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MORE BEDS FOR YOUR BUCK:
A Cost-Effective Approach to Ending Unsheltered Homelessness in San Francisco

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The "A Place for All" ("APA") ordinance required the Department of Homelessness and Supportive Housing ("HSH") to prepare a plan for opening sufficient shelter and housing to serve all of the unsheltered people in San Francisco within three years. On December 30, 2022, HSH submitted their plan to the Mayor and the Board of Supervisors, concluding that ending unsheltered homelessness could be accomplished at a staggering cost of $1.45 billion.[1] The release of the HSH report unsurprisingly produced a negative reaction, with one commentator concluding that the high cost and logistical challenges would make the task of ending unsheltered homelessness within three years "probably impossible."[2]

This Comment argues that the HSH report is one answer to the question of how to end unsheltered homelessness, but it is not the only answer, and, more importantly, it is not the most cost-effective answer. The HSH plan included various types of shelter and housing, which the City currently uses, and then calculated the cost. An alternative approach would first recognize the City's resource constraints and would then consider which particular combination of shelter and housing could end unsheltered homelessness with the most cost-effective results. This Comment employs the latter approach.

This Comment contains the following conclusions and recommendations:

1. Most of the enormous costs in the HSH plan are driven by the tremendous capital costs of building or buying permanent housing and, to a much smaller degree, by the capital costs of building some types of shelter.

2. To end unsheltered homelessness, the City should rely on its most cost-effective solutions: hotel conversions for shelter and apartment leasing for housing.

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[1] *See* DEPARTMENT OF HOMELESSNESS AND SUPPORTIVE HOUSING, CITY & COUNTY OF SAN FRANCISCO, A PLACE FOR ALL REPORT 2 (2022) <https://hsh.sfgov.org/wp-content/uploads/2022/11/A-Place-for-All-Report_12.2022_FINAL.pdf>, [hereinafter HSH Report].

[2] Kevin Fagan, *S.F. Says it Could End Street Homelessness in 3 Years. An Additional $1.4 Billion is Just the Start*, S.F. CHRON., Dec. 30, 2022 <https://www.sfchronicle.com/sf/article/s-f-report-puts-a-1-4-billion-price-tag-on-17686136.php>.

3. These cost-effective forms of shelter and housing could provide the same number of shelter and housing units as the HSH plan at much lower cost, perhaps as much as 75 percent lower.

4. As the City prepares its budget for the 2023-2024 fiscal year, the City should aim to reduce unsheltered homelessness with cost-effective shelter and housing obtained through leasing, instead of sinking funds into expensive owned housing that will serve relatively few people.

Since the organization's founding, RescueSF has called on the City to treat homelessness like a natural disaster. It is time to recognize that the City's usual playbook for addressing homelessness is not ending the crisis on our streets. To deal with the emergency, we need an emergency response.

The first section of this Comment evaluates the HSH report on APA. The second section offers recommendations for ending unsheltered homelessness with cost-effective shelter and housing.

I. Evaluation of the HSH Report on "A Place for All"

Evaluating the HSH plan and its high price tag should begin with a financial breakdown of the plan's different elements. While the HSH report states that the three-year cost of the plan would be $1.45 billion, the report does not actually provide any data regarding the three-year operating expenses. Instead, the report includes the startup costs of housing and shelter, the annual operating costs after all of the new shelter and housing units are in place, and the annual spending on prevention.[3] The report also notes that the financials assume that administrative expenses would equal 15 percent of annual operating expenses, although the text does not present a dollar figure.[4] As shown in Figure 1, the total of these elements – startup costs and annual peak operating expenses – is $1.25 billion.

[3] *See* HSH Report, *supra* note 1, at 11, 13, 15.
[4] *See id*. at 17.

