ADAPTIVE REUSE CASE STUDY SERIES

Adaptive Reuse of the Historic Sandstone High School ("The Rock") into Workforce Housing

SEPTEMBER 2026

Overview

The transformation of the former Sandstone High School into modern workforce housing demonstrates how strategic federal investment can help unlock complex adaptive reuse projects and catalyze community revitalization. Through the Environmental Protection Agency's Brownfields Revolving Loan Fund (RLF) program, administered by the state of Minnesota, the project secured critical early-stage financing for environmental cleanup and site preparation, removing key liabilities. Once the site was stabilized, the developer was able to layer in additional public, state, local, and private capital to complete the conversion into 32 units of workforce rental housing, preserving a beloved community landmark and advancing local housing needs. By pairing EPA's brownfield financing tools with private-sector capital and strong local engagement, the project stands as a model for public-private collaboration, economic opportunity, environmental stewardship, and place-based revitalization.

The original front doors, retained as the building's entrance. The school was listed on the National Register of Historic Places in 1979, twenty-five years before the site went fully vacant.

SANDSTONE HIGH SCHOOL PROJECT PROFILE

Location: Sandstone, Minnesota

Project Type: Rural multifamily adaptive reuse of vacant historic public school into workforce rental housing; attached auditorium retained by city for future use

Program: 32 apartments with rent targeted to those earning 55-80 percent of area's median income; total development cost of $17,742,588

Challenge: Two decades of vacancy coupled with severe hazards (lead, asbestos, mold, pigeon waste, roof failures); housing funders hesitant to invest until environmental liabilities and structural integrity addressed

Approach: Phased, with city leading cleanup phase prior to transfer of property to developer under a purchase agreement, and developer then leading private housing construction phase; redevelopment of auditorium for community use to be led by city at a later date

Partners: City of Sandstone; Jillpine (private developer); MAVO Systems (abatement contractor); Braun Intertec (environmental consultant); New History (project manager to city during cleanup phase)

32	35,000	16	$3 million
WORKFORCE APARTMENTS WITH RENTS AT 55-80% OF AREA MEDIAN INCOME	SQUARE FEET	FUNDING SOURCES FOR $17.7 MILLION IN TOTAL DEVELOPMENT COST	IN TAXABLE VALUE GENERATED

