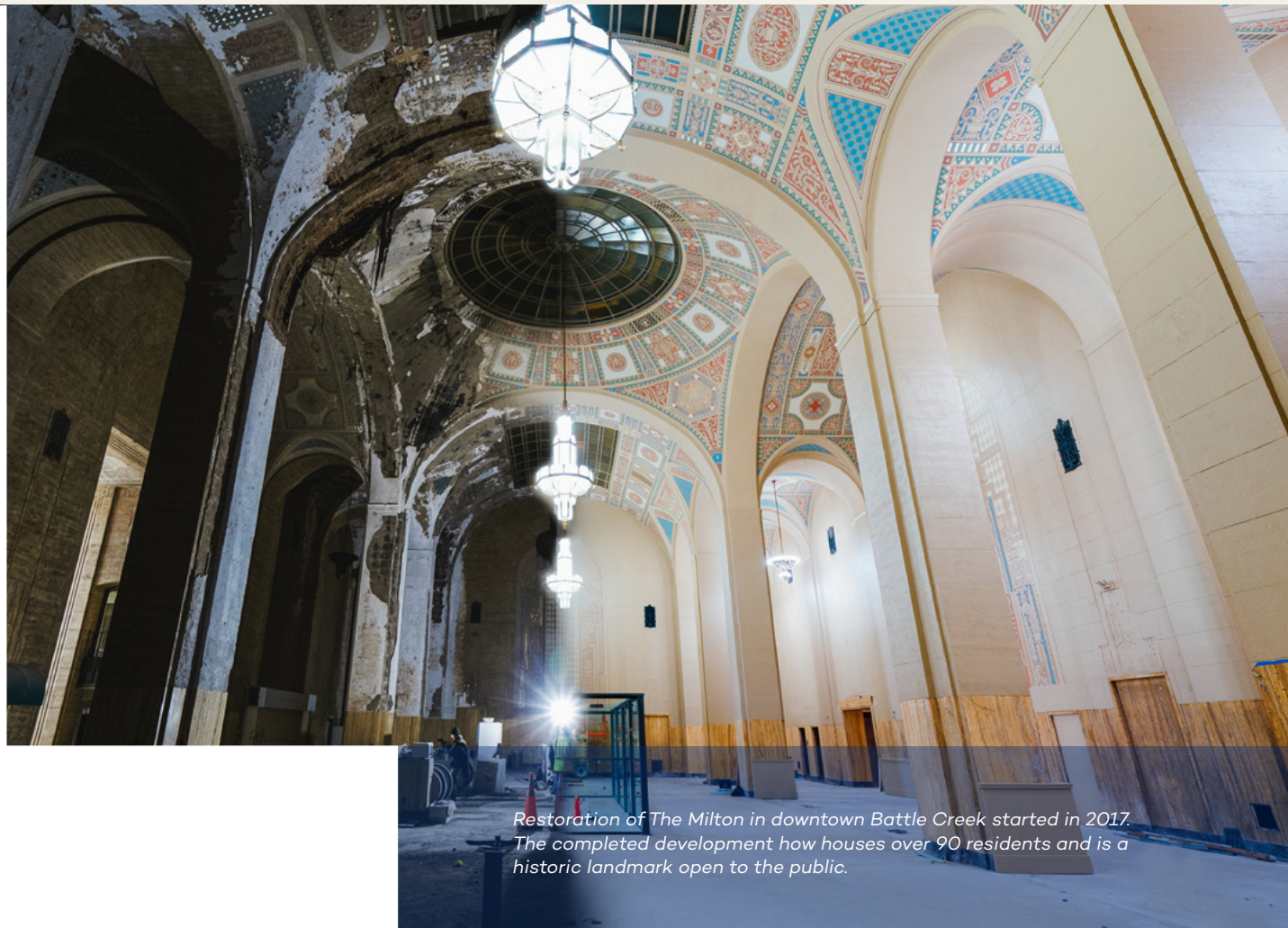
michigan municipal league

Hacking Michigan's Housing Potential

POLICY BRIEF



Restoration of The Milton in downtown Battle Creek started in 2017. The completed development how houses over 90 residents and is a historic landmark open to the public.

The Housing Conundrum

Michigan's housing landscape faces a conundrum—a surplus of buildings coupled with unmet demand for housing units that people both like and can afford. As the composition of Michigan households evolves, with an average size of 2.48 people per the most recent American Community Survey (ACS) data in 2022, the mismatch between existing housing stock and actual needs becomes even more apparent. The release of Michigan's Statewide Housing Plan in 2023 has further spotlighted the runaway problem facing every Michigan community: with housing prices up a whopping 84 percent since 2013, Michigan residents are facing numerous barriers to securing appropriate housing access.

Families with multiple people living together were far more common decades ago than they are now, a fact starkly reflected in current household statistics for single individuals living alone (now at 30.2 percent) and households with children (only 27.3 percent). This proliferation of smaller households has resulted in an uptick in the number of housing units needed for smaller households, most urgently in the non-luxury market. And yet, ironically, most new housing units constructed in Michigan are in the 2,000 square foot range or higher, both larger than the average household needs in terms of space and far more costly than many can afford. While some households need or want all that space, many don't. Meanwhile, the shortage of affordable housing has reached crisis levels in many areas, demanding novel approaches to address this issue. Although new construction is part of the solution, costs are killer, inhibiting the much-needed development of more housing in Michigan. With new construction clocking in at an average of $250/sq./ft. or higher for mid-grade quality, plus the added costs of land and sitework, that's an option which is quite hard to swallow.

We need a multi-pronged approach. And while new construction can help, we cannot build our way out of this crisis. Another solution is the transformative power of adaptive reuse. Adding onto existing buildings or repurposing them through adaptive reuse to create new housing units are both promising solutions to this problem.

This policy brief explores the strategies for adaptive reuse in two main categories: retrofitting single-family homes and converting non-residential spaces into housing. By repurposing existing structures, Michigan can address the affordable housing crisis, contribute to statewide sustainability efforts, and revitalize communities.

"We need a multi-pronged approach. And while new construction can help, we cannot build our way out of this crisis. Another solution is the transformative power of adaptive reuse."

Bay City, The Legacy mixed-use building in Bay City, another former bank, won a Michigan Governor's Award for Historic Preservation.

