PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

AUGUST 26, 2025

A meeting of the Planning and Economic Development Committee was held Thursday, August 21, 2025 at 7:18 p.m. in the Aldermanic Chamber and duly noticed in two places, including the City's website, in accordance with the requirements of RSA 91-A:2 II.

The roll call was taken with 4 members of the Planning and Economic Development Committee present:

Alderman-at-Large Melbourne Moran, Jr. Chairman
Alderman-at-Large Ben Clemons
Alderman Derek Thibeault
Alderman Tyler Gouveia

Members not in Attendance: Alderman Ernest Jette

Also in Attendance: Alderwoman-at-Large Shoshanna Kelly
Alderman Chris Thibodeau
Matt Sullivan, Community Development Director
Sam Durfee, Planning Manager

ROLL CALL

PUBLIC COMMENT - None

DISCUSSION/PRESENTATIONS

- Re-Code – Inclusionary Zoning (IZ)

Chairman Moran

So then we we'll turn it over to Manager Durfee to discuss the Re-Code Inclusionary Zoning.

Sam Durfee, Planning Manager

Yes, thank you. It feels like we were just here because we were. So thank you very much for accommodating us for a second meeting on a far more interesting topic, I think, than our last one. So tonight, we'll be talking about Inclusionary Zoning relative to affordable housing and how affordable units are created within the private market, the private market development sphere. So without further ado, I would like to introduce and bring up Russ Preston who is really our head consultant on the on the Land Use Code front. Also with us via zoom is Kyle Talente from RKG who is our sub consultant who's doing a lot with calibrating these Inclusionary Zoning standards to make sure that they are buildable if and when this Code gets adopted. So first, we will hear from Kyle who will present some of their research and their numbers behind how we came to some of the standards that we did in this proposed approach to Inclusionary Zoning and then Russ will be able to present a little bit to give a little bit of context into how that would all be applied through the site plan process if you will.

Chairman Moran

Great. Yes, please join us and Kyle and any others that are speaking who haven't been before the committees just reminded or repeat your name and address for the record or your business address to help our transcriber with the transcription of the meeting.

Kyle Talente

Thank you so much. I don't know is someone sharing the presentation?

Sam Durfee, Planning Manager

Kyle, I believe you should have the ability to do so if that is your preference though we do have it on our end as well.

Kyle Talente

I'm happy to do it. Give me one second, please. My apologies. Are you able to see the slides?

Chairman Moran

Yes.

Kyle Talente

Fantastic. My apologies for the technical issues on my end. My name is Kyle Talente. I am the President of RKG Associates. My business address is 2121 Eisenhower Avenue, Alexandria, Virginia. The zip code is 22314. We are real estate economic and planning consultants working with the principal group on this.

As Sam mentioned, our role on this was to look at the financial feasibility of the recommended policies as it relates to workforce housing. So we kind of looked at it from a pro forma return perspective and the graphic you're looking at here talks about the different facets that we had to do research on, and the types of rates of return that we looked at to make sure that as we're looking at different policy strategies which ones met financial feasibility return expectations.

As Sam kind of alluded to in his introduction is that…

Chairman Moran

Sorry to interrupt you but our Clerk had a request that you put this in the slideshow mode so it could be seen better from…

Alderman Thibeault

It's hard to see in the chamber.

Kyle Talente

All right. I'm sorry. I'll do that now. Hopefully from current slide. Is that better?

Chairman Moran

Much better.

Kyle Talente

Okay. There we go. So these are the facets of a pro forma analysis that is necessary to understand. As Sam was saying earlier, we can set whatever policy we want to but if it isn't something that the market would be willing to invest in, then the policy won't be used. There are a number of communities both in New Hampshire that we're currently working with and we've worked with before where they've set up policies but they didn't kind of consider the financial ramifications of it and as a result, the policies haven't been very successful.

If you want me to go through the numbers, I'd be happy to but suffice it to say is we interviewed a number of real estate professionals in the marketplace. We've done a substantial amount of research both in Nashua, and in New Hampshire, and in the New England region to understand what these numbers are to making sure that what we're analyzing is consistent with what market expectations are. To do that, we built a financial model. I don't know if any of you were on the council or were involved in our last work when we kind of looked at the IZ and when we did the housing study but if you were, this may look a little bit familiar to you because we've done this kind of work with the city before. We have a model that we built that allows us to then go in and run various scenarios to understand what the financial ramifications of different policy decisions are.

What you're looking at here is kind of the punch line, if you will, of our analysis. We looked at the policy recommendation that Principle Group put forward, which is the usage at 1,125 square foot as a usage allocation and we ran scenarios to understand what a market rate return would be for projects that weren't required to provide any price appropriate housing, income-controlled housing. And so then from there, we looked at various scenarios. As you can see, we changed the set aside or what percentage of units would be required to be affordable. We looked at 10, 15, and 20%, and then we looked at different AMI thresholds starting at 80% of AMI, and then working our way down to 70, 60, 50 to understand what type of changes or what type of density bonus, if you will, to put it bluntly would be necessary to be able to create a similar financial feasibility as a straight up market rate project, meaning there is no income control units.

