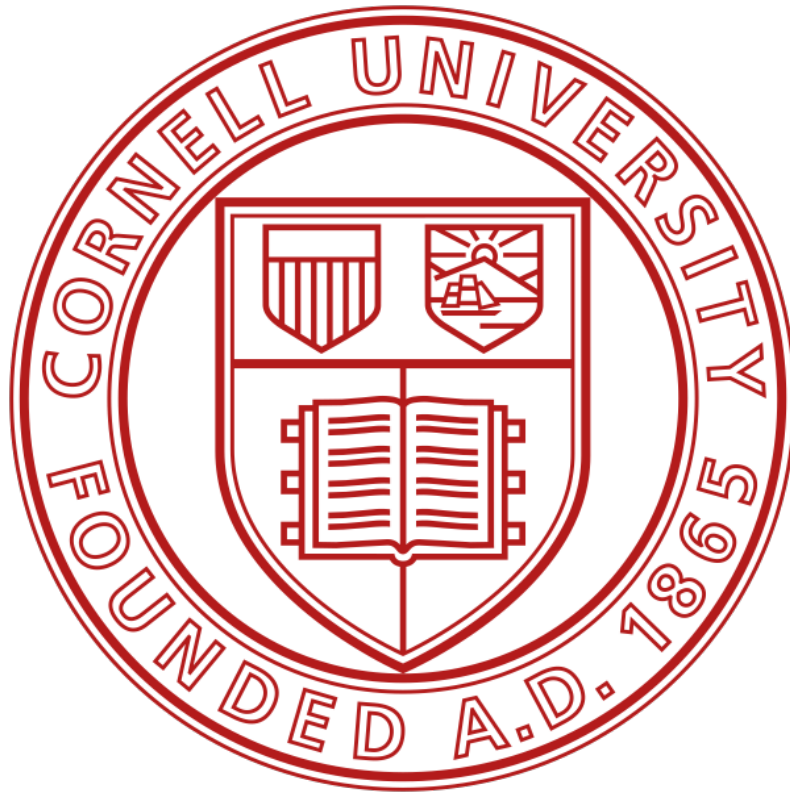


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ARPA Funds & Affordable Housing: Case Studies of Innovative Use



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Introduction

The COVID-19 pandemic exacerbated the homelessness and affordability crisis impacting many American municipalities. The pandemic increased the demand for space and drove the inventory of homes for sale and rental vacancies to their lowest point in decades (Herbert 2022). Home price appreciation hit 20.6 percent according to the Case-Shiller index as there is an estimated deficit of 3.8 million housing units in America (Khater, 2022). With home prices high and rental vacancies at their lowest point since the 1980s, many Americans have been squeezed out of affordable housing options. The effects of COVID-19 on the housing crisis were acutely felt by the country's unhoused populations, as social distancing measures caused homeless shelters to deny shelter entry, limit capacity, or close altogether (Bruce, 2020).

These factors call for municipal leaders to enact solutions that address the housing supply crisis, alleviating home and rental costs and providing shelter for their unhoused populations. Fortunately for these same leaders, the American Rescue Plan (ARPA), signed into law in March of 2021, provides funds to localities to address housing issues related to affordable housing, rental assistance, homelessness, and eviction prevention. These areas, representing 9% of total ARPA spending by localities (Local Government ARPA Investment Tracker, 2022), showcase direct aid to renters, grants to nonprofit organizations, and many other more conventional housing policy approaches that have been commonplace since late 1960s.

Within the homelessness subgroup, we see two innovative approaches that address the housing supply crisis in cost efficient and collaborative ways. The construction of tiny homes and conversion of hotels and motels into affordable housing units are two methods of expanding a locality's housing supply and offer either a short-term solution to transition unhoused populations out of homelessness, or a long-term solution offering permanent supportive housing.

To better understand the feasibility of enacting these approaches to affordable housing using ARPA funds, this report studies four localities that used ARPA aid to fund tiny home or hotel conversion projects. We explore the costs, regulatory drawbacks, and necessity for creating community coalitions to ensure their success.

The case subjects represented areas with significant increases in rental prices, specialized unhoused populations, or unique political challenges. In order to get the clearest understanding of how and why to enact these projects, we conducted expert interviews with city officials in each respective case.

