

## Key Considerations for States and Local Jurisdictions Exploring Hotel/Motel Acquisitions as a Housing Strategy for People Exiting Covid-19 Shelters

States and communities across the country are currently facing a historic moment in their ability to improve the lives of their most vulnerable residents, challenged by the evolving public health crisis, structural and institutional racism, and the highest unemployment rate since the Great Depression. Many have taken bold action to help people experiencing homelessness move into temporary settings, such as hotels, motels, trailers, and large public arenas, in response to COVID-19. **As communities begin their planning to prevent thousands of residents from returning to the streets after the pandemic, one commonly proposed option is to acquire the hotels and motels where people are living.** Following are six considerations to take into account when exploring this option, including initial feasibility questions to ask about hotel/motel acquisitions and the importance of exploring multiple re-housing strategies.

### 1. Envision Your Desired End-State with the Help of Experts and Research.

The pandemic makes it challenging for any of us to know what happens next. Crisis can make it difficult to imagine our world two weeks from now, let alone two years from now. Tackling long-standing challenges like homelessness, structural and institutional racism, and unnecessary institutionalization in the midst of a pandemic can feel especially complex. It is human nature to react quickly in difficult situations and to lose sight of our strategic vision. Moving fast can seem expedient in the moment, but it can also lead to even more complex challenges down the road. Taking the time to talk with professionals and people with lived expertise and experiences will be time well invested in a healthy, sustainable approach to our future. As you bring together the experts you need to plan your Hotel to Home strategy, consider the following:

- 1) An abundance of research<sup>1</sup> and testimonials of people with lived expertise<sup>2</sup> across the country confirm that housing ends homelessness.
- 2) People on fixed incomes are priced-out of every rental housing market in the country.<sup>3</sup> These households and others with extremely low incomes need rental subsidies to make apartments affordable to them long-term.
- 3) The CSH Racial Disparities and Disproportionality Index makes it clear there is racial disparity across states, and across systems; the disparate impact of systems involvement is not limited to a single system, and that the effects of systems involvement are likely interrelated from place to place.<sup>4</sup> Communities of color, especially Native Americans and Black/African American communities are further impacted by high rates of infection and death from COVID-19 across the country.
- 4) A subset of renters with extremely low incomes who have disabilities and/or other complex challenges can thrive when affordable housing is paired with tenancy support services to help them live with dignity and autonomy in “supportive housing.”

<sup>1</sup> <https://d155kunxf1aozz.cloudfront.net/wp-content/uploads/2018/07/CSH-Lit-Review-All-Papers.pdf>

<sup>2</sup> <https://www.csh.org/supportive-housing-101/speak-up/>

<sup>3</sup> <http://www.tacinc.org/knowledge-resources/priced-out-v2/>

<sup>4</sup> <https://www.csh.org/2020/04/advancing-equity-through-data/>

- 5) Affordable and supportive housing have some assembly required. Just like a stool with only one leg, affordable housing with only capital investment can't support tenants with the lowest incomes on its own. It requires a second leg of the stool, operating or rental subsidies, to keep tenants stably housed, and in the case of supportive housing, a third leg of the stool is needed, tenancy sustaining services.

## 2. Be Clear About the Needs of the People You Are Attempting to Serve Before Enacting a Plan.

It could be easy to assume that everyone living in COVID-19 shelters needs supportive housing because they were experiencing homelessness or housing instability and they either tested positive or were in a “high risk” group before moving into this temporary situation. But each individual and household is unique. It is important to be clear about which supports will be most effective for each household long-term. To determine the housing and service needs of households you are aiming to re-house:

- 1) Ask people who are having the experience you are attempting to address about what they need most. Even our best intentions can have unintended consequences when we assume we know what's best for others. Before you start designing your plan, talk with people living in your COVID-19 shelters. Learn about the strengths they bring to their situation and ask them what they need most: today, as they move out, and long term.
- 2) Quantify the housing needs of people exiting institutional and congregate facilities. The pandemic has amplified the fact that congregate settings are not healthy for individuals, families, and communities. Judges and local jurisdictions are realizing that there are better options than jailing people who are not violent criminals and have begun releasing people by the hundreds and thousands back into their communities. In some cases, these individuals have family and friends to return to while others will need affordable and/or supportive housing right away and are at greater risk of experiencing homelessness without support. Local municipalities are also changing the way they provide shelter by moving away from large open spaces with beds packed together. When quantifying the total need for affordable and supportive housing, be sure to include those already leaving institutions and congregate shelters as well as those anticipated to do so in the coming months.
- 3) Align your efforts with those of your homeless system to provide consistency with pre-established housing prioritization methods and readily identify permanent housing options. Coordinated entry helps to determine who can be safely diverted from homelessness through problem-solving with family and friends, who has the earning potential to be rapidly re-housed in the private rental market with short-term rental assistance, who will need longer-term rental subsidies, and who will need additional tenancy support services to access and remain in housing. By integrating your Hotel to Home strategy with your existing homeless response system, you can better align your supports for the people who needed housing before the pandemic with those of additional households who are exiting institutions and/or living in COVID-19 shelters. It may seem daunting to conduct assessments on everyone living in your COVID-19 shelters. Keep in mind that your homeless system has already performed assessments for a large number of people, which will likely include many of the households living in your new, temporary shelters. (Coordinated entry systems across the country have varying degrees of capacity. If your community's system is not able to quickly and equitably determine the acuity of everyone in need of permanent housing, you may need to consider developing a temporary assessment process, which may require additional staff capacity.) To clarify the permanent housing options currently available in your community, consider conducting a basic systems analysis to compare the needs of all households experiencing homelessness and exiting congregate shelters and institutions with your updated inventory of shelter beds, rapid re-housing slots, and affordable and supportive housing available through turnover.

