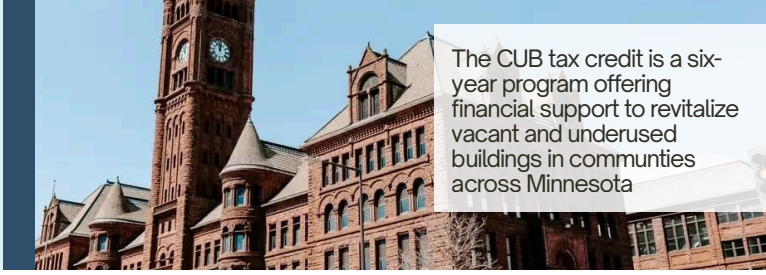
RETHOS

Catalyzing Underutilized Buildings (CUB) Credit



The CUB tax credit is a six-year program offering financial support to revitalize vacant and underused buildings in communties across Minnesota

About the CUB Tax Credit proposal

The proposed CUB Tax Credit is a temporary program designed to reinvigorate Minnesota communities by providing a new funding tool to assist with adaptive reuse of vacant and underutilized buildings. Converting these spaces to new uses can create housing, jobs, and expanded economic opportunity while preventing blight.

Why is this needed?

Minnesota faces a growing challenge: an increasing number of vacant and underutilized buildings in cities, suburbs, and small towns, while at the same time facing national housing shortages. These structures, which could be transformed into much-needed housing and commercial spaces, are instead becoming liabilities.

Without intervention, they contribute to a cycle of reduced property values and shifting tax burdens onto homeowners. This tax shift, combined with stagnant or falling property values, places additional strain on local governments, forcing tough choices between raising taxes or cutting essential services, including public safety and education.

The barriers to converting these buildings are significant. Outdated plumbing, electrical, and HVAC systems, deferred maintenance leading to structural problems, and critical infrastructure needs like water, sewer, and safety upgrades require large up-front investments.

With current interest rates, the rising costs of construction materials, and limited access to capital funding, property owners and developers struggle to assemble the complex financing for these major renovations.

The result? Vacant buildings persist even as demand for housing and vibrant, mixed-use spaces grows. This trend, if unchecked, will continue to undermine economic development and increase costs for both local governments and Minnesota families.

The CUB tax credit is a proactive solution, providing a targeted incentive to reverse these trends, generate jobs, and create much-needed housing and commercial spaces. By repurposing existing structures, we reduce wasteful demolition, lessen environmental hazards, and limit landfill use. Investing in building rehabilitation stimulates economic recovery across communities of all sizes while also preserving Minnesota's architectural heritage for future generations.

Tax Credit Options:

Program timeline: Available for a limited time, as its intended to have a catalytic impact by leading investment
Tax Credit Amount: Equal to a percentage of qualified conversion costs. Projects must meet substantial rehabilitation criteria, which requires total qualified expenditures to exceed the building's adjusted basis.

Grants: Small projects are eligible for a grant instead of a tax credit, creating more flexibility in financing.
Compatibility: CUB can be used along with other incentives, including the Minnesota and Federal Historic Tax Credits.
Limited Uses: Might be considered to focus investment where it's most needed

Potential Project Examples:

- Churches converted to daycare centers
- Schools converted to senior housing
- Theaters converted to event venues
- Shopping centers converted to recreational facilities
- Vacant upper stories converted to housing
- Low-rise office buildings converted to mixed-use housing/commercial spaces

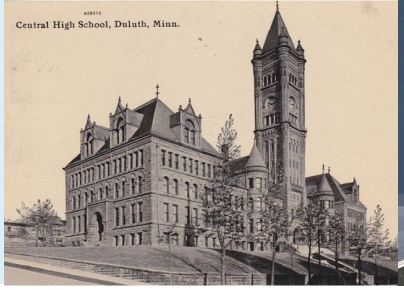
Building Requirements:

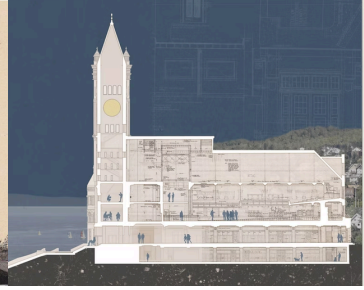
- Must be at least 15 years old.
- Buildings must be converted to a new use or have been vacant for a number of years.
- At least 75% of the external walls and 75% of the internal structure must remain intact.
- Conversion work must be completed within a defined time frame.