Locality	Project	Rationale	Interviewee
Madison, Wisconsin	Tiny Home	Homelessness increased by 160% since 2021. City is closing an encampment where ~70 persons live	Linette Rhodes, Community Development Grants Supervisor
St. Louis, Missouri	Tiny Home	A total of 11% of unhoused persons are veterans, 4% higher than the national average	Loretta Hiner, Senior Housing Analyst for the Affordable Housing Commission
Williston, Vermont	Hotel/Motel Conversion	Around 30% of unhoused persons have one child or more. Vermont also has the highest amount of sheltered persons of any state, with 303 individuals per 100,000	Chris Donnelly, Champlain Housing Trust Director of Community Relations
Austin, Texas	Hotel/Motel Conversion	Rents increased by 40% from 2021 to 2022, the most of any metro area	James May, Housing and Community Development Officer for the Housing and Planning Department

Tiny Homes

Literature Review

Due to the novel emergence and spread of the tiny house phenomenon, only limited literature and comprehensive studies are available on the topic of tiny housing. The following literature review is mainly based on the evaluation of case studies, news articles, and anecdotal evidence. Tiny dwellings were used as temporary shelters during climate disasters—for example after Hurricane Katrina—and quickly gained popularity as an affordable housing option. Later, this low-cost housing was employed as a method to address homelessness across the United States (US). With the supply of affordable housing declining and the increasing number of residents spending 30% or more of their income on housing, tiny homes are becoming a necessity (Jackson et al., 2020). First, the construction of tiny homes occurs quicker and tends to cost less than building traditional housing units (Coleman, 2018). Usually, multiple tiny homes are built in a tiny home village. Social services, such as addiction recovery programs, or community building programs, are offered to the homeless (Lundahl, 2022; Coleman, 2018). Third, tiny homes could be used as transitional housing and serve as a bridge, until an individual is linked to permanent housing through the social services that are provided in the village (LA County, n.a., Rinde, 2021). Fourth, contrary to tent encampments, the homeless individual can enjoy privacy, security, and access to basic sanitation services in a tiny home (Howard, 2020).

The US homelessness crisis is drawing more attention to tiny homes as a potential solution. By definition, tiny homes are smaller than 400 square feet and more affordable than traditionally constructed homes. In comparison to conventional houses, they can also be constructed more quickly and with lower-skilled personnel. The term "tiny home" is applied to a wide variety of

small-footprint housing units and types. Factory-built housing, recreational vehicles, trailers, camping cabins, or manufactured homes can be categorized as tiny houses (State Advisory Council on Homelessness, 2017; National Coalition of Homeless Veterans, n.a.; Coleman, 2018).

The duration of time that formerly homeless residents may stay in tiny homes varies. Some programs offer residents a comfortable, safe place to stay while they are connected with permanent housing opportunities, while other tiny home programs offer permanent housing (LA County, n.a.). Oftentimes, tiny homes serve as a bridge to permanent housing; residents stay in a tiny home village for four to five months on average. During this time, residents are matched with a caseworker who tries to assist them in finding a permanent home. In Seattle's tiny home villages, about one-third of residents were able to secure long-term accommodation (Howard, 2020). In Jacksonville, Florida, based on the tenant's ability, some residents have to pay rent. Others, who are unemployed or focused on drug recovery, are exempt (Rinde, 2021).

On top of construction costs, tiny homes require additional expenditures. Other expenditures can include land costs (rent or purchase), building materials, electricity, and on-site amenities, and more (Coleman, 2018). Despite these costs, tiny homes are more affordable than traditional housing units. In Newfield, NY, building a single tiny home costs roughly \$10,000, which is far less than the price of renting new apartments (Lundahl, 2022).

The number of tiny house villages for homeless people has been expanding in part as a response to *Martin v. Boise*, a 2018 federal court decision that banned towns from arresting people for staying in tent encampments if not enough shelters are available (Howard, 2020). Los Angeles has been trying to loosen up zoning laws so that homeowners who want to make some additional money can build and rent backyard tiny homes (Howard, 2020).

The majority of tiny home villages provide their residents with a range of support services including case management, workforce development, workshop and support groups, dental and medical care, behavioral health, and transportation. Many villages offer transportation or situate the tiny home village close to public transportation (Coleman, 2018). A tiny home village for the chronically homeless in the town of Newfield, New York, with 18 single-unit cottages includes a common house, garden beds, and a chicken coop (Lundahl, 2022).

Many tiny home villages—including those in Milwaukee, Denver, Sacramento, and San Jose—are financed and governed by city administrators (Bruce, 2022). A pilot program in Los Angeles offers homeowners a ten-year forgivable loan of up to \$75,000 so they can construct an accessory dwelling unit and accommodate a homeless person or a tenant using a housing choice voucher (Howard, 2020). Up until 2019, ten small home villages had been constructed in Seattle on land owned by institutions of higher learning, charities, and the state, which were funded by a Seattle-based nonprofit (Howard, 2020).

Critics of this model question whether tiny houses are an effective use of land to fulfill housing and homeless housing needs. Furthermore, opponents of tiny homes question whether tiny homes represent a scalable model and are politically feasible in the long run (Coleman, 2018). Restrictive zoning laws, building requirements, and alarmed neighbors have all hindered the construction of tiny homes in the past (Bruce, 2022).