- 4) Disaggregate your data about needs by race and ethnicity. Your state or community can ensure that housing disparities go no further by using data to determine who moves into new permanent housing and who receives the supports they need to stay stably housed. Disaggregating data by race and ethnicity helps to call attention to racial trends, disparities and inequities that are masked by aggregated data and allows for improved accountability in programming and policymaking. As individuals invested in social justice, we must ensure racial and ethnic data are collected, reported, and used to inform our programs and the outcomes we are striving to achieve.
- 5) Estimate the need for relocation assistance and community-based services. If you determine that converting hotels and motels into affordable or supportive housing is feasible in your community, you'll need a carefully-crafted plan for how to move current occupants who have other housing options out of your COVID-19 shelters and how to move others into them. In addition to providing community-wide coordination and moving supports, many of the people you are assisting will need connections to housing navigation, assistance with documentation and leases, and connections to ongoing community-based health and human services.

### 3. Double-Check Your Timelines.

For many, the urgency to help people move back into their own homes and communities is greater than ever. Funding to lease hotel/motels as shelters will come to an end. Many communities have started planning for what comes next with the idea of a "Day 91" exit strategy-- the day they initially anticipated their Federal Emergency Management Agency (FEMA) funds would expire. Today, it seems more likely that the state of emergency will continue for many months, if not years. As your group of experts gathers to establish an action plan, ask yourselves these questions to estimate realistic timeframes.

- 1) What is the duration of the funding we are using to lease hotels and motels?
- 2) What other funding might be available to extend their use as temporary shelters if needed?
- 3) Can our state provide the 25% match to FEMA funds for the duration of the federal emergency?
- 4) Could this COVID-19 sheltering strategy become a bridge to our community's affordable housing pipeline?
- 5) If so, when will those apartments come online, and how does that timing line up with the duration of our COVID-19 sheltering approach?
- 6) Does our shelter strategy need to be extended beyond the pandemic by a number of months?
- 7) Will there be a need for more COVID-19 sheltering if there is a resurgence of the virus?

### 4. Establish Early Coordination Between Your State, Local Government, Public Housing Agency, and Nonprofit Developers.

States and local jurisdictions should coordinate to ensure those sheltering in hotels, motels, trailers, and other public arenas avoid returns to congregate shelters and the streets. Cities, Counties, States, and Continuums of Care will have the best outcomes when their teams include people with professional and lived expertise in Real Estate, re-housing, and racial justice. Local Public Housing Agencies are usually the largest and most experienced affordable housing developers and operators in a community. Include them and your local nonprofit developers on your team to add practical expertise related to financing, development, operations, and service delivery. You may also need to leverage the resources of your partner jurisdictions to have enough funding to make your plans successful. Early coordination can help to maximize the use of new federal dollars and promote racially-equitable access to these resources. Collaborating with your jurisdictional partners and invested stakeholders can also help to ensure that your evaluation of hotel and motel acquisitions is coordinated within a broader assessment of all potential re-housing strategies.

## 5. Conduct a Feasibility Analysis of Hotel/Motel Acquisition and Rehabilitation.

Devastating losses in affordable housing in recent years and racial disparities in homelessness and public systems make it clear that an imbalance in supply and demand and inequitable access to resources led so many people to become homeless in the first place. When looking for housing options post COVID-19 sheltering, most of us will find little in the way of existing, affordable apartment buildings. The fact that thousands of people are now living in motels and hotels can make these temporary residences seem like the silver bullet we have all been searching for to provide permanent housing faster and cheaper. The good news is developers across the country have explored the feasibility of acquiring and rehabilitating hotels to create new affordable and supportive housing for many years. As you launch your hotel acquisition feasibility analysis, consider these ten steps they shared with us.