Figure 1. Financial Breakdown of HSH Plan for APA

	HSH Report	
	$ mln.	**%**
Startup Expenses		
Housing Capital	696	56%
Housing Leasing	28	2%
Shelter	58	5%
Total Startup Expenses	781	62%
Annual Operations		
Housing	215	17%
Shelter	172	14%
Total Operations	387	31%
Prevention	24	2%
Administration	58	5%
Total	1,250	100%

Sources: HSH Report, *supra* note 1, at 11, 13, 15 (total startup and annual operating expenses for housing and shelter, annual spending on prevention); Interview with HSH and Focus Strategies (Mar. 6, 2023) (the average startup cost for a single unit of leased housing is $11,000); RescueSF calculations.

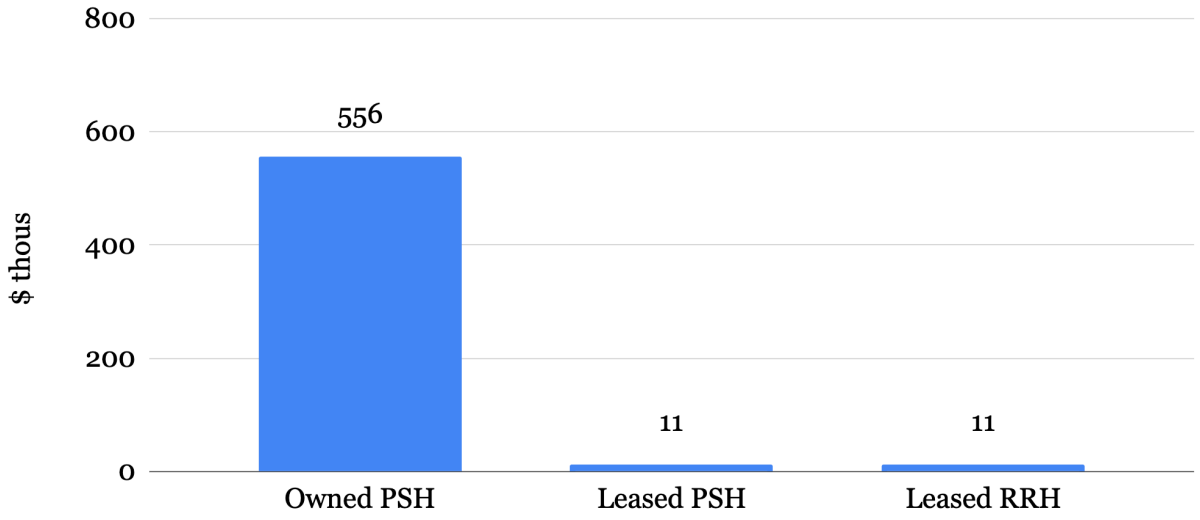
1. The high costs of the HSH plan are mostly driven by $696 million of capital expenses for new housing.

The HSH plan would spend $696 million on building housing, representing 56 percent of the $1.25 billion total of startup costs and annual peak operating costs. The HSH plan would create 3,814 units of housing, including 3,752 units for individuals and 62 units for families. The plan would generate the individual housing from three sources in equal amounts: single-site Permanent Supportive Housing ("PSH"), which are buildings owned by a non-profit organization; scattered-site PSH, which are leased apartments; and Rapid Rehousing ("RRH"), which are also leased apartments.[5]

[5] *See id*. at 9.

Figure 2 shows the startup expenses for the three types of housing: owned PSH, leased PSH, and leased RRH. One unit of owned PSH has startup costs of $556,000, while the two leased housing options each have startup costs of $11,000 per unit.

Figure 2. HSH Plan: Startup Expenses of One Unit of Housing



Sources: HSH Report, *supra* note 1, at 11, 15 (total startup expenses for housing; number of housing units in plan); Interview with HSH and Focus Strategies (Mar. 6, 2023) (the startup cost for a single unit of leased housing is $11,000); RescueSF calculations.

2. The relatively high startup costs for shelter – $58 million – include capital expenses for opening new navigation centers.