Community resistance, a lack of funds, and finding suitable locations for tiny homes are common challenges. To facilitate the construction of tiny homes, waiving or reducing permitting fees can lower costs and reduce administrative red tape. These costs may be excessively disproportionate to the overall budget or render projects with modest budgets unaffordable. A number of these regulations do not apply to the size of tiny home village developments, thus they could also be waived for parking, open space, and lot covering requirements.

Case Study: Madison, Wisconsin

Tiny home communities that house the homeless such as Occupy Madison and New Beginnings, based in California, served as inspiration for the city of Madison, Wisconsin when thinking about how to provide COVID-19-appropriate housing. Many homeless residents in Madison have been accustomed to traditional shelters or tent camping in parks, but with a need for social distancing and the brutal winters in the region, city leaders needed a better solution. Linette Rhodes is a Community Development Grants Supervisor for the City of Madison and oversees the city's funding strategies, programs, projects, and processes that pertain to affordable housing. When ARPA was adopted March 11, 2021, it was a crucial opportunity for Rhodes and her team to use this flexible funding for piloting new and innovative programs (MRSC, 2022). The following section will discuss how the idea of building tiny homes came to be in the city of Madison, as well as obstacles.

The pandemic caused Madison, like many cities across the nation, to make a quick pivot to reimagine emergency housing. Rhodes and her team used basements in churches, repaired and converted warehouses, and used empty nursing homes for socially distanced housing options. Their goal was to expand the amount of space for single individuals and couples, because the majority of homeless housing options were for families or segregated by gender. Many congregational shelters with traditional bunk bed layouts were not conducive to making occupants feel safe, did not help with mental health issues, and exacerbated conflicts. The Center for Disease Control and Prevention (CDC) guidelines at the early stages of the pandemic allowed for encampments in large cities on a temporary basis as long as residents were socially distanced and case managers were available for operations. As summer 2020 rolled in, Madison residents were seeking full use of their park space after having been quarantined for months, but tent camps were growing and there was no infrastructure to support this population or a better option for the winter months to come. The CDC, due to the pandemic, had asked cities to allow homeless to occupy parks to allow for social distancing, but it is unclear for how long they will be able to use these public spaces for shelter purposes. With the support of local officials and ARPA funding, Rhodes and her team were able to move forward with a tiny home community, but they received pushback from residents, businesses, and neighboring communities when they were deciding on the location.

Due to lack of availability of parcels in the city, a lot located in an industrial park on the outskirts of Madison was selected with little access to transportation or basic amenities. After reviewing and consulting with Occupy Madison and New Beginnings to gain best practices, Rhodes and her team worked with the city engineering and park department to discuss feasible design options. They also collaborated with the real estate department and the planning and zoning department to determine how to go about developing a campground in the city and work around ordinances to

support the development of the project. Rhodes and her team also conducted research with tent occupants in Rhyndel Park in Madison to get a better understanding of resident needs and reasoning for selecting tent camping over other options that were available. Many responded that they did not feel as safe in traditional shelters, and parks were ideal locations due to access to restrooms and potable water. If they had the option to move into a tiny home, they would like additional amenities such as access to showers and fencing with security to avoid issues with prostitution and drug dealing.

To set up the campsite and cover initial costs, the city of Madison allocated \$890,000 to the project which included the contract with property managers for operations such as trash pick up, electricity, and other utilities. With these funds, 30 tiny homes (29 today due to a fire), of 64 square feet were built and will be supported until mid-2023. These are individual units; when couples are served, they each get a tiny home to assure their comfort and safety. Since the beginning, Rhodes and her team have taken a long-term approach for residents and have been able to place 20 former tiny home residents into permanent housing by linking them to the housing voucher program. They also built an ongoing relationship with the police and fire department to inform them of the potential for an increase in calls in the area, strategies for addressing trauma, and overdoses that might occur. This approach, coupled with extensive case manager training for onsite professionals, has caused there to be little to no issues with tiny home residents and the surrounding community. There were also conversations regarding improving roads and lighting, emergency vehicle access on the property, plumbing, and landscaping within the campground.

For the future, Rhodes and her team will have to strategize where to find additional operational funds and develop a community space for residents to build relationships with each other and hold group sessions that are currently being held in the fire station. Another issue this development will face is finding a new location for the tiny home community once the fire station decides to convert the lot, where the tiny homes are currently located, into a training center. There is also a need to improve the design to include accessibility for disabled persons and senior citizens by including ramps. Tiny homes in Madison are being used as transitional housing and metrics must be adjusted to reflect this temporary solution to homelessness until permanent, better suited dwellings are available. Even with the obstacles of developing and maintaining this tiny home community, Rhodes and her team are grateful for the flexibility of the ARPA funds to implement this pilot project without using local funds. This project required a change in ordinances, support from local officials, flexible funds, and shifting metrics to transition residents into permanent housing. Tiny homes proved to be a good solution to temporary housing that improves homeless residents' quality of life amidst public health and economic crises.