1) *Employ a Professional Affordable Housing Developer.*

Negotiating acquisitions is a tricky business in any market. It can be even more nuanced today under the pressure of tight timelines. Affordable housing developers can act on behalf of their own organization or a group of organizations exploring acquisition, rehabilitation and/or long-term leasing. Professional developers have the expertise to make fact-based, quick decisions in the ever-changing real estate market, and they understand the constraints of what are often complex and varied funds sources needed to address all three financing “legs of the stool.” Be sure you have an experienced affordable housing developer (or coordinated team of developers) leading your due diligence!

2) *Gauge Owner Interest Early-on.*

Before diving into other aspects of feasibility analysis, reach out to the owners of the hotels and motels you are leasing to determine if they would even consider selling or long-term leasing. Consider working with a professional broker to make calls to prospective sellers or issue an initial survey to owners to gauge the degree to which these buildings are potentially available for purchase or long-term leasing.

3) *Be Clear About Your Intended Long-term Use Before a Long-term Lease or Purchase.*

It may seem as though motels and hotels can be purchased today to address immediate needs while leaving longer-term uses to further discussion and analysis, but without clarity about your intended long-term uses at the outset, significant complexities could leave your community with harder questions down the road. As you look at the supply and demand for affordable and supportive housing in your community, what role could the conversion of hotels and motels reasonably play? At what cost? If a feasibility analysis determines that they cannot realistically be converted to permanent housing, does your community need more short-term shelter? If so, how much? What are the unique costs associated with shorter-term uses such as providing food to people in your community’s shelters?

4) *Determine Regulatory and Financial Implications to Changes in Use.*

Motels and hotels have regulatory constraints related to zoning, other local ordinances, and certificate of occupancy requirements that could lead to an early go-no-go decision. Financial implications can also influence a local jurisdiction’s desire to pursue a feasibility analysis for conversion. For example, the tax revenue generated by a hotel or motel’s current use as transient lodging could be considered critical to a municipality’s bottom line.

5) *Determine if the Building and Location Are Suitable for Long-term Residency.*

Hotels are not homes. They are temporary residences that have physical limitations that require rehabilitation to be converted to permanent housing. Aside from some extended-stay hotels, conversion will generally require adding places to eat and cook, improving accessibility for people with disabilities, and other enhancements to support the health and safety of residents. Design that relies on congregate kitchens is not a best practice in supportive housing and in the context of a public health pandemic, should

clearly be avoided.<sup>5</sup> Your tenants will also need access to amenities such as grocery stores, public transportation, and laundry mats.

6) *Closely Examine Each Individual Property's Capital Needs.*

It's hard not to imagine that a building where people sleep could easily be converted to housing, and in some cases it can be. In others, developers have found challenges that make acquisition/rehabilitation costlier than new construction due to the age and capital needs of the structures and systems, physical constraints that make rehabilitation challenging, complexities in ownership structures, and environmental mitigation needs for issues such as asbestos and mold. These unanticipated issues add to both cost and time. Renovated units will also need to meet current local code requirements. If a property is several years (or decades) old, today's code requirements will likely be significantly different than they were when the building was constructed, and rehabilitation may require retro-fitting and/or systems replacements. If using federal housing choice vouchers to subsidize operations, Housing Quality Standards will need to be achieved.<sup>6</sup> These standards are useful in any case to ensure safe, decent housing. If it is tempting to sidestep attention to quality for expediency's sake, it can be helpful to think through the implications of early, failed federal public housing practices around site design, a lack of tenant choice, and the ensuing underfunding of maintenance and operations. Consider how you can prevent these types of challenges by following the lead of Public Housing Agencies that are now providing high-quality housing with some of the most integrated housing choices available. Although rehabilitating a hotel or motel can sound faster than building new housing, some developers have found hotel acquisition to be most favorable when an existing structure can be torn down and the site used for a new development or when a hotel's parking lot allows for the construction of additional buildings.

7) *Examine Your Sources for Long-Term Leasing.*

The availability of federal relief funds may make an upfront payment for a long-term lease-hold one of your options. When considering a lease, revisit your intended uses and timelines to be sure you are not simply extending the hard questions about a financing cliff. A long-term lease has many of the same considerations as those an acquisition related to life-safety repair needs, additional upgrades, and resources for operations and services as detailed below.

8) *Examine Your Sources and Uses for Acquisition and Rehabilitation.*

Generally speaking, hotels that are part of larger chains are more expensive, and independently-owned "mom and pop" motels are less expensive up-front, but the systems upgrades needed in some independently-owned hotels can raise their total development costs to a level comparable with more established chains and/or new housing development. To determine how far your federal relief funds and/or state and local investments will take you into acquisition and rehabilitation, you'll want to run Pro Formas on multiple buildings to determine the best "package" of buildings for the dollars you have. When assessing the feasibility of acquisition/rehabilitation, be sure to weigh its costs and benefits alongside the additional housing strategies in Section V below.

