Medford City Council
Medford, Massachusetts

Committee of the Whole, August 4, 2026

City Council

Isaac B. “Zac” Bears
Anna Callahan
Emily Lazzaro
Matt Leming
Liz Mullane
George A. Scarpelli
Justin Tseng

This meeting will take place at 6:00 P.M. in the City Council Chamber, 2nd Floor, Medford City Hall, 85 George P. Hassett Drive, Medford, MA and via Zoom.

Zoom Link:
https://us06web.zoom.us/j/84476971942?pwd=4GItyaPqGyo4paDUoErWYvx6CsujLL.1
Call-in Number: +13092053325,,84476971942#,,,,*015517#
Live: Channel 22 (Comcast), Channel 43 (Verizon), YouTube, and medfordtv.org.

To submit written comments, please email ccmembers@medford-ma.gov.

CALL TO ORDER & ROLL CALL

ACTION AND DISCUSSION ITEMS

26-134 - Offered by Isaac Bears, Council President

Resolution to Receive Presentation on Affordable Housing Linkage Nexus Study Report

Adjournment

Medford City Council
Medford, Massachusetts

MEETING DATE	SPONSORED BY
August 4, 2026	Isaac Bears, Council President

AGENDA ITEM

26-134 - Resolution to Receive Presentation on Affordable Housing Linkage Nexus Study Report

FULL TEXT AND DESCRIPTION

Be it Resolved by the Medford City Council that we invite Office of Planning, Development, and Sustainability to present the draft findings of the Affordable Housing Linkage Nexus Study Report.

RECOMMENDATION

FISCAL IMPACT

ATTACHMENTS

1. Draft Affordable Housing Linkage Nexus Study Report Slide Deck

Medford Linkage Nexus Study: Analysis and Recommendations

City Council Meeting

August 4, 2026

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Nexus Study Purpose, Scope and Analysis

- Purpose:
  - Establish "rational nexus" between non-residential development and need for affordable housing
  - Determine "proportional" linkage fee to mitigate development impact
  - Recommend appropriate fee level and policies
- Scope and Analysis
  - Forecast 10-year development subject to linkage, tenant industries and jobs
  - Estimate impact of new jobs on affordable housing demand
  - Calculate funding gap to build housing to meet demand
    - Maximum and alternative linkage fees to fill funding gap
  - Assess impact of fee options on Medford's economic competitiveness

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Boston Metro Market Conditions

- Office: declining demand with historic levels of available space & weak absorption
  - 45.4 million SF available (23.9%) as year end 2025
  - Net absorption of 140,000 SF in 2025 after negative 8.3 million SF in 2024 & 2023
- Lab: weakening demand & extensive overbuilding has generated large oversupply
  - 34% availability in 2025 (19.7 million SF); increase of 4.5 million SF from end of 2024
    - **Available space = 8 to 10 years of peak absorption during 2019 to 2023**
  - Negative absorption of 2.1 million SF in 2025 vs. -311,000 in 2024
- Industrial: healthier market but with growing supply & availability rate (12.6%)
  - Positive net absorption for Boston/Cambridge/Inner suburbs in 2025 (104,000 SF)
  - Increased demand & new supply for small flex/R&D space to serve growing advanced/high tech manufacturing firms

Source: Colliers Office and Lab Market Viewpoints, 2025, Quarter 4 and 2024, Quarter 4

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Medford Non-residential Development Pipeline

Address	Name	Use	Use Detail	SF	Status
400 Mystic Ave	Herb Chambers	Retail	Auto dealership	127,532	Under Construction
285-295 Middlesex Ave	H-Mart	Retail	Grocery store	25,000	Under Construction
64 Commercial Street	Fellsway Innovation Center	Industrial	Manufacturing/ Research & Development	97,857	Approved
400 Riverside Ave	Ware Street Commerce	Industrial	Coworking, Makerspace, Warehouse	47,736	Approved
1 City Hall Mall	Transom: Medford Square Redevelopment	Retail	Grocery store; Restaurant	16,000	Proposed
Total				314,125	