"...adaptive reuse is core to the next wave of solutions that will rebalance the housing portfolio and increase diversity of dignified housing options for our varied population."

This Is Not Our First Housing Crisis: What's Worked Already

Refashioning already-built buildings is not a new idea. In fact, it's a time-tested and pragmatic approach to using existing resources in a different way. Like altering a vintage garment to fit a new body, buildings can be tailored to meet current and future housing needs without having to newly construct them from whole cloth.

These types of adaptations have been used in previous housing need cycles for differing reasons. During the Great Depression in the 1930s, households were pressed to adapt due to economic conditions that left many without savings and employment. By the middle of the decade, credit access for mortgages became nearly untenable and single-family households had to make difficult choices or risk losing their homes. As such, many families opted to turn their homes into multigenerational dwellings, rent rooms out, or become boarding houses.

During WWII, wartime materials and labor shortages led to similar outcomes. Adapted homes remained split and even more splits began to be added to the inventory. As Michigan became a central player in the War Effort and its manufacturing centers took on the role of being the Arsenal of Democracy, the state began pulling in workers from elsewhere in the country. The resulting housing crunch was felt acutely because economic and demographic growth overshot the pace at which we could build. In the immediate post–WWII era, returning veterans swelled the numbers of newly formed families, increasing demand for family homes and an insatiable desire for separate dwellings quite different from cramped "make-do" living arrangements. The 1950s saw a construction boom fueled as much by post-war suburban building and babies as it was, by then, an American ideal of home ownership. This version of the American Dream was also perpetuated by a patriotic push in direct opposition to communist housing policies. Soured by hard times and limited choices, Americans were enticed by the counterpoint of suburban expansion that shifted the ideal away from multigenerational and multifamily units.

This housing mindset continued into the early 21st century, until the housing bubble burst in 2008 and reset the market in ways that remain impactful today. We are now faced with a glut of single-family homes and surplus office and institutional buildings that are products from a prior era of rapid industrialization, population growth, and the education of growing generations. Given shifting demographics and lifestyles, adaptive reuse is core to the next wave of solutions that will rebalance the housing portfolio and increase diversity of dignified housing options for our varied population.

The Promise of Adaptive Reuse for Housing

Adaptive reuse can take many forms. From converting an old barn into a beloved wedding venue or turning a former elementary school into a bio-tech laboratory, Michigan offers a myriad of examples. When it comes to housing, though, the value proposition is even higher as it meets an urgent need in the present day while doubling up on other important community goals.

Sustainability

Building uses change over time as markets shift and demands change. Adaptive reuse promotes sustainable development by reusing existing structures, which reduces construction waste, and leveraging the embodied carbon already invested in the building. It is one of the single most effect ways to reduce climate impact. By utilizing existing structures and converting previously non-residential buildings to housing, already-invested materials and labor can be redeployed.

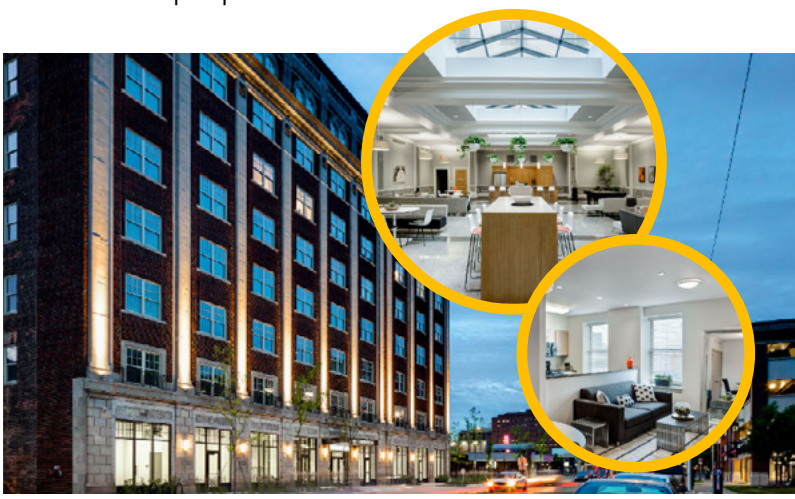
In Michigan, buildings contribute to 50 percent of the emissions statewide, according to findings from the Department of Energy, Great Lakes, and the Environment (EGLE) as well as the Midwest Energy Efficiency Alliance. In Detroit, the number is even higher: 63 percent. Of that figure, 40 percent is non-residential. By reusing existing buildings and by extension their materials by leaving them in place, carbon already invested in their construction can continue to be sequestered.

Overall material waste is drastically reduced when reusing an existing structure in comparison to demolition and new build, and raw material consumption plummets. Not only is embodied carbon already sequestered within the existing buildings, further impacts of demolition, haul away, and landfill usages are dramatically reduced. According to the United State Environmental Protection Agency, building demolition represents more than 90 percent of all debris generation. How much waste does that actually mean? In 2018, the United State Green Building Council found that 145 million tons of construction and demolition debris were being sent to landfills. That figure is *per year*.

The potential collective carbon savings of building reuse and demolition prevention is both practical and an attractive choice for quick sustainability wins. This approach aligns with Michigan's environmental and conservation goals and contributes to the circular economy by diverting surplus waste from landfills and reusing previously made materials instead of creating new materials.

Further wins can be had by retrofitting those same buildings for greater energy efficiency and at a cost far lower than the combined costs of demolition, disposal, and new construction. According to recent research by Quinn Evans Architects, building rehabilitations and retrofits result in cost savings that far outweigh the investment. Depending on the individual project, building rehabilitation can be much less expensive—depending on the project, anywhere from two to seven times less costly—than the combined costs of demolition and new construction combined with new expansions. These kinds of overall project cost reductions result in real and permanent increases in wealth that can then be invested in other improvements to the facility, programs for constituents, or other projects without sacrificing measurable job creation through the employment of skilled tradespeople.

Traverse City Commons:
The former Traverse City State Hospital evolved from a state run asylum to a thriving and bustling community is the foundation of what makes The Village what it is today.



Strathmore Apartments - Detroit:
Completed in 2016, this urban high-rise building renovation/adaptive reuse project salvaged a historic hotel and transformed it into a viable, signature asset in the heart of Midtown, Detroit.