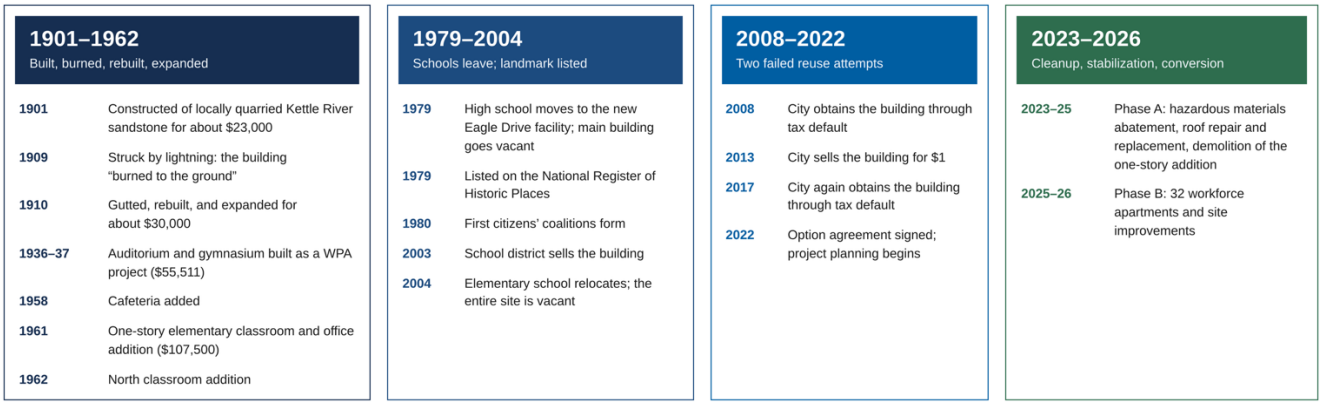
The Project

Sandstone High School, a 35,000-square-foot National Register landmark with construction eras spanning 1901–1962 and operational until 2004, has been revitalized as workforce for-rent housing after two decades of vacancy and deterioration.[1] Finding what's next for this beloved building had been a priority for Sandstone, Minnesota—population 2,462—for over 50 years, since the decision to find a new location for the high school was announced in 1979. After two failed redevelopment attempts, the former high school was slated for demolition until the new City Administrator championed a third reuse attempt by partnering with a developer who has "social capital, connections, and respect" across Minnesota, allowing the redevelopment project to overcome hurdle after hurdle. The alignment of the city, community members, and other partners gave the developer the "confidence to explore how [the adaptive reuse project] could work financially" despite the building requiring substantial stabilization, a history of previous redevelopment failures, and a challenging rural market.

The adaptive reuse project delivered 32 apartments within the historic school while the attached auditorium was retained by the city for later civic activation. Project phasing spanned project planning (beginning in 2022), cleanup and stabilization (2023–2025) and housing construction (2025–2026), supported by a complex capital stack tailored to rural economics and the building's environmental liabilities.

Project vision and approach

The project began with recognition by the developer that this was going to be a challenging, long-runway project that would require convincing public and private capital sources that the project would be successful. The developer's first step was "understand[ing] the building, its condition and what it can support" in a rural market with few comparative project types. Unlike new construction, there were well-defined constraints related to the site, zoning, square footage, window quality, structure type, and the market needs that the existing building could support. In addition, the developer and environmental consultants knew that federally and state regulated hazardous building materials would be present, including lead-based paint, asbestos pipe wrap and tiles, pigeon waste, and mold from roof failures.



A century of construction, vacancy, and two failed reuse attempts preceded the current project. Phase A cleanup ran 2023–2025; Phase B housing construction ran 2025–2026.

The developer determined that the market could support new housing through conversations with "local employers to identify staffing needs and wages and to create housing needed by their current and future workforce." Understanding this unmet housing need within the local market allowed the developer to make the case for the project and begin identifying sources of capital to cover the total development cost of more than $17.7 million. Approximately 20 percent

[1] Housing is commonly defined as affordable if total housing costs (rent plus utilities) are no more than 30% of a household's income. With the Sandstone project, the rents are set to meet local wage levels but are not income restricted, hence the term "Workforce Housing" rather than "Affordable Housing."

of the construction costs were related to the structural stabilization of the building and the cleanup of hazardous materials that the developer understood would be difficult to recoup without public funding sources. This is because many managers of private sector funding sources would not begin the conversation with the developer until the environmental liability associated with the building was resolved.

> *"The agreement created a public–private partnership enabling the city to take advantage of public cleanup tools while the property was under its control, and the private developer to take advantage of private housing finance tools while the property was under the developer's control."*

To move forward, a purchase agreement between the city and the developer was executed specifying that the city would first stabilize and clean up the hazardous materials as part of a Phase A, prior to transferring the property to the developer for construction (Phase B), thus relieving the developer of the identified environmental liabilities. The agreement created a public-private partnership enabling the city to take advantage of public cleanup tools (e.g., technical assistance and brownfields funding) while the property was under its control, and the private developer to take advantage of private housing finance tools (e.g., Historic Tax Credits and a mortgage loan) while the property was under the developer's control. To ensure the project did not fall into the same pitfalls as the previous attempts to reuse the school, the developer acted as the city's project manager prior to the formal transfer.