Case Study: St. Louis, Missouri

St. Louis, Missouri designated \$2 million of its ARPA funds to “catalyze additional tiny home programs throughout the city” (Local Government ARPA Investment Tracker, 2022). Per the ARPA Tracker, the Affordable Housing Commission of St. Louis would oversee a competitive funding process to distribute the funds. Loretta Hiner is the Senior Housing Analyst for the Affordable Housing Commission and is currently one of only two staff in the Department. Hiner oversees the distribution of funds for the construction and repair of affordable housing in St. Louis. Hiner agreed to an interview to provide information about the tiny homes project.

Hiner stated that the city operated with the intention of getting the ARPA funds out to the people who need them as quickly and competently as possible. The mayor's office, the St. Louis Office for Developmental Disability Resources, the Department of Health and Human Services, and the Community Development Administration were all interested in getting the tiny home project started. Indeed, it was city legislation that got the project off the ground. The city's Board of Aldermen sold a city-owned vacant lot to the Veterans Home Community Project in a unanimous vote, signaling the municipal government's backing of the project (City of St. Louis October 16 2020 Board of Aldermen Meeting, 2020). Although Hiner was not a part of the discussions that specifically led to the designations for ARPA funds, there are two elements that she believes were influential in the decision to use funds for tiny homes. Firstly, the city had previously experimented with the use of tiny homes when they requested that a shed-maker build them in a homeless encampment. The project was seen as a success in providing better shelters for the unhoused. The second influential element is Jason Kander, the former Missouri Secretary of State and a candidate for Senate in 2016. Kander is also the President of National Expansion for the Veterans Community Project, which had successfully established a tiny homes community for veterans in Kansas City, MO (Jason Kander to Lead National Expansion, 2019). Hiner stated that Kander has been an important factor in moving forward the tiny homes initiative in St. Louis.

On October 1, 2021, the Affordable Housing Commission of St. Louis announced a Request for Proposals (RFP) and the availability of up to \$1.5 million to support tiny home communities for people who earn less than or equal to 60% of the area median income (AMI) (Request for Proposal SLFRF - Tiny Homes, 2021). The RFP outlined the requirements for the tiny homes, including that there be a minimum of 200 square feet, rent-free, and include a bathroom and kitchenette. In addition, the RFP required that the tiny home village include a community building for use by residents, operations staff, and support services providers and that the development be managed by a nonprofit upon its completion (Ibid).

The Affordable Housing Commission (AHC) received only one proposal for their tiny homes RFP, from the Veterans Community Project (VCP). Hiner states that the tiny home initiative attracted far fewer developers than conventional affordable housing initiatives and that the city's requirement that the prospective developer must already own the land for the project narrowed the number of eligible candidates. However, VCP and the AHC negotiated terms and came to an agreement for \$1 million in ARPA funds to support this project.

The VCP is building 50 tiny homes for homeless veterans. 25 of the homes will serve people at 80% of AMI (not supported by ARPA funds), 20 homes will serve people at 65% of AMI (negotiated up from 60% by VCP), and 5 homes will serve people at 30% of AMI. Homes will be between 250-340 square feet, some meant for single individuals and others for families. The on-site community center will provide addiction recovery services and employment training for residents. VCP will host case managers that support resident veterans in mental well-being and financial stability with the ultimate goal of finding permanent housing. The development is in the JeffVanderLou neighborhood of St. Louis, a historically Black neighborhood. The total cost of the full project is expected to be around \$10 million, and VCP has provided the AHC with the documentation that the other funds have been secured.

What Hiner has learned, however, is that working with the ARPA guidelines is more restrictive and involves more bureaucracy than how her nimble department of two staff typically operates. Though the AHC usually operates conventional affordable housing initiatives through a repayable trust, the ARPA assistance is offered as a loan that is forgivable upon satisfactory delivery of the project goals. Originally in 2021, AHC and VCP agreed that the ARPA loan would be forgivable when the tiny home community had met its requirements for ten years. However, in June of 2022, the U.S. Department of Treasury released a How-To Guide for Affordable Housing for ARPA funds which stated that the lifespan of the projects should be “twenty years or greater.” This could impact the status of the development contract, which has yet to be signed from negotiations that began in October of 2021. The project is currently under construction and will be completed either way, but VCP pushed back against being required to carry the debt of the forgivable loan for an additional ten years.

The AHC staff went to the AHC department’s lawyers to determine the best course of action to move forward. Hiner has been pouring through the Department of Treasury’s How-To Guide, released eight months after the AHC’s announcement of funds, challenged by knowing that millions of dollars in ARPA funds were likely awarded across the country before these guidelines were published. There are restrictions and bureaucracy in the federal guidelines that do not allow for the same sort of creative problem-solving that they can do with their own funding.