> *"The quality and availability of materials used to construct historic or older buildings and structures are often much higher and more durable . . ."*

Affordability

While new construction is sorely needed to meet housing demand, relying upon new construction alone will not solve this crisis. With adaptive reuse, costs can vary widely. While higher-end replacement materials and laborious finish selections can result in project costs higher than a less substantial new construction, most projects will realize a net benefit over a comparable new build. The advantage is that labor costs are more than balanced out by savings in both material costs and carbon impact achieved by reusing most of the structure. While the same can be said for existing residential adaptive reuse, the net savings are far more substantial for repurposing institutional and commercial spaces due to their degree of material durability, scale, and volume. Nevertheless, both adaptive reuse and existing building rehab make sound financial sense in several ways.

Material and labor costs are skyrocketing, along with land costs, site engineering, and other fees like utility connections. As a result, newly constructed buildings rarely feature full-brick walls, stone foundations, or mature trees. But, rehabs and adaptive reuses frequently do. The quality and availability of materials used to construct historic or older buildings and structures are often much higher and more durable than producing new materials for a comparable new structure and are often graced with mature landscaping. Going one step further beyond simply reusing the building envelope, selective retention of interior elements such as marble or other stone, hardwood trims, tiling, terrazzo, or other higher-end finishes can also save projects major bank. In other circumstances, embracing the industrial nature of a site and leaving honest exposure of surfaces can also be a savvy way to contain material budgets. Instead of partial demolition and replacement with new, less durable materials, reusing existing building materials also creates a sense of place. Imperfections, layers of use, and skillful repairs differentiate those unique assets from new construction by the patina acquired over time and the stories they bear within them.

This built-in affordability helps address unmet housing needs and offers diverse configuration options. So, what if it's not cutting edge stylish? Or the floorplans are non-standard due to a different previous site use? Of course, apartments carved out of an old high school are not going to be consistently laid out in the same geometric precision as a newly constructed mid-rise. But they likely will feature beautiful surfaces, soaring windows, and perhaps the initials of some long-ago students carved into the woodwork. A developer confident in their design plan will leave those assets in situ, bring the place to code, make the necessary repairs, ensure that surfaces are scrupulously clean, and freshen up worn down components. For example, while a sleek bathroom with granite counters and glass would perhaps command a higher rent, it would also require a substantial investment for demolition and the installation of new components. Instead, wins can be had by understanding the local market, employing an honesty of project approach rooted in place, and embracing the distinctiveness of a project that is not run-of-the-mill. The result of waiting a few trend cycles and foregoing a lobby bathroom overhaul can mean that the Mamie pink bathroom tile and porcelain is instead termed "vintage" and adds to the special appeal of the property.

In addition to materials increasing in price, the actual cost of borrowing has also risen at an alarming rate. While not exceptionally high when considering historical banking trends, the drastic swing from approximately 3 percent to nearly 8 percent interest rates for mortgages and higher terms for construction loans have sharply influenced housing construction activity. It has also brought the current banking landscape closer to the economic conditions of the mid-1980s, which saw a stagnation in housing production. The result of these conditions is that when comparing the cost of new construction, clocking in at $260/sq.ft., outside of site engineering and land acquisition costs, the ballpark figure of $175/sq.ft. for rehab of an existing structure shows a distinct advantage on the balance sheet.

With those competitive cost advantages, adaptive reuse and building rehab projects are frequently either equal in cost or more cost effective than new construction. Lower project costs or contained costs with offsets elsewhere in the balance sheet result in making housing units more affordable for residents by reducing the net rent minimum needed to meet debt service. What does that mean? By reducing the owner's or developer's overall cost of investment, the pressure to set rents at a higher premium is reduced, therefore making the creation of naturally occurring attainable housing somewhat more of a realistic goal. This is especially true of a local government that is enticing the project with tax incentives, grants, or lower interest loans. By leveraging those tools for adaptive reuse or building improvements by the developer in exchange for keeping rents in a targeted income range, the overall costs of the investment are lowered, and the creation of more housing units can be supported.

Community Revitalization

Repurposing non-residential structures for the creation of new housing enhances the character and vitality of neighborhoods. By retaining a physical reminder of the past, these buildings help add continuity to a place and anchor residents to visual cues for their community.

This emotional connection to the built environment contributes to stronger communities and more robust economic stability by retaining population and attracting new residents. When faced with the option of moving to a newly constructed apartment further away from where they are already rooted or leasing a unit created in a former high school or place of worship nearby, some people would absolutely choose the newer option.

However, what about those who have a sustained connection to this place? Perhaps they studied in the old school or attended services in the former religious building. Maybe they didn't, but they love the texture of the building and the history behind it. Or maybe they don't want to move further away from friends and family or are new to the area and simply value the location as walkable to their favorite coffee shop or health care provider and are connected to the valuable landmarks of their everyday life. Those reasons contribute to an even greater argument for building reuse as a solution to the need for more housing options in a variety of formats and supports the continuity of occupancy in existing neighborhoods.

***Inner City Christian Federation - 415 Franklin**:*
The former 1931 Grand Rapids Christian High School was transformed in partnership with Madison Square Church and Inner City Christian Federation (ICCF). The finished space honors its history and is now home to 41 affordable housing units, an early childhood center, community spaces, Madison Church's Franklin Campus and ICCF's offices.

Building reuse also contributes to community revitalization by concentrating investments in areas that are already developed. Such projects do not consume agricultural lands or contribute to sprawl and the demand for an expanding infrastructure. Instead, they help direct project budgets toward costs other than new ground excavation, bringing utilities to the site, and connecting to adjacent neighborhoods *because those resources often already exist* when repurposing an existing structure.

For cities and villages nearly built-out or lacking in substantial amounts of vacant parcels, the ability to create new housing units within an already developed area or reclaim it from underutilization offers the opportunity to generate new tax revenue to contribute supporting funds to services already in place. These very real numbers also add to the appeal for increasing the number and kinds of housing choices. By locating residences in the heart of a place that has already been created, new residents are set up to immediately contribute to civic life. By their very presence, they carry out community revitalization automatically and add to the layers of place, connection, meaning, and belonging to an already-established community.

Two Approaches, One Goal: Carving Housing Units out of Existing Non-Residential Spaces

Adaptive reuse is the practice of repurposing existing structures for housing. Divided into two main categories—retrofitting single-family homes and converting non-residential spaces—these strategies aim to create additional housing units, enhance affordability, and offer a sustainable and cost-effective approach to increase housing availability.