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Interview Summary

- Challenging environment for non-residential development
  - Limited demand for office space and large supply of vacant space
    - New office development unlikely given market conditions
  - Lab market overbuilt with slowing demand
    - Medford is also unlikely to see any new life science lab projects
  - High construction costs & interest rates impair feasibility
- Strong retail market and tenant demand for space
- Strongest market opportunities in residential mixed-use development and hotels
- Demand for flex/industrial space to serve emerging high-tech manufacturing/R&D
- Medford advantages: location and ease of commute, population density & income
- Weaknesses: available sites, site conditions and ownership

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10 Year Development Projection by Use

Use	Estimated SF*	Occupied SF	Comments
Co-working/maker space	47,700	45,315	Ware Street Commerce
Hotel	75,000	75,000	New hotel development
Light manufacturing/R&D	97,900	88,110	Fellsway Innovation Center
Retail	174,000	174,000	Herb Chambers Dealership, H-Mart, Transom Medford Sq. Redevelopment grocery store ; 8,000 SF at future mixed-used project
Restaurant	14,500	14,500	12,000 SF at future mixed-used project; café at Transcom Medford Square redevelopmen t project
Total	409,100	396,925	
*Rounded to 100 SF			

- Existing pipeline of projects wit 314,125 SF
- Assumes 2 new projects beyond pipeline: 75,000 SF hotel 20,000 SF in mixed-use project

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10 Year Employment Projection by Industry

Industry	Occupied SF	SF/Employee or Other Basis	Number of Employees
Hotel	75,000	Hotel staff level	35
Auto Dealer	127,500	News report	100
Grocery	38,500	500	77
Personal Services	2,500	500	5
Medical Offices	5,500	300	18
Contractors	11,329	3 per firm	38
E-commerce	11,329	3 per firm	38
Non-profit organizations	4,532	300	15
Industrial machinery manufacturing	32,903	500	66
Medical equipment manufacturing	20,467	500	41
Scientific research and development	52,866	450	117
Restaurant	14,500	150	97
Total	396,925		647

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Estimated Affordable Housing Demand from Projected Non-residential Development

Income Category	1 person HHD	2 Person HHD	3 Person HHD	4 or More HHD	Total	Percent by Income
Low-Income	9	5	2	2	18	58.1%
Moderate-Income	2	4	3	4	13	41.9%
Total	11	9	5	6	31	100.0%
Percent by Household Size	35.5%	29.0%	16.1%	19.4%	100.0%	

- All low-income units assumed to be provided as rental housing
- All moderate-income units assumed to be provided as ownership housing

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Maximum Warranted Linkage Fee Analysis

- Maximum Warranted Linkage Fee = Total Subsidy Needed to Develop 31 units of affordable housing /Projected SF of Non-Residential Development
- Subsidy calculated separately for rental and ownership housing
  - Rental subsidy = Total development costs (TDC) minus amount that can be financed by rental income at 30% of tenant income less vacancy & operating costs ($17,600)
  - Ownership subsidy = TDC minus revenue from unit sales with 30% of buyer income for principal/interest/taxes/insurance and 4% down payment

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Key Assumptions

- Average per unit cost
  - Approx. $595,000

Cost Category	Value	Notes	Sources
Acquisition	$75,000 per unit	Highly variable	Estimated, based on interviews with developers
Construction & Construction Contingency	$350 per SF	Costs leveling after jumping during pandemic	Based on interviews with developers
Soft Costs & Contingency	35% of construction cost		Based on past experience with development projects

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Required Subsidy for Affordable Rental Units

Item	Amount
Number of Rental Units	18
Total Development Cost (TDC)	$10,705,500
Development Cost per Unit	$594,750
Net Operating Income	
Annual Gross Rental Revenue	$254,000
Less: Vacancy (3%)	($7,620)
Effective Gross Income	$246,380
Less: Operating Costs 1/	($316,800)
Net Operating Income 1/	**($70,420)**
Subsidy Required	
Total Development Cost	$10,705,500
Less: Financing Supported	$0
Total Subsidy Required	**$10,705,500**
Subsidy as Percent of TDC	***100%***

Rental income does not cover operating costs so net operating income is negative and no financing possible.