Hiner describes herself and the other AHC staff members as solution-finders who protect government resources. “The public does not get the standard bureaucratic line from us,” she told us with pride. Working under federal regulations to use the ARPA funds is more restrictive, but AHC continues to look for solutions. Hiner followed up in an email to let us know that she appealed the change of ten-year to twenty-year with the AHC Department lawyers, and the requirement has successfully been revised back to ten years.

Although the ARPA tracker says that \$2 million was allotted for tiny homes in St. Louis (Local Government ARPA Investment Tracker, 2022), Hiner is only aware of the \$1 million dollars that her department is in charge of contracting. News articles suggest a second tiny homes project may have been funded by ARPA through another city department but hit a dead end when community members protested the construction of 40 tiny homes for the homeless population in their neighborhood (Drake, 2022).

Discussion

Even before the pandemic, non-profit organizations in Madison, Wisconsin, and St. Louis, Missouri were looking to tiny home developments as a potential solution to the homelessness issue. Local governments were forced to reconsider congregational shelters as a result of COVID-19 and CDC social distancing regulations and standards. Tiny homes, for some cities, were determined as feasible options by local authorities when ARPA funding became available to provide solutions to urgent circumstances for homeless populations. Although Madison and St. Louis used the same concept, there were divergent opinions on the flexibility of ARPA funding. Local officials from the city of Madison cited the flexibility of the ARPA funding as one of the factors permitting its success in launching its tiny home pilot as opposed to other federal affordable housing awards. In

contrast, the local officials in St. Louis found ARPA funds to be more restrictive than their typical funding methods through a city-run trust fund.

Madison views tiny homes as a temporary solution to homelessness with the ultimate goal of relocating all the homeless into permanent affordable housing. This contrasts with St. Louis, which views tiny homes as a longer-term solution for homelessness. This is evident in their distinct planning standards and designs, where the St. Louis tiny homes are three times larger than the Madison ones and feature better floor layouts for communal living. Compared to Madison, where small homes are located in a remote area, St. Louis' is quite centrally located and hence nearer to employment possibilities and other facilities.

Due to negative connotations among homelessness, drugs, and crime, there was persistent opposition from communities where these tiny dwellings were put in both cases. The transitional nature of tiny homes in Madison and the substantial costs related to building and operation were further reasons why a number of elected officials expressed resistance to the concept.

The COVID-19 pandemic illustrated the need for non-congregate housing options. In response, the ARPA funds used for tiny home villages were transformational for the formerly homeless residents who experienced a higher quality of life, dignity, and a safe (though temporary) place to call home. The true challenge, though, will lie in finding and raising the money necessary to operate these projects, pay for all necessary maintenance, and provide supplemental social services in the long-term, after ARPA funds are exhausted. Municipalities will also need to address long-term affordable housing issues, providing a smooth transition for residents from temporary tiny home living to permanent supportive housing.

Hotel Conversion

Literature Review

Many communities are addressing the housing affordability crisis and homelessness by converting hotels¹ and motels into permanent affordable housing or shelter space. Hotel and motel acquisition and conversion have long been a strategy for rehabilitating distressed or underutilized buildings, but the urgency of the COVID-19 pandemic and unprecedented federal and state resources enabled hotel/motel conversions on a broader scale. Acquiring hotels and motels, which have been left dormant since the tourism industry took a hit, is an effective solution to rehome people, thus preventing them from returning to the streets (Cororaton, 2021).

Numerous states and localities prioritized moving unhoused people off the street, mainly in the form of non-congregate emergency shelters, by leasing hotel/motel rooms emptied by the pandemic. In California, for example, Project Roomkey deployed Federal Emergency Management Agency (FEMA) funds with the goal of securing 15,000 hotel/motel rooms to provide shelter and isolation capacity for people experiencing homelessness across the state (Reid et al., 2021).

¹ A hotel is generally defined as an establishment that provides lodging for travelers and sometimes for permanent residents, and usually has restaurants, meeting rooms, stores, etc., that may be used by the general public. In the 1970s, the term motel was used to describe hotels with plenty of parking, a feature that is particularly useful for Americans who regularly travel long distances on highways and interstates (Diffen, n.d.).

Conversion and acquisition projects are more cost-effective and faster than new construction when political will and funding resources are aligned. However, state and federal financing sources remain insufficient for a broader range of acquisitions or to support ongoing operations. In California, the state’s Homekey program found that the average cost per unit was about \$148,000, substantially less than the \$425,000 it cost to produce an average affordable unit in a 100-unit project in California in 2016. Across the cases reviewed in this report, “per door” costs of acquisition ranged from \$32,000 to \$206,000, not including renovation (Reid et al., 2021).

