

THE ROAD AHEAD

Putting the Pieces Together for Hotel and Real Estate Conversion to Housing

In response to the COVID-19 (COVID) pandemic, states and communities across the country are currently facing a historic moment and opportunity to improve the lives of their most vulnerable residents. As part of their quarantine strategy and to reduce density in congregate settings, many communities relocated people experiencing homelessness and those in institutional settings into temporary settings such as motels and hotels. Given the uncertainty around the pandemic's duration, creating new housing units and preserving existing housing stock is crucial to meet *both* immediate response needs for isolation units *and* the existing critical need for more affordable and supportive housing.

In this second installment of the CSH *From Hotel to Home*¹ series, we offer guidance and tools on how states, cities and counties can put the pieces together to successfully acquire and convert hotels, motels and/or other available residential and commercial properties into affordable and supportive housing by using existing state resources and/or federal CARES Act funding.

This Guide is Broken into Four Sections:

1. Jurisdictional Assessment Checklist
2. Potential Acquisition Strategies: Direct Acquisition and Loan Fund Creation
3. Use for CARES Act Funding
4. Opportunities and Considerations for Determining Real Estate Type

¹ <https://www.csh.org/resources/from-hotel-to-home/>

1. Jurisdictional Assessment Checklist

Before embarking on the creation of a detailed strategy, jurisdictions should first assess if they have the following:

- ✓ Substantial use of hotels/motels to house people experiencing homelessness during the COVID-19 pandemic with a long-term need for permanent housing.
- ✓ Availability of permanent financing sources such as Low Income Housing Tax Credits and/or other long term state financing mechanisms for affordable housing or federal funding such as CARES Act (markets where there is an appetite to create a new source could also be considered).
- ✓ Availability of long term operating subsidies such as housing voucher programs or interest in allocating funding for this purpose.
- ✓ Availability of services funding or interest in creating long term services funding for supportive housing units.
- ✓ Presence of experienced development partners willing and capable of moderate rehabilitation projects possibly with tenants in-place.
- ✓ Political will and multi-disciplinary team to address zoning, entitlements and other challenges as they arise.
- ✓ Presence of supportive service and/or shelter providers for support during the interim and permanent period.

2. Potential Acquisition Strategies

DIRECT PROPERTY ACQUISITION BY JURISDICTION

If the jurisdiction has access to hotel/motel sites for purchase this could be done via a “lease to own strategy.”

- Cities, counties or states could enter into a “lease to own” agreement with hotels. Tenants/patients gain immediate access to units and allow the jurisdiction some time to purchase the hotel.
- Upon purchase, the jurisdiction no longer pays a daily rate to the hotel owner.
- Funds, possibly Emergency Solutions Grant (ESG) or Federal Emergency Management Agency (FEMA), could be identified to operate and maintain the building as isolation units.
- As the crisis abates and isolation units are no longer needed, jurisdictions can issue a Request for Proposals (RFP) to award ownership of the buildings to nonprofit entities for \$1.
 - The RFP would require the awardee to:
 - i. operate the building and provide services as it would any other affordable and supportive housing building;
 - ii. apply for state and local financing as applicable; and
 - iii. manage renovations.
 - Upon award of the RFP, the nonprofit assumes the management of property while applying for capital financing and operating support and services. Rehab can take place with tenants in place; swing space is provided as some tenants leave through placement assistance or of own accord, e.g., return to family.
- Through attrition, within the timeline set by the jurisdiction, the hotel can become a typical 60/40 building. 60% of units will be supported and the remaining 40% will be rented to low-income tenants.

CREATE AN ACQUISITION FUND

If a direct acquisition is not feasible, another option is creating an acquisition loan fund to be accessed by local nonprofits and developers.

- This can be done by:
 - using an existing loan fund, contracting with external organizations such as Community Development Financial Institutions (CDFIs) to underwrite and close on acquisitions quickly;
 - or creating a new acquisition loan fund in partnership with external lending and/or philanthropic organizations.
- Whether creating a new loan fund or using an existing structure, the fund should be quick, flexible and available to developers who are interested and capable of acquiring real estate to convert to affordable and supportive housing within 2-5 years. The fund should also offer flexibility around real estate type, not limiting developers to only hotel/motel sites.
- Additional features that are essential to the successes of the loan fund and would incentivize developers are:
 - Commitment of long-term operating subsidies;
 - Commitment of services funding for supportive housing units;
 - Commitment to speeding up zoning and entitlement processes to shorten construction timelines;
 - Availability of capital funding for moderate rehabs; and
 - Connection to shelter operators and supportive housing service providers (where needed).

It is important to note that a loan fund could include several different sources of funding. While CARES Act funding is appealing, it may not be the best option given the timing restrictions, the requirements and complexities around federal regulations. While the CARES Act does allow for certain waivers, requirements for fair housing, labor standards, and environmental review must still be met. For example, properties acquired using Community Development Block Grant funding are required to undergo U.S. Department of Housing and Urban Development (HUD) Environmental Review which could take many months and may not be completed by December 31, 2020.