1. **Conversion of Institutional Spaces**
   Non-residential structures like former schools, places of worship, and hospitals offer an abundance of space, and often, abundant natural light. When such conversions occur, they pose interesting design challenges, often resulting in unique and non-standard spaces composed of quality materials and craftsmanship impossible or unaffordable to otherwise include in new build scenarios. Such spaces prove to have lasting appeal in the housing market and distinguish those new units from the standard, cookie-cutter dimensions of more mass-produced new construction.

2. **Conversion of Commercial Spaces**
   Factories, retail, and office buildings can be repurposed into housing units. Depending on age and condition, the problem of effectively carving up the building to maximize both light and leaseable/salable square footage can either be as simple as utilizing existing circulation patterns or as complex as complete interior demolition and reconstruction.

   In the case of interior demolition and realignment of space divisions, mechanicals, circulation corridors, elevators, stairways, and storage spaces can be concentrated in the core of the structure with light-hungry spaces such as primary living areas and bedrooms arranged on the perimeters. If spans are so large that such treatments still leave vast swathes of underutilized square footage, cutting a donut hole into the center of the building to create a courtyard and nearly double window access is an emerging solution being applied to larger office buildings and other light commercial spaces requiring little to no brownfield remediation.

Nearly every community in Michigan has one or more properties that fits this description: built with quality materials in a downtown or downtown-adjacent location but now lain vacant due to economic conditions, changing building use patterns, or evolving demographics. Or, constructed in the post–World War II era of rapid suburbanization and commercial development, then subsequently left fallow as employers have shifted away from a light manufacturing site or large office park buildings. These large assets may be historic in the traditional sense of the word or, more often lately, they exist outside of the trendy resurging neighborhoods with nineteenth century architecture and are not yet beloved by those who profess adoration for historic preservation. These older-but-not-pretty buildings likely have solid bones, perhaps have just enough environmental contamination or obsolete qualities to merit a brownfield deal for tax increment financing and have most certainly experienced decades of deferred maintenance.

These types of adaptive reuse, from white elephant to solid neighborhood-in-a-building, not only provide more housing but also revitalize underutilized urban areas served by existing infrastructure, such as transit, water, sewer, electricity, gas, and broadband. They often offer more flexibility in site reconfiguration, frequently successful in Planned Unit Development (PUD) agreements with local municipalities or subject to progressive rezoning. These sites can act as a canvas for creative placemaking installations with vast expanses of square footage affording a broader range of site amenities, such as indoor common rooms, outdoor patios, and smaller scale retail or food-based businesses. Local governments can set the stage for such site redevelopments by identifying potential sites and making the conversation public, performing predevelopment activities, establishing policies streamline the permitting process, and providing financial incentives to encourage such conversions of properties not currently used for residential purposes.

***Marquette**: Former commercial building converted to housing next to new, infill construction.*

Multiplying Units with Existing Single-Family Building Retrofits

Retrofitting single-family homes, including adding newly constructed units and partitioning larger homes, is another hack that falls under adaptive reuse. While the purpose of the space remains housing, the shift from single-family dwelling to multi-family housing has significant implications for neighborhoods. Zoning variances, community engagement, financial support, and flexible codes are needed incentives for homeowners to see this as a viable option. Such patches to existing codes facilitate gentle density increases in both urban and suburban areas without wholesale planning overhauls. They are increasingly common.

These adaptations of policies are making way for adaptations of buildings and land to drive reinvestment into the places and buildings we have already built—not to encourage unbridled expansion without thought to environmental impact. Who knows what solutions will present themselves in the future? For now, we know these strategies work.

1. **Adding on to Existing Single-Family Units**
   One way to increase housing stock is to encourage the addition of new residential units within or attached to the footprint of existing single-family homes. These additions could be constructed in various forms. One possibility is building an addition attached to the original house that includes an en suite bathroom and mini kitchen, creating a semi-private separate living space. Another configuration could be to convert a walkout basement or garage bay to a separate apartment with private entrance.

2. **Constructing a New Accessory Dwelling Unit (ADU)**
   Building a new standalone structure on the same property can easily be accomplished if allowed by-right. Accessory dwelling units, sometimes called "granny flats," can be added onto a residential lot without much fanfare. This kind of additional, separate living space can accommodate multiple generations on one residential lot, thereby allowing for elder care, the launch of a young adult, the housing of another type of family member, or creation of a smaller scale housing option that is affordable for a non-related tenant while generating side income for the primary owner. Incentives, such as zoning variances or financing programs and seed grants, should be offered to homeowners who undertake such projects.

***Example of an Accessory Dwelling Unit (ADU)**: Copyright-free plans are available at mml.org*

ADUs can be easily and unobtrusively tucked in the rear of an urban lot. They are ideally positioned behind an existing dwelling or slightly offset from the main dwelling. They can also be aligned with direct driveway access. If circumstances allow, another recommended lot placement is to allow for direct access to an adjacent street or alley in urban areas. This may involve situating the ADU perpendicular to the existing dwelling on the edge of a corner urban lot to face the intersecting street or facing it away from the primary dwelling and orienting it to a rear alley access.

The format of creating a living space above a garage is frequently seen in residential areas and is among the most likely to receive by-right or conditional zoning approval. Another format is a small cottage that is smaller in size than the main dwelling but sits on the ground level. Both have unobtrusive forms and the ability to be customized to reflect or complement the exterior appearance of adjacent dwellings. These characteristics make this kind of home an easy choice for creating additional living spaces on an existing residential lot. For more information on this topic, and copyright-free plans for constructing new ADUs, explore *The Missing Middle Mixtape: More Pattern Book Homes for 21st Century Michigan* at mml.org.

3. **Partitioning Larger Homes into Smaller Apartments**
   Partitioning larger single-family homes into smaller apartments or units allows for multiple households to inhabit a single structure while preserving the exterior character and continuity of the building. Regulatory changes, like flexible zoning, can facilitate these conversions where they are right for a community. This solution could be as simple and reversible as to install a partition fire-rated wall between connected spaces that have separate egresses, cutting larger multi-room residences into smaller, separate living units. The possibilities are limited to only the owner's imagination and the requirements of local fire code.