Subsidy Required =Total Development Costs

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Required Subsidy for Affordable Ownership Units

Item	Amount
Number of Ownership Units	13
Total Development Cost (TDC)	$7,731,750
Development Cost per Unit	$594,750
Total Sales Proceeds	$4,219,554
Subsidy Required	
Total Development Cost	$7,731,750
Less: Sales Proceeds	$4,219,554
Total Subsidy Required	**$3,512,196**
Subsidy as Percent of TDC	**45%**

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Total Subsidy Required per SF of Commercial Development

10-Year Projected Non-Residential Development	**409,100**	**SF**
Total Development Costs	**18,437,250**	
Subsidy Required	**Total**	**Per SF**
Rental Units	$10,705,500	$26.17
Ownership Units	$3,512,196	$8.59
Total Subsidy Required	**$14,217,696**	**$34.75**

- Linkage fee revenue need not cover the full subsidy given available federal and state fundings sources

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Comparison of Local Share of TDC for Other Cities

- Drawn from projects completed in Boston Metro Area between 2011 and 2024
  - Cambridge
    - Rental – 6 projects, 2016-2019 – 39%
    - Ownership – 1 project, 2016-2019 – 57%
  - Boston -
    - Rental – 20 projects, 2011-2015 – 11%
    - Ownership – 1 project, 2011-2015 – 32%
  - Other
    - Somerville – 2 projects, 2013-2017 – 6%
    - MHP Portfolio, FY2016-FY2020 – 11%
    - MHP Portfolio, FY2024-FY2026 – 8%

Potential Linkage Fee Impact on Development Economics and Medford's Competitiveness

- New fee leads developers to pay less for land=>rents and total development costs remain the same
- Developers pass on cost to tenants as increased rent=> Medford rents increase; town may become less competitive in attracting tenants
- Full fee cost is paid by developers and/or investors
  – increase in development costs may make some projects infeasible; less development occurs in Medford
  – Increase in required equity make some projects infeasible for equity investors; less development occurs in Medford

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Potential Fee Impact Options on Rents

Location	Retail Asking Rent	Medford Differential	Office Asking Rent	Medford Differential
Medford	$55		$45	
Arlington	$48	$7	$46	-$1
Malden	$40	$15	$40	$5
Melrose	$38	$17	$38	$7
Somerville	$70	-$15	$65	-$20
Stoneham	$34	$21	$36	$9
Source: Broker Interview and co-pilot web sea				

Linkage Fee Per SF	Impact on Annual Per Square Foot Rent*	Percent of Medford Office Rent ($45)	Percent of Medford Retail Rent ($55)
$5.00	$0.50	1.1%	0.9%
$10.00	$1.00	2.2%	1.8%
$20.00	$2.00	4.4%	3.6%
$34.75	$3.48	7.7%	6.3%
*Fee cost amortized over a 10 year lease			

- Medford rents exceed those of most adjacent communities
- Medford has a large advantage vs. Somerville that would remain with all fee options
- **Modest impact on rents (1% to 2%) from a linkage fee of $5 to $10**

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Analysis of Impact on Developer and Equity Returns

- 20,000 SF retail project for two development cost scenarios ($450 and $600/SF)
- 75,000 SF (150 room) high quality hotel with TDC at $300,000/room

<u>Developer Return</u>

- Developer return on cost = net rental income/total development costs (TDC)
- Fee increases TDC but not income, reducing developer return on cost
- Impact $\leq$ 25 basis points unlikely to make project non-viable

<u>Equity Investor Return</u>

- Investor funds entire fee, increasing their investment amount & lowering their return on investment
- Analysis for 12% and 15% equity investor return threshold
- Impact $\leq$ 50 to 75 basis points unlikely to make investment non-viable

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Potential Fee Impact: Retail Project