9) *Examine your Sources and Uses for Ongoing Operations.*

Even with a large infusion of public capital, ongoing revenue must be sufficient to pay for operations, unit turnover, and capital and operating reserves. This need is even greater when debt payments are required. When your development team establishes an operating Pro Forma for each building, they will likely find that the rents tenants can afford will only go so far in covering these costs. An ongoing operating subsidy to fill the gap between tenant rents and the true cost of operations will be needed to keep the building healthy and serving tenants well into the future. After estimating the amount of annual operating subsidy needed, it will be important to secure early commitments of these funds in order to meet the underwriting tests of public and/or private capital funders. These investors will need assurances that each building can

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<sup>5</sup> <https://www.csh.org/supportive-housing-101/quality/>

<sup>6</sup> [https://www.hud.gov/program\\_offices/public\\_indian\\_housing/programs/hcv/hqs](https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/hqs)

financially operate independently and be well-maintained for decades. Because operating commitments are generally required by capital underwriters for at least 15 years, one option is to consider whether the sources you are contemplating can be capitalized into a “sinking fund” reserve that is paid up-front and is drawn down monthly.

10) *Examine your Sources and Uses for Tenancy Supports and Other Services.*

Once you have clarity about the number of people you are aiming to rehouse who have high acuity needs for ongoing intensive tenancy supports in supportive housing, you’ll want to model out the sources for these costs as well, which generally start at \$7,200/year for an individual and \$10,000 for a family, depending upon the services model. Sources for services funding vary widely across the country,<sup>7</sup> though with collaboration from the federal Centers for Medicare and Medicaid Services, a number of states are now reimbursing for tenancy support services with sustainable Medicaid funds.<sup>8</sup> In addition to the subset of households you aim to serve who will need tenancy supports in supportive housing, it is likely that all people transitioning out of COVID-19 shelters, institutional and congregate settings, and homelessness will need some form of initial transition supports, housing navigation, and connections to community-based services.

## 6. Consider Potential Hotel/Motel Acquisition as Only One of a Number of Rehousing Strategies.

States and local governments should put equal effort into identifying as many permanent housing options as possible. In most cases, jurisdictions are aiming to utilize federal Coronavirus Aid, Relief and Economic Security (CARES) Act dollars to re-house people living in COVID-19 shelters. The primary (new) federal sources available for permanent housing are the Emergency Solutions Grant (ESG), The Community Development Block Grant program (CDBG), and the Coronavirus Relief Fund (CRF). These sources have timeline restrictions for obligating and spending dollars. The CRF can pay for costs incurred as a result of COVID-19 between March 27th and December 31st, 2020. Following are a number of ways these federal relief funds can be used alone or in combination with state and local funds to create permanent housing. (For more information about the use of federal relief funds for affordable and supportive housing, see [CSH's COVID-19 Resources](#).)

- 1) Create a re-housing surge with short-term rental assistance using ESG for people who can be rapidly-rehoused and sustain rent payments on their own long-term.
- 2) Use CDBG and CRF as capital to buy-down the rent on apartments in your community’s affordable housing pipeline and expedite acquisition, rehabilitation, construction, and job-creation in exchange for set-asides that can house people exiting COVID-19 shelters, institutions, existing shelters, and the streets.
- 3) Expand “Moving On” initiatives<sup>9</sup>. Several communities have created initiatives that allow people currently living in supportive housing to move to private-market units with long-term rental subsidies when they no longer need the intensive services offered to supportive housing residents. Doing so frees up supportive housing to people who can benefit most from intensive tenancy support services.
- 4) Establish or expand a Flexible Housing Subsidy Pool. “Flex Pools” combine multiple sources of funding, including investments from mainstream systems, to pay for capital, operating, and services costs as well as rental assistance to assist households in paying rent to a landlord in the private rental market. The flexibility of immediately leveraged funds allows for a greater ability to address needs as they change over time.

## WE WANT TO HEAR FROM YOU!

Is this document helpful to you? What are you learning about this topic in your community? What related topics would you like to know more about? *Please connect with us!* Email [COVIDinfo@csh.org](mailto:COVIDinfo@csh.org)

<sup>7</sup> <https://www.csh.org/resources/guide-to-service-funding-in-supportive-housing/>

<sup>8</sup> <https://www.csh.org/resources/summary-of-state-action-medicaid-housing-services-2/>

<sup>9</sup> <https://www.hudexchange.info/programs/coc/moving-on/>