Motels differ from hotels in their emphasis on largely anonymous interactions between owners and occupants, their location along highways (as opposed to urban cores), and their usual orientation to the outside. Motels almost by definition include a parking lot, while older hotels were not built with automobile parking in mind. A challenge for hotel conversions is selecting a suitable property in an ideal location.

City government and social service providers often do not have the technical know-how or capacity to manage large-scale conversion projects. With insufficient funding and personnel for tenant support, service providers may have difficulties meeting residents’ needs. The expansion of the affordable housing stock could be accelerated by increasing technical expertise and resources for conversions, especially for individuals experiencing homelessness who need immediate shelter. This task is challenging given that affordable housing developers and service providers continue to struggle with inadequate funding, fragmented housing and health systems, and community opposition to new projects.

An example of where ARPA funding for hotel conversions has already been done is Madison, Wisconsin. James O’Keefe, community development director of the city coped with a surge of homelessness by relocating the two shelters it supports to larger sites and moving hundreds of people into hotels, in part with funds from the federal CARES Act and more recently from ARPA. The city has been housing and supporting 40 formerly unhoused people in a hotel, with costs now being covered by ARPA, and O’Keefe says he’d like to use relief money to purchase a hotel and convert it to very-low-income housing (Rinde, 2022).

The prevalent challenges to hotel conversion are: securing funding for ongoing acquisitions, renovations, and long-term operations; addressing zoning and building code barriers; identifying the right properties (and doing due diligence); and developing the right partnerships for conversion and service provision.

Lack of funding can hinder efforts at systems reform, especially in addressing racial inequalities in the homelessness response system. For acquisitions and operations, the federal government and state governments can provide reliable funding: Increasing funding—like California’s Homekey program expansion and HUD’s HOME-ARP grant funds—can support localities in expanding supportive housing supply and bolstering their pandemic response.

Measures like project-based vouchers and state programs are imperative in helping fund the long-term functioning of hotel conversions. For example, King County’s (in Washington) Health Through Housing 0.1 percent sales tax is structured so that fifty percent of the proceeds

from the sales tax is used to support capital costs, the rest is dedicated to providing an ongoing source of funding for operations and services Reid et al, 2021).

States may implement legislation that exempts conversions from discretionary review and other local requirements which often delay projects. For example, California and Oregon passed legislation to help streamline projects intended to convert hotels/motels into permanent supportive housing and overcome local regulatory barriers. These types of laws can help to minimize risk from community opposition and remove zoning barriers to residential development (Dake, 2021).

Hotel conversions are only one strategy to end the homelessness and affordable housing crises and should not replace strategies to supply more affordable housing. The LIHTC program has been the primary tool for affordable housing supply, but the COVID-19 pandemic response showed that using flexible capital to acquire undervalued properties for conversion into affordable and supportive housing can be an effective investment strategy.

Case Study: Williston, Vermont

Vermont is facing a crisis of housing availability and affordability. Job-seekers are turning down jobs because they cannot find housing, and housing issues were the centerpiece of this year's gubernatorial campaign (Thys, 2022; Duffort, 2022). Governor Phil Scott has poured resources into solutions, including \$338 million since March 2020 (Duffort, 2022). One of the strategies is converting hotels/motels into shelter spaces, affordable housing, and/or supportive housing.

Champlain Housing Trust (CHT) is a community land trust headquartered in Burlington, Vermont. CHT has an almost ten-year history of repurposing hotels or motels. Its original hotel transformation occurred in the fall of 2013 to expand Vermont's availability of emergency cold-weather housing. CHT partnered with the state to purchase and operate supportive housing and has continued to purchase hotels/motels since. Motels are ideal for conversion to affordable housing since they are built for long-term stays; they include small kitchens and other amenities. We spoke to Chris Donnelly, Champlain Housing Trust's Director of Community Relations, to learn more about CHT's purchase of a hotel using ARPA funds.

During the early days of the pandemic, in February/March 2020, CHT proactively contacted the state to discuss the need for transforming another hotel using the Coronavirus Relief Funds (CRF). CHT bought a motel with CARES funding in November 2020 (Baird, 2020). At that time, it purchased three hotels: one for domestic violence victims, one for a quarantine/isolation facility, and one for permanent housing. When the ARPA funds became available, CHT leaned on its long operating history and recent successes with CRF funds to highlight its capabilities for developing an additional site. There was some urgency; the state spends up to \$5,000 per month per room when it pays for Vermonters to stay in privately-owned motels as a form of shelter (Duffort, 2022). Before the state legislature allocated funds to the project, members of the citizen legislature visited the site of the CRF projects, which included supportive services, and spoke with residents to understand the projects' efficacy. The diligence was successful, and CHT was granted the funds. CHT purchased the TownePlace Suites in Williston, Vermont, for \$13.45 million (Allen, 2021).