> *"From direct financing to flexible use of locally received Federal dollars and other solutions in between, complex capital stacks can be built."*

Funding Strategies

The benefits of adaptive reuse, including sustainability, affordability, and community revitalization, are realized by linking the concept with other existing tools such as zoning updates, tax incentives and credits, below-market loans, and other financing incentive programs. These creative pairings are necessary to expand the menu of options beyond conventional single-family neighborhoods with homes bought through standard 30-year mortgages or vainly hoping that for-profit development will change course to fill smaller scale attainable housing demands. Expanding available housing options can help accommodate evolving housing needs in Michigan.

By leveraging successful initiatives and best practices, policymakers and stakeholders can create a framework for utilizing adaptive reuse as a tool to expand housing options. From direct financing to flexible use of locally received Federal dollars and other solutions in between, complex capital stacks *can* be built.

1. **Treating Housing as Community Infrastructure**
   Through an expanded read on an old tool, Tax Increment Financing (TIF), communities and developers are filling the gap between the cost of construction and affordability for market rate. This feat can also be accomplished with the additional action of layering traditional financing with philanthropic support. Details on how to construct this innovative financing design can be found in the *Housing IS Economic Development: Community Housing Solutions* publication from the Michigan Economic Developers Association (MEDA).

2. **Educating Buyers on How to Use Existing Systems**
   A loan from the Federal Housing Administration (FHA) is one of the most popular kinds of housing loans available. This loan type can be used to purchase or build up to four units at once and can also be a way for smaller scale developers to enter the market. This kind of loan can be used for acquisition, rehab, and new construction. Backed by the Federal Housing Administration, FHA construction loans have a minimum 500 credit score requirement with a 10 percent down payment. For those with a higher credit score, a down payment can be as little as 3.5 percent.

3. **Grants to Cover Pre-Development, Acquisition, and Construction**
   The Department of Housing and Urban Development's (HUD) Community Development Block Grant Program (CDBG)—$10 billion of which have been allocated during this Administration—provides grant funding that can be used to support acquisition and rehabilitation associated with the conversion of commercial properties to residential uses. States and localities can also access up to five times their annual CDBG allocation in low-cost loan guarantees to fund projects such as the conversion of properties to housing or mixed-use development. HUD's new $85 million Pathways to Removing Obstacles to Housing program will provide grants to states, local governments, and multijurisdictional entities to remove barriers to affordable housing production and includes the development of adaptive reuse strategies and the financing of conversions as eligible activities.

4. **Below-Market Loans that Make the Numbers Work**
   The Department of Transportation's (DOT) Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation & Improvement Financing (RRIF) programs offer over $35 billion in lending capacity, which provides large-scale below-market loans that can be used to finance conversions near transit. Many existing housing units are located within walking distance of bus or rail lines, offering opportunities for creating new housing units by subdividing large single-family housing or existing commercial spaces without having to break new ground.

   The Department of Energy's Loan Programs Office has below-market interest rate loans and guarantees that could support innovative zero-emissions buildings that are part of virtual power plants. Many local banks and credit unions are creating similar funds, often partnering with regional economic development agencies to set up loan loss reserve funds or loans and guarantees that can improve financing terms and reduce the cost of borrowing.

The Michigan State Housing Development Authority (MSHDA) also offers loans aimed at creating Missing Middle Housing. Rehabilitation activities are included in the areas of eligible activities.

5. **Land Dispositions that Make Deals Possible and Can Reduce Development Costs**
   At the federal level, the General Services Administration (GSA) is working with the Office of Management and Budget (OMB) to identify current and upcoming sale opportunities, maintain a public list of current opportunities, and affirmatively market resources available to support housing development in all targeted materials for applicable properties.

   At the state level, the Michigan Land Bank Fast Track Authority works with Michigan communities by facilitating productive reuse of land. This agency coordinates, promotes, and supports land bank operations at the county and local levels. Locally, school districts, tax-reverted properties, and state/county land banks frequently act as partners in land acquisition.

6. **Funding Energy Efficiency Improvements and Clean Energy for and by Buildings**
   Whether energy is generated on site or brought to the home through the energy grid, reduction of energy use is one of the most impactful ways to reduce building carbon emissions. Many utility programs offer rebates for more energy efficient mechanical systems, which can be combined with tax credits to further reduce upfront costs of energy efficiency retrofits. Rebates can help cover the cost of installing mechanical systems, as well as solar panels, building insulation, and lighting. In some instances, more extensive building reuse projects may make homes eligible for energy performance incentives and supplemental bonuses for Energy Star homes.

   Federal programs encouraging advancements on this front:

   - The Section 45L New Energy Efficient Home Credit provides up to $2,500 for multifamily dwelling units certified to an eligible version of the EPA's Energy Star Multifamily New Construction Program and up to $5,000 for units certified to the applicable DOE Zero Energy Ready Homes program. The section 179D Energy Efficient Commercial Buildings Deduction provides up to $5.00 per square foot for energy efficiency improvements to commercial buildings and multifamily buildings greater than three stories.

   - The Department of Housing and Urban Development (HUD) currently offers funding for qualifying retrofitting projects through the Green and Resilient Retrofit Program (GRRP). Similar funding opportunities may be available in the future at both the federal and state levels.

   - The Section 48 Investment Credit provides up to a 30 percent tax credit for investment in renewable energy projects, including fuel cells, solar, geothermal, small wind, energy storage, biogas, microgrid controllers, and combined heat and power properties. Additional bonus credit amounts are potentially available as well, depending on specific projects.

7. **Electric Heat that Doesn't Break the Bank**
   The current trend toward whole-house electrification has been made possible in recent years due to the increase in efficiency and affordability of appliances that were almost universally natural gas–powered in past decades. This new wave of appliances is an about-face from the technology of the mid- to late twentieth century, which was wildly costly and inefficient, far less

Detroit, The Plaza:
Conversion of this office building in Detroit to apartments preserved embodied carbon and created dense housing in a walkable urban neighborhood.

effective in below-freezing conditions, and prone to safety hazards. Since the early 2010s, the air-to-air heat pump has steadily increased its market share, not only in warmer climates as a competitive air conditioning solution but also in northern latitudes experiencing typical winter conditions.

This shift in technology is one of the biggest revolutions in household energy use, beyond thorough insulation. Also known as a mini-split, heat pump installation costs are about the same as those for installing a traditional forced-air, natural gas furnace plus electric air conditioning system. The initial purchase cost for the unit is slightly higher, but the return on investment (ROI) makes up for that up-front investment within only a few years of use.