Once funds were identified and committed to cover the costs of the stabilization and cleanup (including funds from the federal government, the state and city, and a local employer and foundation), Phase A of the project moved forward enabling the developer to seek additional funds from housing funders, energy efficiency funders, and more conventional real estate investment sources to complete the conversion of the building in Phase B. The city rezoned the property and executed a lot split so the auditorium could remain a civic facility, with essentially no community opposition to the project once residents understood that the building—which has acted as "the community's heart and soul" for many years—could be saved.

None of this would have been possible without a great partnership between the city and the developer according to the City Administrator. The public and private partners each executed on what they excelled at the most. The city effectively managed the city, state and federal grant application timetables, compliance, and reporting requirements while being able to filter out the "regulatory noise" that gave space for the developer to use its specialized knowledge of the real estate development process, housing finance and historic building reuse to enable a successful project.

Building stabilization and addressing environmental hazards

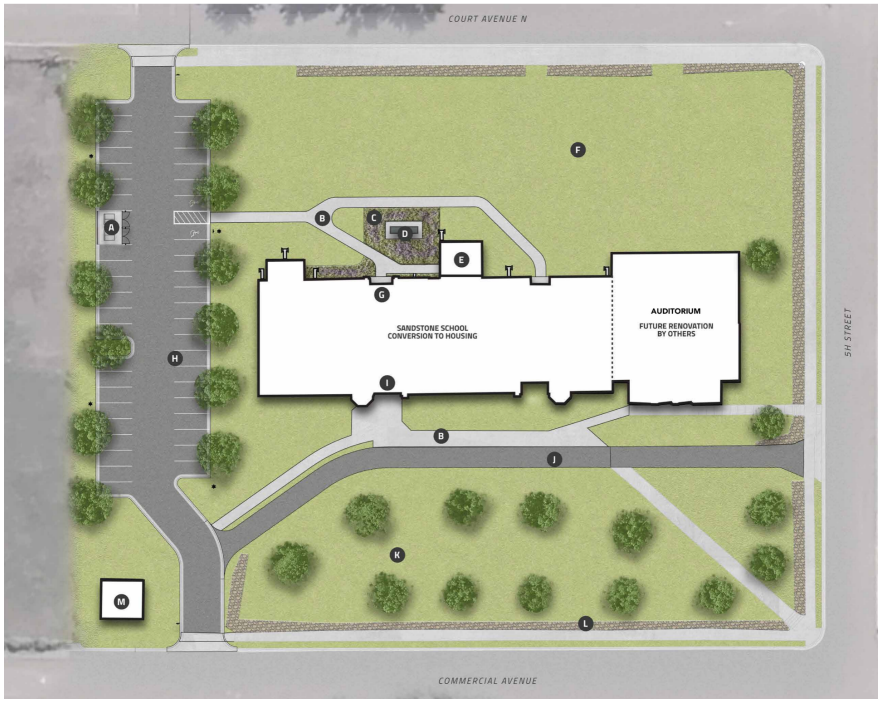
Phase A focused on making the historic school safe and weather-tight while clearing environmental liabilities so the housing development phase could proceed. The city deliberately kept ownership during this first phase to access public cleanup tools and de-risk the site for the developer, since it is difficult for a small private developer like Jillpine to take on the liability and risk of a contaminated site. In addition, the city issued a government obligation bond to back a U.S. Environmental Protection Agency (EPA) revolving brownfields loan administered by Minnesota's Department of Employment and Economic Development (DEED) that required the city to be at risk of losing $150,000 per year if the adaptive reuse project failed. The City Administrator described this as "big money" for a small community, but the loan was transferred to the developer per the terms of the purchase agreement following the remediation.

The developer pulled together a team with significant expertise in adaptive reuse to help navigate the challenges of the site and translate complicated technical and legal requirements into "plain English." Upon arrival, the team documented typical hazards for a building of this age—lead-based paint, asbestos in pipe wrap and tiles, pigeon waste, and mold—compounded by roof failures. Abatement and stabilization were tightly sequenced: the roof rebuild was treated as a critical path and planned in coordination with the selected abatement approach. This allowed for the structural reinforcement and roof replacement to be completed first, enabling other cleanup activities to proceed year-round and supporting less destructive cleaning methods for historic features.