The HSH plan would create 2,250 shelter units, equally divided between congregate and non-congregate shelter, and a portion of the congregate shelter would be new navigation centers.[6] Opening new navigation centers is expensive. In 2021, the City opened two new navigation centers, one in the Bayview and one in the Lower Polk area. The Bayview center cost $19.2 million in capital expense, which translated to almost $95,000 per bed, and the Lower Polk site had $6.2 million in capital expense, or more than $45,000 per bed.[7]

[6] *See id*. at 13; Interview with HSH and Focus Strategies (Mar. 6, 2023) [hereinafter HSH & Focus Interview].
[7] *See* Joshua Sabatini, *Two New Navigation Centers Set to Open in Bayview, Lower Polk*, S.F. EXAMINER, Jan. 11, 2021 <https://www.sfexaminer.com/archives/two-new-navigation-centers-set-to-open-in-bayview-lower-polk/article_499071dc-4489-577f-858f-37605e9a2990.html>; RescueSF calculations.

3. The cost estimates in the HSH plan reflect average historical costs, not the most cost-effective solutions that are currently available.

The cost projections in the HSH plan are based on the average historical costs of various types of shelter and housing.[8] This historical data includes the costs of interventions that are not today's most cost-effective solutions. Instead of including the historical data for many different interventions, the HSH report could have used historical data for just the most cost-effective options. As a result, the cost estimates in the HSH plan overstate the cost of providing new shelter and housing.

4. The HSH plan creates equal amounts of congregate and non-congregate shelter.

Under the HSH plan, half of the new shelter units would be congregate shelter, in which guests sleep in a large dormitory-style room with many other guests.[9] Many people who are homeless decline offers of congregate shelter because of concerns about their personal safety, theft of belongings, the lack of privacy, the inability to stay with a partner, and prohibitions on bringing pets. In contrast, people who have stayed in non-congregate shelter, such as hotel rooms, reported their preference for non-congregate shelter because it made them feel safer, healthier, and more ready to plan for leaving homelessness.[10]

5. The HSH plan includes $24 million of annual spending on homelessness prevention programs, but the plan acknowledges that only a small share of the spending would actually reduce the flow of people into homelessness.

Homelessness prevention programs, such as rental subsidies to avoid eviction for unpaid rent, can be highly effective at keeping people housed. For example, if unpaid rent would have pushed someone into homelessness, emergency rental assistance would prevent that person from becoming homeless. The problem is that the vast majority of people receiving homelessness prevention services would not have actually become homeless without the assistance. According to the HSH report, only four percent of adult-only households and ten percent of family households that receive prevention assistance are kept out of homelessness.[11] Homelessness prevention programs are an essential element of the City's response to homelessness. If the City can make the spending more cost-efficient – by channeling more of the funds to those people who would become homeless without it – the City's prevention programs could stop even more people from falling into homelessness in the first place.

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[8] *See* HSH & Focus Interview, *supra* note 6.
[9] *See* HSH Report, *supra* note 1, at 13.
[10] *See* RYAN FINNIGAN, TERNER CENTER FOR HOUSING INNOVATION, SHELTER AND SAFETY AMONG PEOPLE EXPERIENCING HOMELESSNESS DURING THE COVID-19 PANDEMIC 12 (2022) <https://ternercenter.berkeley.edu/wp-content/uploads/2022/05/Shelter-and-Safety-May-2022.pdf>.
[11] *See* HSH Report, *supra* note 1, at 14.

II. Recommendations for Ending Unsheltered Homelessness in San Francisco

After substantially increasing its investment in homelessness solutions in recent years, the City has reported progress. From 2019 to 2022, overall homelessness declined three percent, while unsheltered homelessness fell fifteen percent.[12] These gains proved that targeted investments can reduce unsheltered homelessness, but despite this success, the homelessness crisis remains widespread and acute. The City should treat homelessness like a natural disaster and take urgent, bold action to end the human suffering on our streets. We have developed the following recommendations.