Forward-thinking trades experts are finding a simpler installation pathway and easier accommodation for appliances in tighter spaces for less installation cost. Why is this? Because there is no need to vent them. These plans recommend installation of electric systems, like heat pumps, so that homes are better prepared for the phasing out of traditional heating and cooling systems (like certain kinds of refrigerant-based AC units), which is projected to occur in the coming years.

This radical shift from abysmal efficiency to superior performance is due in part to the presence of far more capable inverter compressors. These components have varying capacities that are substantially more efficient than the typical natural gas furnace, with good stats in ambient temperatures as low as minus 15 degrees Fahrenheit. When the mercury drops below that threshold, a second-stage heater can be brought up to speed to fill the gap.

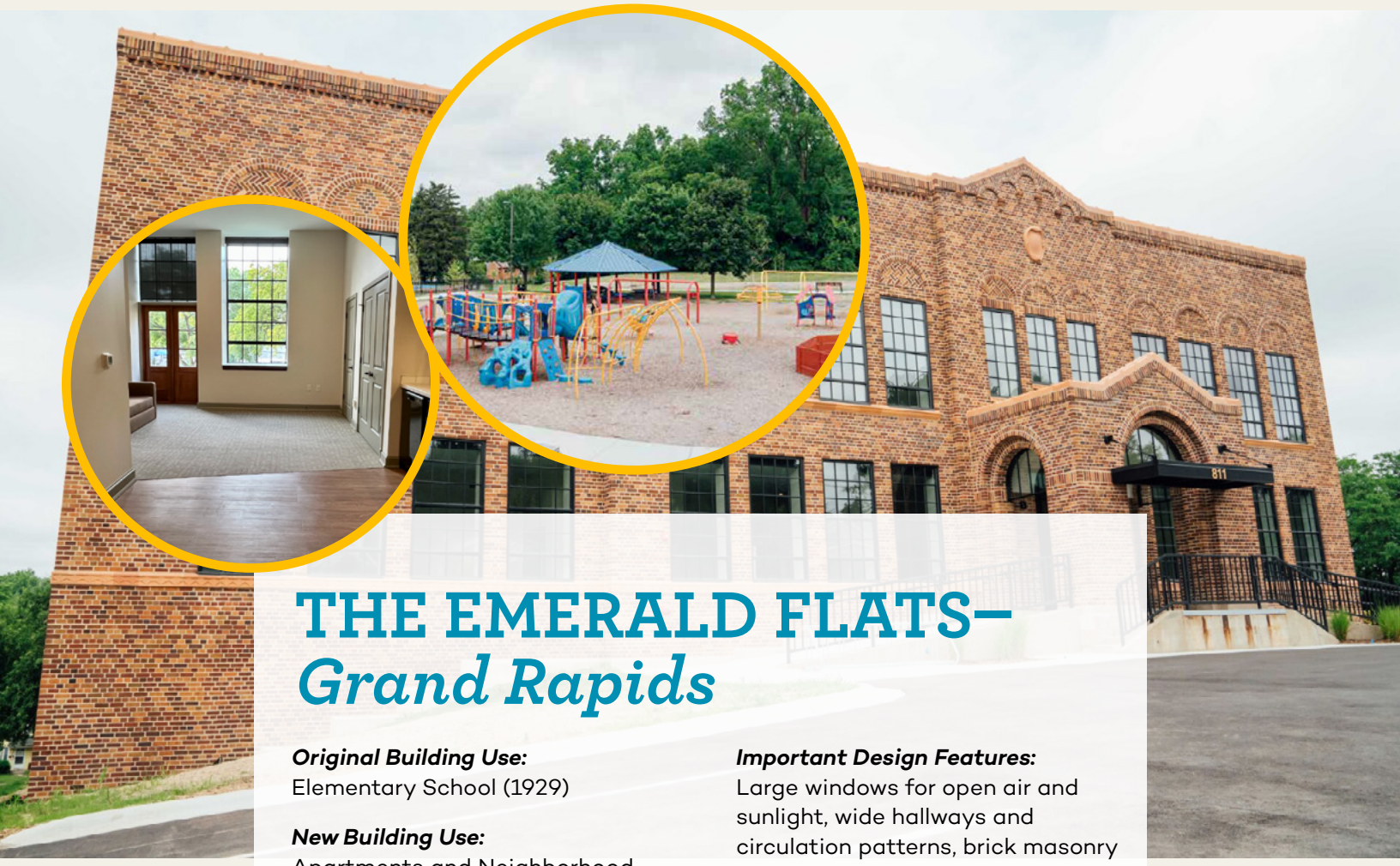
It's important to note that, like any change over to new appliance models, behavior and performance expectations must be adjusted as technology continues to advance. While some all-electric projects may require more labor and materials, in the end, the energy (and operating costs) saved result in a worthwhile investment.

8. **Using Tax Abatements to Manage Ongoing Ownership Costs**
In 2023, the Michigan Housing Coalition was successful in advocating for the expansion of Neighborhood Enterprise Zones (NEZ), which sets the property tax at one-half the rate of taxation in the year prior to new investment. The expansion of Public Act 147 of 1992 allows a local government unit to designate an NEZ only if the local government unit determines that the designation encourages compact development and is adjacent to existing development and can utilize existing infrastructure. For communities with artificially lower housing values and high tax millages due to legacy costs, this strategy could be a boon for neighborhood reactivation.

This expansion further clarifies the focus on infill development of condo and mixed-use housing and the discouragement of sprawling new construction. It enables local government to support new (in whole or in part) residential homes and condominiums or new (in whole or in part) mixed-use buildings that include residential units with ground-floor retail, and rehabilitated facilities that meet certain investment criteria. New and rehabilitated facilities can receive a term of exemption from 6 to 15 years. Rehabilitated facilities in a qualified historic building may receive a term of exemption from 11 to 17 years.

CASE STUDIES AND SUCCESS STORIES

These examples showcase the effectiveness of adaptive reuse in addressing housing challenges.



THE EMERALD FLATS— *Grand Rapids*

Original Building Use:
Elementary School (1929)

New Building Use:
Apartments and Neighborhood Spaces (2021)

Important Design Features:
Large windows for open air and sunlight, wide hallways and circulation patterns, brick masonry construction, embedded in a residential neighborhood.