Retail Development at $450 PSF*	No Fee	$5 Fee	$10 Fee	$20 Fee	$34.75 Fee
Total Development Cost (TDC)	$9,000,000	$9,100,000	$9,200,000	$9,400,000	$9,695,000
Increase in Development Cost/Equity	NA	$100,000	$200,000	$400,000	$695,000
Change in Developer Return on Cost	**NA**	**-0.12%**	**-0.24%**	**-0.47%**	**-0.79%**
Change in Investor Return on Equity	**NA**	**-0.54%**	**-1.03%**	**-1.94%**	**-3.07%**
Retail Development at $600 PSF*	**No Fee**	**$5 Fee**	**$10 Fee**	**$20 Fee**	**$96.69 Fee**
Total Development Cost (TDC)	$12,000,000	$12,100,000	$12,200,000	$12,400,000	$12,695,000
Increase in Development Cost/Equity	NA	$100,000	$200,000	$400,000	$695,000
Change in Developer Return on Cost	**NA**	**-0.07%**	**-0.14%**	**-0.28%**	**-0.48%**
Change in Investor Return on Equity+	**NA**	**-0.41%**	**-0.79%**	**-1.50%**	**-2.43%**
*20,000 SF retail space, 5% Vacancy; NNN Rent at $55/SF + Assumes equity at 30% of TDC and 15% investor return before fee					

- Impact on developer returns modest for fee at or below $10
- Fee below $10 needed to reduce risks of deterring equity investment

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Potential Fee Impact: Hotel Project

Development at 300,000 per room*	No Fee	$5 Fee	$10 Fee	$20 fee	$34.75 Fee
Total Development Cost (TDC)	$45,000,000	$45,375,000	$45,750,000	$46,500,000	$47,606,250
Increase in Development Cost/Equity	NA	$375,000	$750,000	$1,500,000	$2,606,250
Change in Developer Return on Cost	**NA**	**-0.05%**	**-0.10%**	**-0.20%**	**-0.33%**
Change in Investor Return on Equity	**NA**	**-0.35%**	**-0.68%**	**-1.30%**	**-2.13%**
*75,000 SF hotel with $150 revenue per room per day; net operating income @ 30% of revenue + Assumes equity at 30% of TDC and 15% investor return before fee					

- Impact on developer returns modest for fee at or below $20
- Fee slightly below $10 needed to reduce risks of deterring equity investment

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Linkage Policies in Other Communities

City	Year Established	Exaction/Linkage Fee Rate (per SF)	Project Size Threshold (SF)	Exemption (SF)
Boston	1983	Housing: $26.00 for labs & $19.33 for other uses	50,000	None
	1986	Jobs: $4.78 for labs and $3.76 for other uses		
Cambridge	1988	Housing: $37.72	30,000	30,000 for projects less than 60,000 SF
Everett	2021	$1,000 per dwelling unit; Non-residential: $2.00 for first 30,000 SF; $3.00 for 30,001-60,000 SF; $4.00 above 60,000 SF	All residential projects 15,000 - non-residential	None
Lexington	2025	$9.00; takes affect in January 2027	30,000	None
Somerville	1990	Housing: $24.13; 50% of fee paid for projects between 15,000 and 30,000 SF	15,000 for housing	15,000 for housing
	2017	Jobs: $3.15; 50% of fee paid for projects between 15,000 and 30,000 SF	15,000 for jobs	15,000 for jobs
Watertown	2023	Housing: $11.81	30,000	None

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Recommendations

- Set a fee level between $5.00 and $8.00 PSF
- Set the project size threshold at 10,000 SF
- Apply a lower fee rate (50% of the standard fee) for projects between 10,000 and 30,000 SF
- Option to provide an alternative form of mitigation that is of equal or greater value than the required linkage fee payment, subject to the approval of the Affordable Housing Trust
- Use one of two payment options: (1) full payment at the Certificate of Occupancy (CO) date; or (2) two payments with 50% at the CO date and the second 50% at the one-year anniversary
- Adjust the housing linkage fee rate annually based on the change in the Consumer Price Index or the RS Means Construction Cost Index for Boston
- Review & reset the rate every 5 years based on changed market conditions & development trends