1. The City should add 2,000 non-congregate shelter beds in cost-effective facilities, such as converted hotels.

The City's shelter at 711 Post serves as a potential model for adding more shelter in San Francisco. In 2022, the City converted a hostel at 711 Post into a non-congregate homeless shelter. The building contains 250 beds, which are mostly in single rooms as well as doubles, triples, and quads.

Figure 3. The Ansonia Hotel at 711 Post has been converted into a homeless shelter.

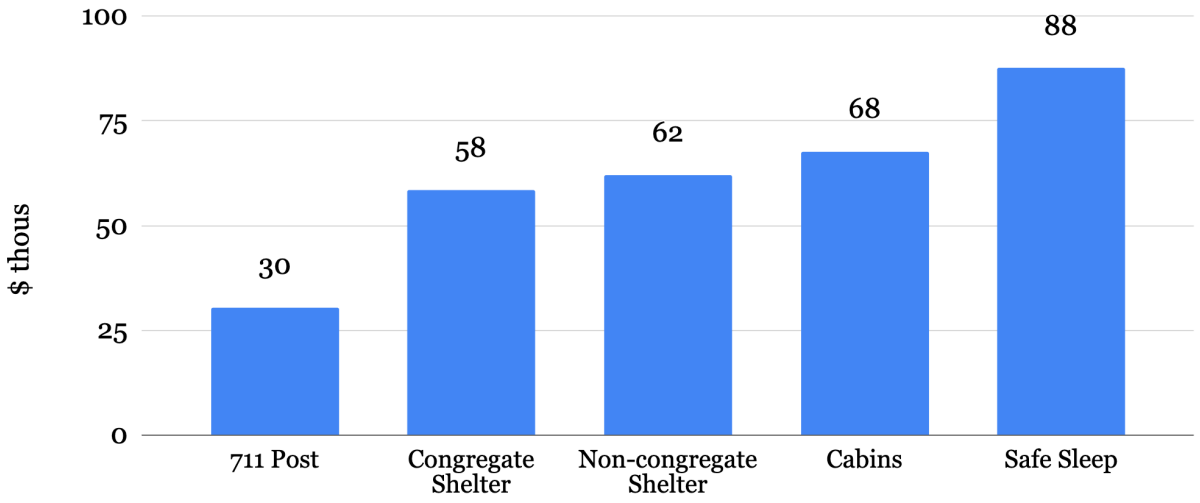
In addition to offering safe and comfortable non-congregate shelter, 711 Post is also very cost-effective. Having been a working hostel just prior to the conversion, the building was in good condition and required only $82,000 in capital improvements, which translated to just $328 per bed. The most significant operating costs are the lease, staffing from the non-profit site

[12] *See* Department of Homelessness and Supportive Housing, City & County of San Francisco, San Francisco Homeless Count and Survey: 2022 Comprehensive Report 19 (2022) <https://hsh.sfgov.org/wp-content/uploads/2022/08/2022-PIT-Count-Report-San-Francisco-Updated-8.19.22.pdf>.

manager, utilities, building maintenance, insurance, laundry, and meals. Annual operating costs per bed are $30,371.[13]

Figure 4 compares the annual operating expenses per bed of 711 Post to the four types of adult shelter used in the HSH plan. The shelter at 711 Post clearly offers the most cost-effective solution. Recognizing the potential cost savings from hotel conversions, the City should add shelter by seeking opportunities that are similar to 711 Post.

Figure 4. Annual Operating Expenses Per Bed of San Francisco Homeless Shelters



Sources: HSH Report, *supra* note 1, at 19 (shelter expenses not including 711 Post); Urban Alchemy - 711 Post (Ansonia Hotel) - MOD 5.20.22 Appx B - 3.22-6.24 - FINAL.xlsx (spreadsheet provided by HSH on 711 Post); Email from HSH (Mar. 17, 2023) (providing the annual value of the 711 Post meal contract); RescueSF calculations.