ICCF Community Homes purchased the property in 2015 with goals to preserve the building and find a new purpose that would serve the community's needs. The project resulted in adaptive reuse of the building while retaining its historic design elements, the creation of 50 new housing units, room for social services offices and a neighborhood gathering space, and the opening of a community park on the site of the former playground.

A combination of nine funding sources, including Federal Historic Preservation Tax Credits, Low-Income Housing Tax Credits, and a Michigan Community Revitalization Program award, enabled the $15 million rehabilitation. The project received a Governor's Award for Historic Preservation in 2023.

LOFTS ON ROWE– *Ludington*

Original Building Use:
Light Manufacturing (1892); Civilian Conservation Corps Headquarters (1930s)

New Building Use:
Apartments and Neighborhood Spaces (2023)

Important Design Features:
Industrial character with exposed interior brickwork and original wood beams, brick masonry construction, directly adjacent to residential neighborhood.

Michigan Community Capital, the Pennies from Heaven Foundation, the City of Ludington, and Mason County came together in a public-private partnership to create 67 new housing units. The building previously housed a series of manufacturing businesses, including Carrom wooden games and Haskell Canoe Company, and later served as the headquarters for the Civilian Conservation Corps Camp Ludington in the 1930s.

Site acquisition costs were not a major factor because the property was donated by the Sarto family. The $14 million complex capital stack was constructed with New Market tax credits as well as funding from Michigan Economic Development Corporation, PNC Bank, West Shore Bank, and Mason County Brownfield Authority. The project received a Historic Tax Credit Award from the Michigan Historic Preservation Network in 2023.

CHECKER CAB—*Detroit*

Original Building Use:
Taxicab Headquarters Building (1927)

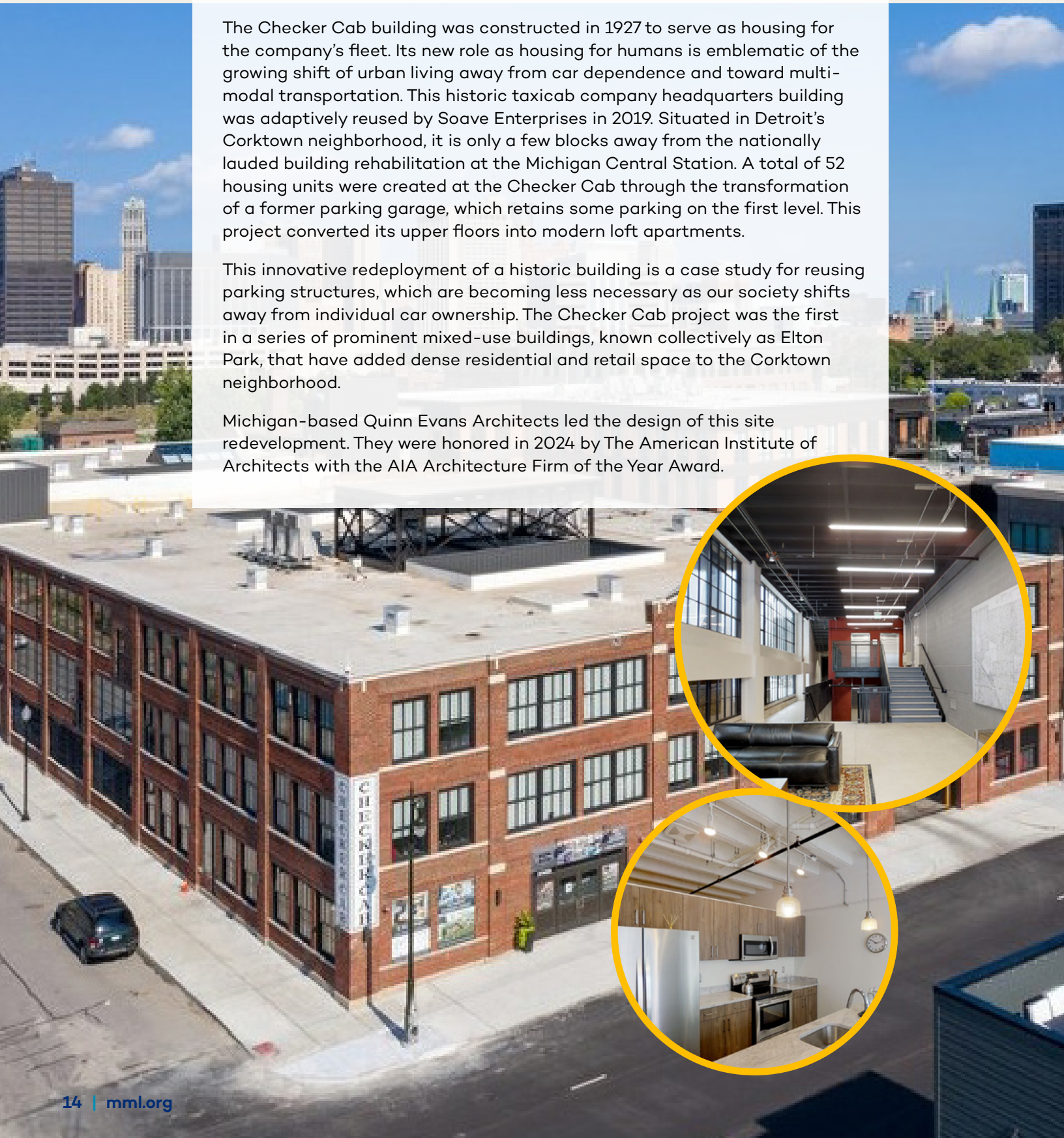
New Building Use:
Apartments and Parking (2019)

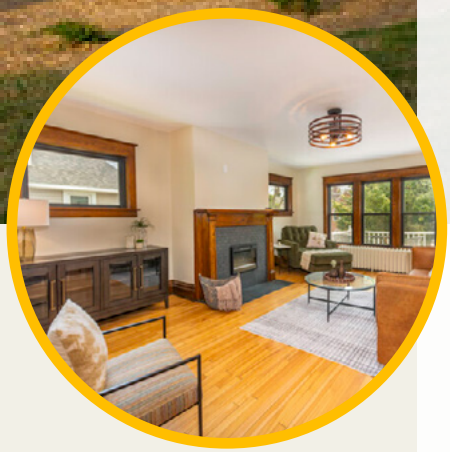
Important Design Features:
Industrial character with exposed interior brickwork and abundant light.

