Katrina Era Offers Clues to Reopening

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Published in the *Time-Picayune/New Orleans Advocate*, May 4, 2020

How will businesses reopen when the COVID-19 shutdown is lifted?

Expect a phased approach, with state and local authorities specifying which businesses can open, when, and under what conditions. Most customers will probably respond in a measured manner, forming more queues than crowds.

That's one of the many ways in which the restart of the economy over the next few months will likely differ with what metro-area residents experienced 15 years ago, following the Hurricane Katrina-triggered deluge of 2005. In the autumn of that year, most unflooded businesses opened as soon as they could, despite tenuous conditions, and were often met with enthusiastic patronage. Other obvious differences between COVID-19 and Katrina include the global scope and possible lingering nature of the virus, versus the massive physical destruction and demographic displacement of the storm and flood.

Yet traumas like these tend to present similar challenges to the owners of businesses, and force them to make decisions in environments of great uncertainly. Among them are questions of staffing, supply chains, demand, costs, profit margins, infrastructure, insurance, access to government support, and future risk. In this regard, understanding how businesses reopened after Katrina may shed light on the unknowns of the post-COVID-19 economy.

In a collaboration between Tulane University and LSU funded by the National Science Foundation, I worked with Drs. Nina Lam, Kelley Pace, and James LeSage to understand, practically in real time, how storefront businesses in New Orleans were reopening after Katrina.

Weekly from late 2005 through 2007, I bicycled 16 miles of commercial arteries in New Orleans, clipboard in shoulder bag, recording the status of hundreds of businesses in areas that were flooded and unflooded, richer and poorer, downtown and uptown.

Photo by Richard Campanella, November 2005.

The arteries were North and South Carrollton avenues, which had experienced a wide range of flood depths, including no water in the Riverbend area; Magazine Street, which saw no flooding; and St. Claude Avenue in the 7th, 8th and Upper 9th wards, which saw brief flooding as Katrina struck, and later formed the brink of the deluge. (The Lower 9th Ward, where flooding on St. Claude was deeper, was not yet open when we began the study.)

The 673 enterprises on these three arteries resembled those in any urban community: barbers and banks, coffee shops and restaurants, quirky boutiques and chain retailers. Our analyses of the data revealed certain patterns in their response to the disaster:

Three-Month / Six-Month Milestones. It took three months after Katrina for business reopenings to reach the halfway point — that is, 50% of the surveyed enterprises back open for business, to some degree. Of course, reopening rates were significantly higher in unflooded areas than in areas that took on water, but the shapes of their curves were similar — steeper at first, then leveling off as the proverbial "new normal" set in. After six months, reopening rates stabilized at about 70% throughout the study areas. But variations were wide: whereas Magazine Street had leveled off at a 95% reopening rate, St. Claude and Carrollton avenues, which had more diverse flood-damage levels as well as income levels, stabilized at only around a 45% reopening rate by early 2006.

Class Mattered. Flood levels mattered the most in explaining the geography of reopening rates, but otherwise, the rates reflected the neighborhood's economic class. While around 60% of businesses reopened in areas that had a below-average median household income, fully 95% reopened in middle- to upper-income areas. This does not bode well for working-class areas following COVID-19. "Like Katrina, businesses with poorer clientele will be hit harder," Pace, a member of that study group and a professor of finance at LSU and director of its Real Estate Research Institute, predicted. Nor does it bode well for enterprises operating on the edge. "To the degree that disasters effectively fast-forward trends, many firms that were declining prior to the current crisis or had older ownership may choose not to reopen," Pace wrote.

Localism Mattered. Tough as Katrina was on locals, sole proprietorships were the quickest to reopen. Fully 75% of locally owned independent businesses had reopened by early 2006, compared to 66% of regional chains and 59% of national chains. That said, businesses of medium to larger sizes fared better than microenterprises. The pace of local reopenings was particularly brisk in the early autumn of 2005, even as most of the city remained ruined and depopulated. The high stakes local owners had in resuscitating their livelihoods surely motivated these decisions, but it's worth noting that a spirited sense of fortitude also prevailed in those heady days, and community devotion and sheer grit informed many of those courageous decisions to flip the "Open" sign. Perhaps similar verve will win the day in the post-COVID-19 era.

Wants and Needs. One might think that, in times of crises, businesses offering "needs" (hardware stores, repair shops, grocers) would open first, followed by those offering non-essential or luxury goods and services.

Not so. By late October 2005, two months after the storm, fully 51 restaurants, bars, and spas reopened along the three arteries, compared to only a handful of auto repair stores, hardware stores, and pharmacies. Closures followed a similar pattern: by late 2006, "needs" businesses remained closed at double the rate of "wants," 32% to 16%. Why? "Wants" tended to be located in more prosperous areas that had more disposable income, and even if some flooded, enough foot traffic and cash flow circulated to keep the businesses busy. Beleaguered survivors also craved a respite from the stress, which perhaps had the effect of blurring the line between wants and needs — thus the boom in restaurants and bars. This is, after all, New Orleans.