The projected benefits of adding 2,000 shelter beds in converted hotels are subject to significant qualifications. Most importantly, the City has to identify additional hotels with owners who are interested in master leasing their buildings for use as homeless shelters. As the City's hotel sector continues to struggle with the economic impacts of the pandemic, some hotel owners may be interested in a master leasing deal.[14] However, there is no guarantee that the City would be able to set up 2,000 shelter beds in converted hotels.

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[13] *See* Urban Alchemy - 711 Post (Ansonia Hotel) - MOD 5.20.22 Appx B - 3.22-6.24 - FINAL.xlsx (spreadsheet provided by HSH on 711 Post); Email from HSH (Mar. 17, 2023) (providing the annual value of the 711 Post meal contract); RescueSF calculations.

[14] The current hotel occupancy rate and daily room rate for San Francisco's hotels are below the average levels of 2019, and the revenue of San Francisco's hotel sector has had a weaker recovery than the hotel sectors in other comparable U.S. cities. *See* OFFICE OF THE CONTROLLER, CITY & COUNTY OF SAN FRANCISCO, STATUS OF THE SAN FRANCISCO ECONOMY: FEBRUARY 2023 6-7 (2023) <https://sf.gov/sites/default/files/2023-02/Status%20of%20the%20San%20Francisco%20Economy%20February%202023%20final.pdf>.

The 711 Post model is particularly attractive because of the relatively low operating costs for the shelter. Why are the operating costs at 711 Post lower than at other types of shelter? If 711 Post is indeed as cost-effective as the data suggests, HSH should study the facility as a potential best practice. That analysis does not yet exist.

In the absence of a definitive answer from HSH, the cost advantage of 711 Post likely derives from how the facility achieves economies of scale. The lease translates into a monthly room rate of $1,300. Since some of the rooms are doubles, triples, and quads, the building has 250 beds in its 125 rooms. As a result, the monthly lease rate per bed is halved to only $650.[15] Other fixed costs, such as for front desk and security staffing, would also be spread out over a larger number of beds, producing a lower operating cost per bed.

It is necessary to note some uncertainty about whether other hotel conversions could achieve the same cost efficiencies as 711 Post. For example, other buildings may require more funding for startup renovations. Additionally, if other hotel conversions have higher lease rates or a lower ratio of beds to rooms, the operating costs per bed could be higher.

2. The City should concentrate its housing spending on leased apartments for both Rapid Rehousing and Permanent Supportive Housing, which could house many more people than more expensive owned buildings.

Figure 5 shows how many housing units could be funded – for startup expenses and one year of operating expenses – with $595,000. Due to the high startup costs of owned PSH, $595,000 could pay the startup expenses and one year of operating expenses to house only one person. In the HSH plan, leased RRH and PSH have the same startup and operating costs. For $595,000, the City could house eleven people in rented apartments for a year.