Alternative funding structure for a loan fund could include local jurisdiction top loss funding (smaller upfront financial commitment as opposed to full funding needed for direct acquisitions), philanthropic capital (this could be leveraged to fill the gap that is expected to be caused by decreased state revenues that would otherwise be committed to something of this nature) and local CDFI capital.

3. Uses for CARES ACT Funding

CSH has conducted an [analysis of emergency response and HUD sources of CARES Act funding approved by Congress](#). While each source has various uses for short-term and long-term applications, the recommendations below represent one interpretation of how jurisdictions can allocate these funding sources to maximize resources for real estate conversion.

FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) DISASTER RELIEF FUND

FEMA funding can be used for costs necessary and related to maintain non-congregate sites and medical sheltering used for individuals experiencing mild COVID symptoms and require quarantining and/or post-hospital discharges. FEMA will reimburse 75% of the cost, with the state or jurisdiction providing a 25% match. Non-congregate medical sheltering is [subject to prior approval by FEMA](#) and is limited to that which is reasonable and necessary to address the public health needs of the event.

EMERGENCY SOLUTIONS GRANT (ESG)

Can be used to provide assistance for unsheltered /sheltered individuals experiencing homelessness, and individuals at risk of homelessness at or below 50% Area Median Income (AMI).

Can be used to lease motels/hotels for isolation/social distancing, reduce density in shelters and housing, and acquire/operate emergency shelter.

As operating subsidies and services are critical for the success of these projects, ESG could also be used for medium to long-term rental assistance, housing stability case management, medical care coordination, and housing navigation services to support people moving from non-congregate settings into permanent housing.

COMMUNITY DEVELOPMENT BLOCK GRANTS-CORONAVIRUS FUNDS (CDBG-CV)

Can be used for the acquisition/rehab of hotels/motels to isolate individuals with mild symptoms/in recovery from COVID.

Can be used for funding improvements to affordable/supportive housing properties to allow quarantining /distancing on-site on a temporary basis.

As operating subsidies and services are critical for the success of these projects, CDBG-CV could also be used for medium to long-term rental assistance, housing navigation and tenancy support services to support people moving from non-congregate settings into permanent housing. It may also be used for services for individuals not covered by Medicaid, but who otherwise would qualify for Medicaid reimbursement.

CARES Act makes these funds available until September 30, 2022 and also authorizes statutory and regulatory waivers for CDBG FY19 and FY20, which could be used in conjunction with CDBG-CV.

CORONAVIRUS RELIEF FUND (CRF)

Can be used for the acquisition of hotels/motels/other properties that were leased to isolate and distance people. As expenses must be incurred by the end of 2020, however, CRF funding may be better positioned to provide gap funding for supportive housing development that was delayed as a result of COVID, for rental assistance/operating subsidies, and/or for housing navigation and tenancy support services to support people moving from non-congregate settings into permanent housing.

4. Opportunities and Considerations In Determining Real Estate Type

Hotels/motels are currently being used for housing which may make them most attractive for acquisition. However, hotels/motels are not the only type of real estate that should be considered. Jurisdictions could include properties such as commercial buildings, residential blocks, unused hospital buildings, or nursing homes as potential options for acquisition and conversion.

Here are some opportunities and considerations when determining the type of real estate that could be used for this purpose:

HOTELS/MOTELS

Opportunities:

- Immediate access to needed units yet no loss of units when the crisis abates;
- Allows new permanent units to come on-line amidst unsure LIHTC market with shorter development period;

- Tenants will not have to return to he a shelter or the street;
- Put federal CARES Act funding to positive, long-term use; and
- Not paying daily rates to private hotel owner.

Considerations:

- May be unknown building code, zoning and/or fire code issues as part of rehab;
- Cost involved with rehab from hotel to supportive housing including the configuration of individual kitchens;
- Availability of local funding to complete renovations;
- Risk of an untried model;
- Not ideal to renovate with existing tenants;
- Attrition may not be simple or timely for a 60/40 model;
- Timing of RFP process; and
- Timing of tenant contracts/leases and/or development team assemblage for RFPs.

OTHER REAL ESTATE

Opportunities:

- May be cheaper than acquiring hotel/motels given existing debt on those properties;
- Provides the opportunity for larger scale acquisition or use of properties that are already owned; and
- No need for tenant in-place rehab which could be difficult to achieve.

Considerations:

- Current hotel/motels would need to be used for interim housing (estimated 1-2 years, FEMA funding may be available to cover this cost); and
- Availability of real estate to purchase and convert.

The pandemic response and potential use of CARES Act funding present a unique opportunity for states, counties, cities and municipalities across the country to add to our nation's affordable and supportive housing stock as they continue to meet the incredible and urgent need for decompression of congregate settings and the provision of isolation and recovery units.

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