Working-class areas, on the other hand, had more "needs" stores before the storm. While their offerings were very much needed during the recovery, limited capital on the part of owners, plus slim profit margins, depleted workforces and a largely displaced customer base, forced more of these stores to shutter permanently.

The economics of needs and wants may play out differently after COVID-19, as authorities and customers alike might prioritize for "essential businesses," at least in the early phases. "Restaurants and many retailers did very well post-Katrina," said Pace, "but this crisis hurts them."

"Spatial Spillover." Team members LeSage, Pace, and Lam spatially analyzed my "bicycle data" to gain insights into a provocative question. "If one business decides to reopen," we wrote for the Royal Statistical Society journal *Significance, "*does that affect…the reopening decisions of its neighbors? If so, then 'seeding' a few businesses with aid might result in many businesses in those streets rapidly reopening."

The analysis indeed found a "spatial spillover impact"—that is, sole proprietorships, with their robust reopening rates, tended to influence the "decisions of neighboring establishments that increased the probability of these reopening by 10%." Compared to national chains, locally owned reopened businesses exerted a 26% increase of probability that a nearby independent business would also reopen.

The opposite was true as well, team member LeSage, an econometrician and finance professor at Texas State University-San Marcos, told me by email. "A lesson from our Katrina research was that restaurants that decide to not reopen could have a multiplier effect, inducing nearby establishments such as art galleries, wine shops, etc. to also decide against re-opening," he said.

As for post-COVID-19, LeSage wrote, "We may find out the size of the shutdown/reopen multiplier effect associated with restaurants on neighboring establishments in the aftermath of this pandemic. Does one shuttered restaurant imply 3 or 4 other firms also go out of business?" The takeaway is that neighbors matter, even if they're competitors.

Entrepreneurship. Despite the utter uncertainty following Katrina, all three arteries, regardless of income and flooding, saw a fair number of start-ups. By late 2006, new enterprises constituted 5 to 8% of their respective business communities, and their numbers would grow in subsequent years. What we were seeing was the beginning of a historic change in New Orleans, as billions of federal recovery dollars, an inflow of educated young professionals, new private investment, and something of a cultural renaissance would dramatically change certain neighborhoods by the 2010s. Whereas conversations during 2005-2007 focused on flood protection and better levees, debates five to 10 years later raged about gentrification, inequity, and affordable housing. St. Claude in particular transformed from a working-class avenue of furniture retailers and budget stores to the front line of the gentrification war, with trendy eateries and venues operating amid an abundance of short-term rentals in adjacent neighborhoods.

Disasters tend to jostle existing patterns, and the Katrina-driven upheaval of this area's working-class businesses and residents helped set the stage for those changes. It's reasonable to foresee a comparable shake-up of business communities following the COVID-19 shutdown, and those operating with the slimmest profit margins, with the least access to capital and other resources, are likely to have the toughest go of it. Those property owners who turned their homes into short-term rentals may find themselves rethinking their options, at least in the near term, which may have an effect on the real estate market and rental affordability.

As happened 15 years ago, closures of some businesses will mean opportunities for others. Reinvestment brings change, and change benefits some more than others. Pace foresees tough times ahead for certain businesses, but also expects that "clever entrepreneurs will find new concepts that work."

To brainstorm future solutions to mitigate the impact of traumas on businesses, team members drew from their Katrina learnings. Given the multiplier effect of local businesses and the importance of eateries in communities, LeSage wrote that "perhaps some amount of small-business payroll-protection funds should (be) set aside specifically for (smaller) restaurants." As for government loans or grants, targeting sole proprietorships may pay "an extra dividend: their reopening cascades down and persuades others to reopen. Their influence in the community can hasten the return to normality."

Lam, the team leader and a professor of geography in the LSU Department of Environmental Sciences, concurred. "We found that a small amount of recovery aid given to small businesses would have the biggest effect." Lam also believes some sort of "catastrophic insurance" program would help spread out risk and reduce delays and uncertainty after disasters. "The current COVID-19 aid package was designed and administrated in an inefficient way," she wrote, "Large scale disasters usually result in governmental aid, (but) the timing and amount of this aid is uncertain immediately after a disaster.

"In contrast, insurance programs, private or public, provide aid that automatically reflects the scope of the disaster. Encouraging individuals or businesses (to join) insurance programs helps fund reserves for disaster recovery, provides more immediate aid, and…can promote resilient rebuilding."

Photo by Richard Campanella, 2005.

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