The finished project will include 72 permanent-use furnished apartments serving low-income residents (50-60% of the local area median income) and 38 people coming out of homelessness. Most residents will be single individuals in 1-bedroom apartments, though there are a few 2-bedroom units. There is no limit on the length of stay, and there will be medical and other safety services on-site.

Community engagement was a crucial piece of the process. The neighborhood surrounding the site is a mix of renter and owner households, and increasing affordable options is a neighborhood value. Both local representatives for the State's House of Representatives spoke out in favor of the project, and the town's Select Board voted to approve it. Residents did raise concerns about the lack of parking, but CHT was able to explain that the demographic of residents who would be served by the project is less likely to own cars than market-rate residents. CHT eventually applied for and was granted a zoning exemption for parking. Donnelly noted that CHT's 35-year track record of implementing affordable housing projects eased concerns.

There were also concerns related to the on-site supportive services. Initially, some service providers had concerns about the concentration of people exiting homelessness living in one building because their need for supportive services would be high. As such, the team decided to do a mix of units serving low-income residents and people exiting homelessness. Additionally, there were some regulatory concerns about the owner of the project also providing on-site supportive services. CHT was able to explain that providing services was a key part of its mission and that doing so filled a critical need.

The funding process was complicated and required close coordination with the Housing Conservation Board. Vermont wanted to leverage ARPA dollars with other funding streams to spread it further, which slowed the process. Additionally, the Treasury Department was restrictive about leveraging resources but eventually allowed more flexibility for using LIHTC along with ARPA dollars. The project would have otherwise needed to have been funded with purely ARPA funds. Access to 4% LIHTC brought in some equity, which was important since the site was worth twice as much as a hotel than it was projected to be as apartments. CHT received \$8.6M from the Vermont Housing and Preservation Board and \$6.2M in federal ARPA funding for the acquisition and rehabilitation of the site (Vermont Housing and Preservation Board, 2022).

Ongoing funding for the site will be provided via Non-Elderly Disabled (NED) vouchers from the local housing authority. After living at the site for a year, the voucher becomes portable, and residents can move out if they choose. It is also funded by project-based vouchers, charitable donations (including a private grant), a subsidy, and savings from limiting the debt at the onset of the project.

Case Study: Austin, TX

Similar to Williston, the city of Austin also had experience in hotel conversion before committing ARPA funds to their projects. Homelessness is a growing issue in Austin. Rising housing costs and low wages have increased Austin's homeless population by 46% in the last decade. Providing permanent housing for these individuals is the city's "north star" in solving the homelessness crisis (Thompson, 2022). In response, the city began its hotel initiative in late 2019,

before the COVID-19 pandemic, to provide permanent supportive housing to individuals currently in shelters or on the streets.

To learn more about Austin’s experience with hotel renovation for permanent supportive housing using ARPA funds, we spoke to James May, Housing and Community Development Officer for the City of Austin’s Housing and Planning Department. The initial hotel project was purchased in late 2019 by the city using Community Development Block Grant funds in an attempt to spend federal funds before they expired while also addressing the homelessness crisis. The site was identified by officials at the Austin Housing and Planning Department in conjunction with Austin Public Health. It now serves as transitional housing. Four additional hotels were purchased soon after. These are currently being renovated for permanent supportive housing, with plans to open the residences in 2023. One of these hotel projects was undertaken by a nonprofit partner; one was purchased and renovated using funds from the National Housing Trust; one—the Texas Bungalow Hotel, known as Bungalows—was purchased outright using ARPA funds; the final hotel—a Candlewood Suites rebranded as Pecan Gardens—was purchased with city funds and is being renovated using ARPA funds. ARPA provided the city with an opportunity to make transformational changes to quickly scale up their hotel-to-permanent housing program.

Hotel conversions had a lot of support from city administrators. Council members were actively involved in the project. Members would frequently check in with staff at the Housing and Planning Department with potential hotel sites and were engaged in each phase of the project. Other departments within the city, including Austin Public Health and its homeless response team, were also supportive and acted as internal champions for the project. Contracts and financing were carefully overseen by asset managers and procurement officers.

Identifying appropriate locations required extensive input. City administrators had to account for neighborhood characteristics—grocery stores, healthcare facilities, schools, transit, etc. to determine if a hotel would be the right fit for the population. May reported that colleagues were looking for sites that “solved problems instead of creating new ones.”

When the hotels were identified and purchased, community members were concerned about sharing space with formerly homeless residents, especially in the Pecan Gardens project. They were worried about crime, safety, and density—common themes amongst detractors of low-income housing. City officials were eventually able to win them over, however. May called that process “one of the more interesting community engagement projects I’ve ever seen.” He credited his colleagues, Dianna Grey, Homeless Services Officer, and her team, who were able to assuage community members. “People came in [to the engagement meeting] with pitchforks, and by the end of the session, they were more on board,” May said.