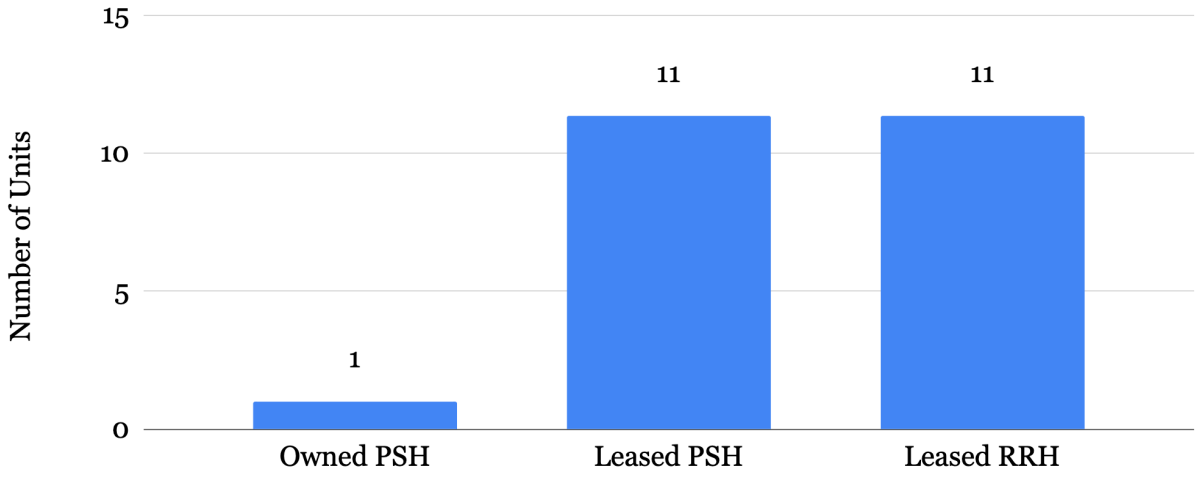
If the City pursues this strategy of increasing its reliance on leased apartments, it would have to contend with some practical challenges. As noted by the HSH report, both the City and nonprofit service providers would need to increase their staffing and administrative capacity, the City may not have enough apartments to meet demand, and proposed projects may face community opposition.[16] Furthermore, the City would have to convince and even incentivize landlords to participate in a rental program, and seeking to rent thousands of apartments could drive up rents.[17]

Another issue is the long-term costs of leasing compared to owning. Advocates for owning buildings argue that owned buildings are less expensive to operate over time, and the owned

[15] *See* RescueSF calculations.
[16] *See* HSH Report, *supra* note 1, at 22.
[17] *See id.* at 12.

building is a valuable asset unavailable in leasing arrangements.[18] While this is true in the long run, San Francisco's urgent street crisis is forcing the City to focus on the short run. In the short run, leasing can bring many more people into housing than newly constructed buildings. A final consideration is timing. New construction could take up to five or six years to complete, while a leased building could be operational within months.

Figure 5. HSH Plan: Number of Housing Units for $595,000
(Including Set Up and One Year of Operations)



Sources: HSH Report, *supra* note 1, at 11, 15 (total startup and annual operating expenses for housing; number of housing units in plan); Interview with HSH and Focus Strategies (Mar. 6, 2023) (the startup cost for a single unit of leased housing is $11,000); RescueSF calculations.

3. By using the most cost-effective interventions – such as hotel conversions for shelter and leased apartments for housing – the City could end unsheltered homelessness at much lower cost than the HSH plan, perhaps by as much as 75 percent.

To demonstrate the potential cost savings from using more cost-effective solutions, the HSH plan can be compared to an alternate scenario. Figure 6 compares the two scenarios. The HSH plan would add 3,752 units of adult housing, equally divided among RRH, scattered site PSH, and project PSH. The RRH and scattered site PSH are leased apartments, while the project PSH consists of owned apartments. The HSH plan would also add 2,250 shelter beds, equally divided between congregate and non-congregate shelter.

The "Leasing" scenario would create the same numbers of new housing units and shelter beds, but it would rely only on leased apartments for housing and hotel conversions for shelter.

[18] *See* SAMANTHA BATKO ET AL., URBAN INSTITUTE, MASTER LEASING IN LOS ANGELES: OPPORTUNITIES AND LIMITATIONS viii (2022) <https://www.urban.org/sites/default/files/2022-08/Master%20Leasing%20in%20LA.pdf>.