RETHOS

Zenith DCHS Apts in Duluth

Historic Consultant: AWH Architects





The Zenith DCHS apartments are the reimagination of the old Duluth Central High School, transforming the bones of a building with a rich history spanning over a hundred years into a modern residential complex of 122 mixed income units.

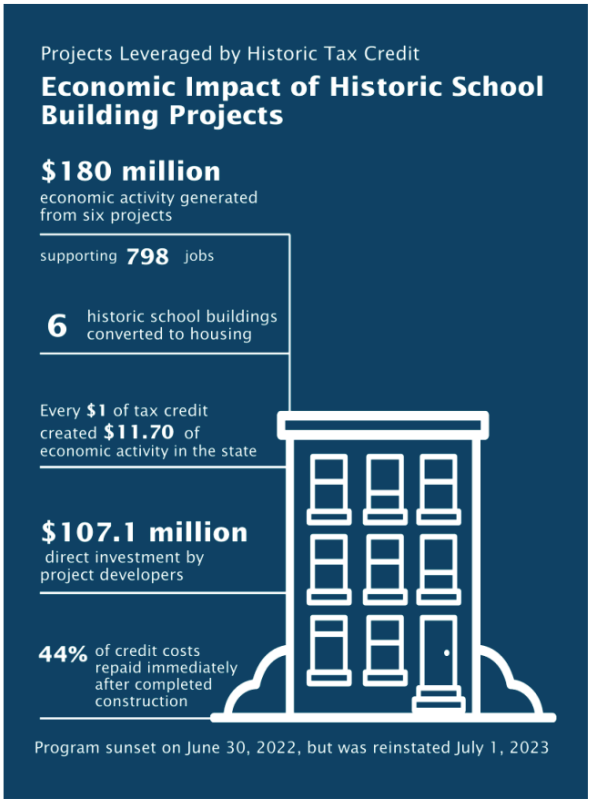
The funding for this project included contributions from the Duluth Economic Development Authority, using almost $4 million in Tax Increment Financing, and nearly $19 million from historic tax credits.

The 2023 estimated market value of the property was $2.6 million. Annual property taxes collected in Duluth increased from $0 as a defunct school building to $404,000 post-rehabilitation.

Some Benefits of a CUB credit for buildings like Zenith:

- Addresses affordable housing shortages quickly and easily
- Offsets carbon footprint; 41% of our landfills consist of demolished buildings
- Unlike the Historic Tax Credit, no restrictions exist around historic aspect of buildings, making it an easier, quicker entry point for architects to build new housing units or event spaces
- Location of older, underutilized buildings is usually desirable — urban settings, walkable
- Older buildings were built with higher quality and more reliable materials; today's new construction building's lifespan is ONLY 25 years
- In the next 5 years, 5,000 churches are predicted to go defunct and CUB credit would help convert these buildings to event spaces, housing, etc., putting money back in the economy

Project Financing and Impact	
Pre-renovation market value (2022)	$2,243,900
Post-renovation estimated market value (2025)	$19,269,800
Qualified rehabilitation expenses:	$47,642,130
State Historic Tax Credit (HTC) awarded	Five installments of $1,905,685
Federal funds brought to MN through Fed HTC	$9,528,426
Property tax paid in 2022	$46,674
Property tax paid in 2026	$337,432
State & local taxes collected (est.)	$4,991,300
Jobs supported (est.)	490
Estimated economic impact	$109,715,500



Source: UMN Dept. of Community Development: A report of the Economic Impact Analysis Program, 2023

"An adaptive reuse project like the Zenith DCHS apartments conversion would be completely unfeasible today without historic tax credits, public grants, or specialized gap funding."

- Destination Duluth

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