The Checker Cab building was constructed in 1927 to serve as housing for the company's fleet. Its new role as housing for humans is emblematic of the growing shift of urban living away from car dependence and toward multi-modal transportation. This historic taxicab company headquarters building was adaptively reused by Soave Enterprises in 2019. Situated in Detroit's Corktown neighborhood, it is only a few blocks away from the nationally lauded building rehabilitation at the Michigan Central Station. A total of 52 housing units were created at the Checker Cab through the transformation of a former parking garage, which retains some parking on the first level. This project converted its upper floors into modern loft apartments.

This innovative redeployment of a historic building is a case study for reusing parking structures, which are becoming less necessary as our society shifts away from individual car ownership. The Checker Cab project was the first in a series of prominent mixed-use buildings, known collectively as Elton Park, that have added dense residential and retail space to the Corktown neighborhood.

Michigan-based Quinn Evans Architects led the design of this site redevelopment. They were honored in 2024 by The American Institute of Architects with the AIA Architecture Firm of the Year Award.





GRANDVIEW MARQUETTE—*Marquette*

Original Building Use:
Holy Family Orphanage (1915)

New Building Use:
Apartments and Community Space (2018)

Important Design Features:
Distinctive mix of red sandstone and brick, terrazzo floors, and expansive views

The Grandview Marquette, named for its impressive views of Lake Superior, is an affordable apartment building that opened in 2017 in Marquette, Michigan. The Catholic Church built this institution in 1915 as the Holy Family Orphanage, which served children throughout Michigan's rural Upper Peninsula until 1965. Abandoned in the 1980s, it drifted into disrepair and became the subject of local ghost stories.

Despite its complicated past, the site remained a significant community landmark. Now transformed into a new use, this $16.2 million adaptive reuse project provides 56 affordable housing units and meets Enterprise Green Communities criteria for green and energy-efficient substantial rehabilitation projects. Home Renewal Systems LLC (HRS) and Community Action Alger-Marquette (CAAM), the developer and service provider respectively at the Grandview, were recognized for their work with a Michigan Governor's Award for Historic Preservation in 2018.

TEMPLE LOFTS—*Lansing*

Original Building Use:
Bethlehem Temple (1917)

New Building Use:
Apartments and Commercial Space (2018)

Important Design Features:
Neoclassical Revival architecture mixed with 21st-century design elements

This five-story brick building is an anchor property at the gateway to Old Town Lansing. Initially constructed in 1917 as the Bethlehem Temple, this former church has been transformed into a modern, energy-efficient, mixed-use building while still retaining many of its unique historic elements. There are 31 residential units in Temple Lofts, ranging from studios to two-bedroom apartments. These contemporary apartments are workforce housing in an area of the city that offers few new residential living options. They feature stainless steel appliances, tile backsplashes, soft-close cabinets, luxury wood-like flooring, and in-unit Energy Star washer and dryer sets.

The exterior remains recognizable to longtime Lansing residents, retaining key design features, including soaring ionic columns and large arched windows. While the upper stories are devoted to residential use, the first floor is occupied by the business offices for Michigan Community Capital, the development company that oversaw the site's transformation and continues to manage it. This project received an AIA Grand Rapids Building Honor Award in 2023 and a 2024 ULI Americas Award for Excellence.

BOX BOARD LOFTS– *Grand Rapids*

Original Building Use:
American Box Board Company (1917)

New Building Use:
Apartments and Community Space (2022)

Important Design Features:
Industrial finishes, high ceilings, and large grid windows

Box Board Lofts is a three-story former factory, once the site of the American Box Board Company in Grand Rapids, Michigan. The project was developed by Monroe Residential Partners and designed by Hooker DeJong Architects, with Stanton Interior Concepts, a multifaceted team focused on site redevelopment in emerging neighborhoods. The result is a 200,000-square-foot warehouse transformed into a 173-unit residential community listed on the National Register of Historic Places.

Capitalizing on a new trend in building conversion, the design team created more interior light by cutting two two-story atriums into the center of the building. These new light shafts opened the unique conditions of the space and allowed for more common lounge spaces in the building. The design team also created 30 distinctive floor plans that range from studios to two-bedroom, two-bathroom apartments. This complex is situated on the south end of the city center. It adds new energy to the residential market and demonstrates the possibility of more housing in the area. In 2023, this project received a Multifamily Executive: Adaptive Reuse + Apartment Renovation Merit Award.

House Hacking Is the Future

We are experiencing a version of today that isn't what we expected of the future. Shifting community demographics and changing societal circumstances now intersect with untenable costs, labor gaps, and limited resources. Many possible solutions are on the table, challenging communities to stretch beyond the suburban single-family housing model that has dominated the past several decades. The current housing stock does not fully or equitably serve the changing composition of Michigan households. Some of the solutions to rebalance the portfolio of housing choice options and to create smaller scale homes for rental or ownership could be constructing accessory dwelling units, converting larger buildings formerly used for other purposes, and expanding opportunities for enlarging shared spaces to accommodate multigenerational housing.

Michigan's housing crisis requires a multifaceted approach that goes beyond new construction. Adaptive reuse emerges as a versatile and sustainable solution, presenting an opportunity to reimagine existing building stock and add to it incrementally. By encouraging retrofitting and conversion, policymakers can contribute to the solution of the housing crisis while preserving architectural heritage, thoughtfully reducing building waste, and fostering vibrant communities.

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Bay City, The Legacy mixed-use building in Bay City, another former bank, won a Michigan Governor's Award for Historic Preservation.

About the League

The Michigan Municipal League (the League) is the premier statewide association representing more than 500 full-service cities, villages, and urban townships. We are dedicated to making Michigan's communities better by thoughtfully innovating programs, energetically connecting ideas and people, actively serving members with resources and services, and passionately inspiring positive change for Michigan's greatest centers of potential: its communities.

And because every industry needs research and development (R&D) to grow and find new solutions, our Policy Research Labs team serves that role for Michigan's municipalities. Through a deep bench of expertise, including local government scientists and policy wonks, the Labs team does research on, tests, and develops innovative approaches to local governance and community vitality. Our work enables local leaders to engage in forward-thinking action on big or emerging issues. We focus on the latest trends in planning and community development with an eye on helping Michigan cities and villages become more economically, socially, and physically resilient and adaptable.

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