Historic 3rd floor classroom, future apartment

Historic school entry; future laundry room

Onsite, the contractor team used an X-ray fluorescence (XRF) tool to pinpoint lead in the building and selected dry ice blasting to restore the historic tin ceilings—choices that preserved the character of the building, minimized regulated waste, and improved worker protection and exposure controls—while also addressing immediate safety hazards inside a building where sections of floor were beyond repair and required barricading and careful access management. The contractor held EPA related certifications (including the Lead-Safe Certification that applies to the Lead Renovation, Repair, and Painting Rule and other Lead Based Paint Activities) alongside Minnesota Department of Health licenses for asbestos and lead work—consistent with EPA recognized processes for managing these hazards. Because cleanup occurred under city ownership, additional team members to address the environmental hazards were secured publicly under responsible bidder requirements before the stabilized property was transferred to the developer for housing delivery as part of Phase B. The attached auditorium, retained by the city for future civic use, needed only limited abatement of some exposed asbestos plus patching of the roof and temporary reshoring during Phase A, as additional funding is pursued to complete construction for a future use.



SITE PLAN KEY

- **A** Trash enclosure
- **B** Sidewalk
- **C** Screening garden (alternate)
- **D** Transformer
- **E** Bike room (open air)
- **F** Back lawn
- **G** Accessible entrance
- **H** Parking lot
- **I** Main entrance
- **J** Drop-off drive
- **K** Front lawn
- **L** Stone sloped wall (existing)
- **M** City-owned shed

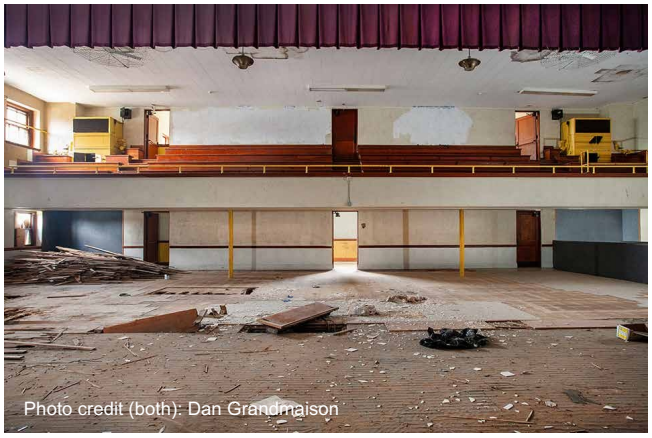
Site plan: the school converts to 32 apartments while the attached auditorium, at right, is retained by the city for future civic use. Drawing by LHB for Jillpine.

The project benefited from a pragmatic code strategy and close coordination between the city, the developer, the architectural and engineering team, and the abatement team, which allowed for ongoing communication to resolve issues quickly. The contractor noted that with other adaptive reuse projects, "[even the smallest] decisions take weeks, which extends schedule and strains the budget." The team sought waivers from the city for flexibility in addressing acoustics and ventilation to avoid removing tin ceilings and hardwood floors and installing infeasible ductwork. Supportive city officials allowed this flexibility since it did not compromise fundamental health and safety standards or the wellbeing of future residents but recognized that the building was built prior to modern building code adoption.

> *"The contractor team used an X-ray fluorescence (XRF) tool to pinpoint lead in the building and selected dry ice blasting to restore the historic tin ceilings."*

Site construction and interior buildout

The timely completion of the building stabilization and environmental cleanup phase enabled Phase B to be completed quickly. In the course of upgrading the HVAC system, the developer installed a high efficiency system. This was done to save longer-term operation and maintenance costs, but the newer system has required additional training for maintenance crews due to the new technology. The developer began leasing the redeveloped property, now called the Bookmatch, in Spring 2026.