Figure 6. Two Scenarios: HSH Report vs. Leasing

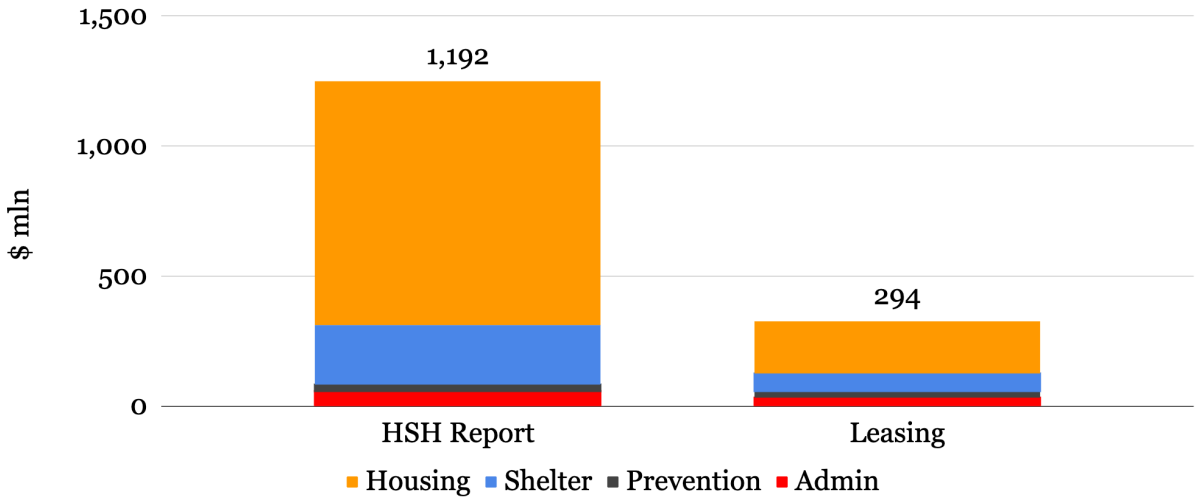
	Scenarios	
	HSH Report	**Leasing**
New Capacity		
RRH	1,251	1,876
Scattered Site PSH	1,251	1,876
Project PSH	1,251	0
Total Adult Housing	3,752	3,752
Family Housing	62	62
Total Housing Units	3,814	3,814
Shelter	2,250	2,250
Total Units	6,064	6,064

Sources: HSH Report, *supra* note 1, at 20; RescueSF calculations.

Even though the two scenarios would produce the same number of shelter and housing units, they have starkly different cost structures. In Figure 7, the startup expenses and one year of operating expenses of the HSH plan would total almost $1.2 billion, as also shown earlier in Figure 1. The Leasing scenario would cost $294 million, equal to less than 25 percent of the cost of the HSH plan.

All of the projections for both scenarios are of course subject to the caveat that the City would have to overcome the serious practical challenges discussed in the previous sections. If the City fails to surmount these practical constraints, the number of units or the associated costs would change.

Figure 7. Startup Plus Annual Operating Expenses: HSH Report vs. Leasing



Sources: HSH Report, *supra* note 1, at 11, 13, 15 (total startup and annual operating expenses for housing and shelter, annual spending on prevention); Interview with HSH and Focus Strategies (Mar. 6, 2023) (the average startup cost for a single unit of leased housing is $11,000); RescueSF calculations.

CONCLUSION

There is broad consensus in San Francisco that homelessness remains the City's top problem.[19] The City helps many people leave homelessness for permanent housing, but the City's approach to creating shelter and housing leaves too many people unsheltered. Instead of spending scarce resources on building or operating expensive shelter models, the City could bring more people inside by using hotel conversions to create non-congregate shelter. Instead of squandering enormous amounts of capital on owned buildings, the City could house many more people in leased apartments.

To deal with our emergency situation, we must replace business as usual with bold action to end the suffering on our streets. We call on the City to use its most cost-effective solutions for shelter and housing to end unsheltered homelessness and help people transition to permanent housing. Ending unsheltered homelessness is within reach.

[19] *See* Noah Arroyo, *How Fed Up are San Franciscans with the City's Problems? New S.F. Chronicle Poll Finds Pervasive Gloom*, S.F. CHRON., Sept. 13, 2022 <https://www.sfchronicle.com/sf/article/sfnext-poll-sentiment-17435794.php>.