Grey and her team took time to listen to concerns, especially from neighboring businesses and facilities. With a deep understanding of the population the PSH units will serve, they did not shy away from discussing challenges while also proposing solutions. May stressed the importance of talking to community members in order to eliminate any impression of surprise. City administrators talked them through the process of project development, site identification, and program sustainability, providing as much information as possible at the start to help combat

resistance. Their upfront engagement efforts were successful in winning over hesitant neighbors; as May said, “there is no champion like a convert.”

The Bungalows project will contain sixty PSH units. Fifty of these units will be occupied by housing voucher holders identified by the local housing authority. The other ten will be occupied by individuals living with comorbidities referred from community and mental health partner, Integral Care. Pecan Gardens will have seventy-eight units, the majority of which will be occupied by housing voucher holders. These vouchers will help pay for ongoing services and repairs needed after ARPA funds are depleted. The properties will have no limit on the length of stay for residents. As long as residents remain eligible for their housing voucher, they can reside in Bungalows or Pecan Gardens.

May stressed the importance of client-centered development design for the hotel projects. Transitioning from life off the streets is difficult. Building protected exterior green space into the sites was necessary for individuals who suffer from anxiety from being inside. While these combined 128 units will not end the homelessness and affordability crisis in Austin, the creation of these units (and more like them) are a necessary step to address the issue. If these projects are successful, they may pave the way for additional hotel renovation projects. Tackling the homelessness crisis in Austin will require a large investment of time and resources. While May described the ARPA funds as a “one-time boost,” the hotel conversion projects are a critical step in addressing the issue.

Discussion

Both the Champlain Housing Trust and the City of Austin had converted hotels into affordable housing or shelter space before the pandemic. They were both able to capitalize on the opportunity to use ARPA funds for transformational investments while leaning on prior expertise and operating experience. The broader political, economic, and social environment also played a role in the speed at which these projects were enacted; both Austin (at a city level) and Vermont (at a state level) are facing historic housing challenges. They are both politically liberal environments where investments in affordable housing are fairly palatable despite concerns from neighbors in the immediate vicinity of the projects. Still, in both projects, local buy-in from the city council, local representatives, and the Select Board was critical.

In both cases, procuring sustainable funding will be critical for the projects’ long-term success. ARPA funds provided the jump start, but the ongoing success will rely on sustainable local and state funding sources.

Converting hotels/motels to affordable housing or shelter space is transformational for the individuals who get to live there, especially for units converted to permanent supportive housing. These residents are given an enduring solution for affordability and stable housing. In order to address the root causes of the housing crisis and the broader causes of homelessness, however, a more radical shift towards region-wide affordability and supportive services is needed.

Conclusion

Localities interested in implementing either tiny home or hotel conversion strategies to solve their affordable housing issues should take note of the costs and benefits of the project. National and local rules and regulations could greatly interfere with the enactment of a project. As the St. Louis case shows, changes to the U.S. Department of Treasury ARPA housing guidelines nearly shut down the city's tiny home project with Veterans Community Project. Additionally, Williston's choice to use ARPA dollars with their other revenue streams slowed the project's implementation. Madison officials also ran into problems with city zoning and building code issues that required close interdepartmental collaboration with the city planning department.

Location is another factor that managers must consider in these projects. Motels and hotels are often not linked to essential services like grocery stores, schools, or health care facilities, and city administrators must weigh this when determining if a location of a hotel is suitable for maintaining a more permanent, lower-income community. Location of tiny homes is also important in attracting unhoused individuals. Madison shows that when these communities are situated in more industrial, remote areas, it is harder to get buy-in from the individuals meant to inhabit those same communities.

The affordability of these projects is one of their primary benefits. Relatively minor renovations are required to convert hotel rooms into apartments, and tiny homes are inexpensive to build, relatively cheap to maintain, and only require low-skilled labor to construct. A potential detriment to this affordability is that tiny home communities in Madison and St. Louis are partnered with holistic social and workforce development services, as well as on-site security.

Perhaps the most important factor in enacting and sustaining these projects is creating community-buy in and fostering political support. The common theme in these cases is that they either had neighborhood support or support from elected officials like state level politicians in Williston or the Mayor and former Secretary of State in Missouri. Adversely, negative community feedback centered upon the increased crime and density issues that come with these projects could potentially derail the initiatives altogether.

The challenge for city managers is how to prioritize housing projects once the ARPA funding stream runs dry. Can these projects maintain community buy-in once the pandemic is over? Though community members involved in the Pecan Gardens project were persuaded by the merits of the project, the old prejudices of how these projects will hurt the neighborhood still exist. Additionally, housing commissioners are stretched thin on these projects. In a few of these cases, the city housing authorities only had a handful of staff to maneuver the logistical factors of ARPA funding as it relates to these progressive projects.

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