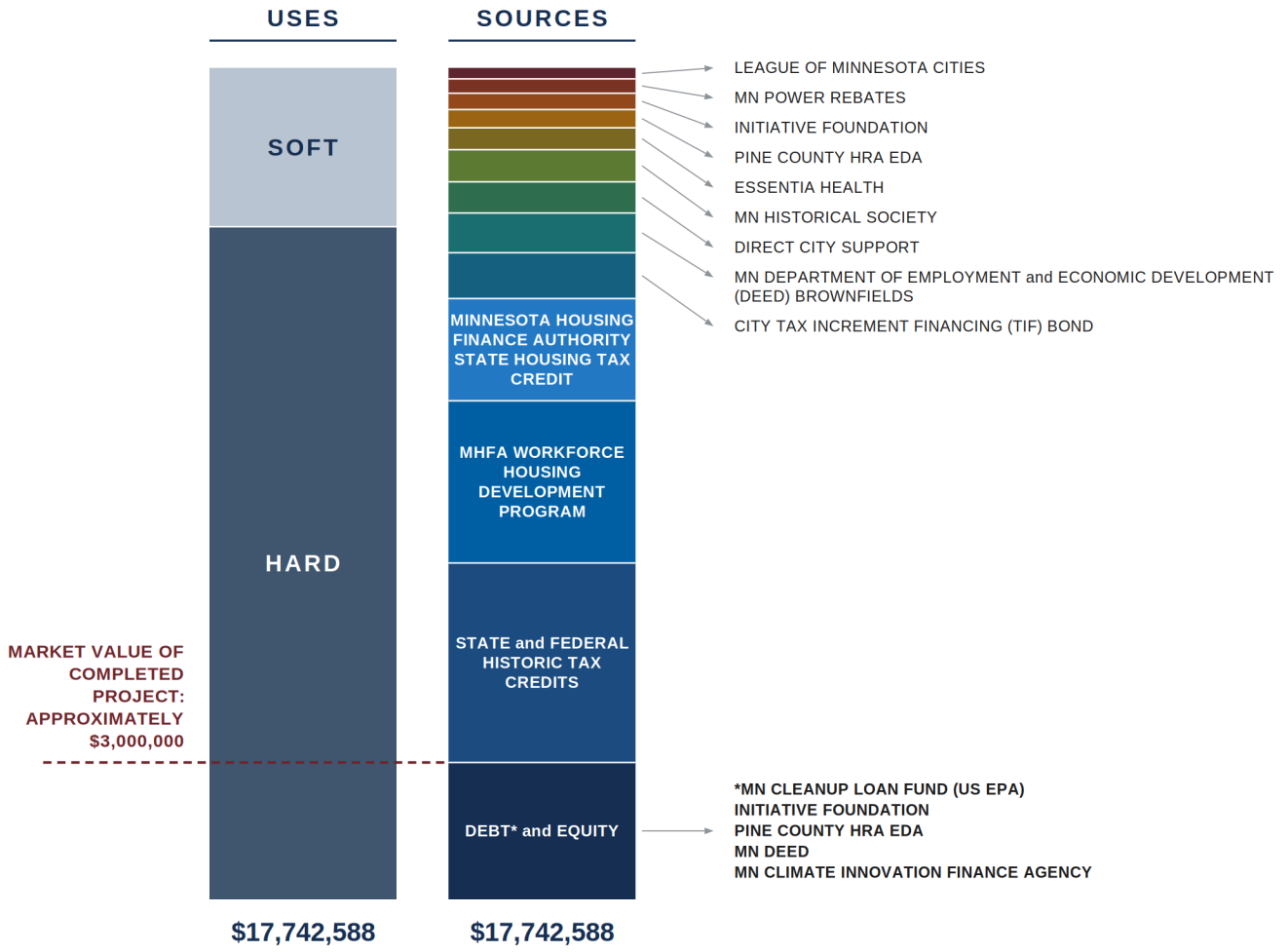
Gymnasium / auditorium; future city use

1962 addition; future apartments

Capital stack and funding tools

At 32 units, the Sandstone project was too small to be competitive for low-income housing tax credits (LIHTC) that are typically used to make these types of projects financially viable. To make the adaptive reuse project financially viable for purposes of creating workforce housing, the developer put together a funding package that included 16 funding sources, pairing city-led cleanup financing and grants with private and state housing finance tools. In Phase A, the city first shouldered brownfield risk under public ownership—using Minnesota DEED's revolving loan fund, backed by a city bond, to access EPA funds, along with a separate abatement bond. Once stabilized, the housing phase closed with a below-market primary mortgage from Minnesota's Green Bank (MnCIFA), justified by an energy-efficient HVAC system and commute-reduction benefits to air quality, alongside state housing dollars, state and federal historic tax credits, and targeted local contributions and utility rebates.[2]

[2] EPA has found on average development on vacant or underutilized land within existing, built-up neighborhoods (infill) instead of building new developments on undeveloped land reduces vehicles miles traveled by 2-5 percent and criteria air pollutants by 3-8 percent with larger shifts in NOx reductions at site specific locations relative to greenfield locations.



Sources and uses. Sixteen funding sources bridged the gap between $17.7 million in development cost and a completed market value of roughly $3 million.

The capital stack drew on:

- **Debt and public finance:** Including a primary mortgage from MnCIFA, an Initiative Foundation subordinated loan, a City Tax Increment Financing (TIF) bond, Direct City Support, and a Minnesota DEED Brownfields loan via the state's EPA-supported Revolving Loan Fund, backed by city bonding.
- **State housing grant and tax credits:** Including a grant from Minnesota Housing Finance Authority (MHFA), a grant from the MHFA Workforce Housing Development Program (which provided about 35% of total funding), and the Minnesota State Housing Tax Credit, which was used to raise over $2.3 million from contributors.
