in 2022 over 2021, while the inventory of available homes was up 68%.
Marcus Campo, president and CEO of Nola Build Construction and Design, which does residential construction, said insurance premiums have more than doubled for some homeowners, which is pricing them out of the market.

"In some income brackets, when their costs increase from $200 to $500 per month, that could be catastrophic," he said.

To an extent, the problem is bigger than New Orleans, according to Melissa Simeon of Fontenelle and Goodreau Insurance, who noted that the cost of reinsurance — the coverage insurance companies buy to protect themselves — continues to rise. That is then passed on to ratepayers at the local level.

"There have been 112 separate $1 billion-plus disasters in the U.S. since 2015," she said. "So this is making things even more difficult."

Population decline

In the commercial real estate sector, inflation and supply chain disruptions are driving up costs, according to Leon Audibert, a broker with Property One. The cost to build a new warehouse, for example, has increased to more than $100 per square foot, compared to around $70 per square foot before the pandemic. As a result, lease rates have more than doubled to $12 per square foot versus $6 per square foot in 2020.

"Local and regional tenants are feeling that," Audibert said. "But we haven't had a lot of pushback from national tenants."

As for the office market, occupancy is averaging around 80% for class A office towers downtown and in Metairie, and lease rates remain strong, according to Andera Huseman, a broker with Corporate Realty.

People gather in downtown New Orleans near the Superdome on Monday, Nov. 13, 2017.

But that’s in part because no new office towers have been built in New Orleans in 30 years. And more recently, many older buildings have been converted to apartments or hotels.

“Other big cities have an oversupply,” Huseman said. “We have the same old building we've had for 30 years plus we’ve done a lot of adaptive reuse.”

Huseman and others said the area has suffered from a drop in its population relative to other cities and states, which directly and negatively affects the real estate sector.

“A retailer can go in and blanket a metro area like Houston and it ties in with their distribution,” said Stephanie Hilferty, an agent with SRSA Commercial Real Estate who also serves in the Louisiana House of Representatives, representing parts of New Orleans and Metairie. “In our market, we can support one store in New Orleans, one in Baton Rouge, maybe one in Lafayette."

Bright spots

Despite the challenges, industry analysts pointed to a few bright spots. Recent sales like the Whole Foods Market building Uptown last fall for $31 million speaks to the strength of a high-end desirable retail corridor like Magazine Street.

Whole Foods Market on Magazine Street in New Orleans on Thursday, September 15, 2022. (Photo by Brett Duke, NOLA.com and The Times-Picayune)

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Veterans Memorial Boulevard and North Causeway Boulevard are also highly desirable locations, where some national retailers are willing to pay “California rates” because the area is in such demand, Hilferty said.

"Retail is probably more location specific than some of the other property types," she said. "They're looking at assets, roads and crime maps of the area."

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