- **Government tax incentives:** Federal and State Historic Tax Credits.
- **Local, philanthropic, and other partners:** Including funds from Essentia Health, the Pine County Housing and Redevelopment Authority (HRA)–EDA, the League of Minnesota Cities, and the Minnesota Historical Society; as well as Minnesota Power rebates.

Together, these sixteen funding sources bridged a large feasibility gap—costs of roughly $17.7 million versus a far lower market value of $3,000,000 upon project completion—making it possible to preserve the landmark and deliver needed workforce housing in Sandstone. This project underscores the need for layered capital when undertaking an adaptive reuse project such as this in a rural market.

Lessons learned

1 **Build the partnership and governance early**
Establish trust; develop a purchase agreement to define roles, compensation, and phased property transfers; and leverage public ownership of property to access cleanup tools and finance structures, and private ownership to access more conventional real estate funding tools.

2 **De-risk first and sequence smartly**
Address environmental liabilities up front; prioritize roof/structural stabilization; use targeted abatement methods (e.g., XRF, dry ice blasting); and employ trained, certified crews to address legacy building hazards.

3 **Align design with historic-building realities**
Pursue performance-based code flexibility (e.g., acoustics, ventilation), retain operable windows where appropriate, and preserve historic character while improving environmental performance. Train maintenance staff on newer HVAC and other systems to optimize long-term operations.

4 **Let the market and local community set the highest and best use for the site**
Validate demand for workforce housing directly with local employers to align unit mix, rents, and timelines with real workforce needs.

5 **Finance for feasibility, not yield**
Expect a long runway and lower return on investment; close funding gaps with a layered capital stack (e.g., state affordable housing funds, historic tax credits, green bank debt, city TIF/support, and local/philanthropic partners).

FOR MORE INFORMATION

For additional information about this case study contact Paul Angelone at angelone.paul@epa.gov.

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