As you can see here in the purple, the change in the allowed density that would be required in order for an income controlled IZ project to have a similar return to a straight up market rate project and the blue is showing the units. So this is just a hypothetical project on a half-acre lot of what is allowed based under the proposed zoning and then what the type of density would be required in order to make that project hit a similar rate of return. As you can see and that kind of reached the 850-baseline density factor that I believe was put forward or at least that was what was considered when we did the analysis.

We also just to be on the safe side, we looked at various different types of projects and various different types of yields because we wanted to make sure that the analysis was showing something that made sense. So you can see here, we looked at a smaller project looking at a different type typology and ran the same analysis and this kind of helped inform us. I'll show you towards the end of it a little bit what we learned and what the recommendations are coming out of the back of this analysis.

Just very generally though the implications, you know, there's not going to be a lot of market interest for doing projects that are more than traditional wood frame construction due to rising construction costs and frankly, also the impact of costs of things like parking. As you get more intense development going into podium development, or projects that have concrete steel first and/or second floors and then wood frame above it, or high rise where you're going straight concrete steel, the financial returns for those projects are extremely challenging right now in Nashua because the revenues that are being generated in rents just can't justify those construction costs.

So targeting the other side of it is when we looked at it is like the lower the target income that the community would be interested in pursuing, you know, going from 80 to 70, 70 to 60, so forth, and so on would impact what the set aside would be and you saw in those two previous examples of as we got a higher set aside or a lower AMI to be able to hit a similar market rate return required basically more density or reducing the density factor to allow more units to be built.

So what came out of the back end of this in terms from our analysis? Well first is our recommendation to the city would be to set a minimum threshold unit of 10 units before any policy would kick in. The reason for that is simple is that 1) at a 10% set aside, for example, your first whole unit wouldn't be due until after you've delivered your 10th unit. So if you did something for less than that, 9, 8, 7, 6, 5, it would end up being either you would have to round up which would create financial strain on the project or you would have to do a partial unit payment. Those smaller projects in our research not just here in Nashua but throughout New England indicate that the smaller the project, the more financially impactful an IZ policy would be. Frankly with the intent of trying to support missing middle housing development, our recommendation would be to start it at 10 units where the data is showing that it's a little bit easier or maybe easier is not the right word, but it is more feasible to accommodate income-controlled housing.

The next recommendation would be off-site units. If you were to consider off site units, then we would encourage that you would require some sort of proximity. The intent of a policy like this is to try and diversify housing throughout a community and not just have it concentrated in certain areas and if you do off site and you don't set a distance requirement, what likely will happen is investors will go find the lowest cost area to do their affordable units and cluster them all there which is the antithesis of what you're trying to accomplish. So setting in a proximity thing would be required.

We'll talk about what we think the set aside and target AMI should be in just a moment. We have some slides on that.

Development standards as you're considering this is ensure that all the units are similar size and development quality to market rate units. Sometimes when those requirements aren't stated clearly in a policy what will happen is a developer will build, for example, 800 square foot one-bedroom units but the income control units will be 600 square feet. So the intent, generally, is to try and provide a similar level of living for everybody. So having some development standards would be recommended.

The next is compliance. This is something that a number of communities we work with have had some challenges with. They set up an IZ policy, they place a household in those units, and then they stop monitoring them and unfortunately what has happened in other places is those income-controlled units become lost. Meaning that they stop qualifying the income and as a result, they just end up becoming market rate units. So given the intent of this is to try and create long term, affordable options within the city. Compliance - we typically through an annual submission of income qualifications would be recommended. A number of communities have accomplished this through partnerships, for example, with their housing authorities that already have that capability and they partner with them to help investors and developers to get the income qualification but definitely something you should consider.

And then the last recommendation coming out of this is to provide the option for a payment in lieu which means if I owe you three units, the city can consider whether you require them to deliver those units on site or you allow them to pay into a housing fund a value equivalent to that unit - we'll talk about that in just a moment - in exchange for having to deliver those units on site. So if you're going to do that, you need to have a strategy behind that. We're going to talk about that right now.

So for the payment in lieu as I mentioned, basically what it is, is you basically pay a fee rather than having to deliver those income control units and as a result, they could be market rate. There's a number of different ways to calculate how to determine what that value should be. The first approach is what we call the "value gap approach" which basically considers the value, the difference between the value of a market rate unit - a unit that is not income controlled to the value of the income-controlled unit. You would basically use a pro forma approach and we've done that in our model to determine what that value gap is. So in a situation where you're going to use the value gap approach, you would basically use the formula of the number of units that are being done in lieu where a payment is being done in lieu and multiply it by that difference in value and that would then be what you would have to contribute to the fund.

The second approach is what we call the "construction cost approach", which is exactly as it sounds is rather than the difference in value between the units is what does it cost to build a unit? As a result, that formula is similar but it's the number of units not being provided multiplied by the total construction cost of that particular project divided by the number of units. So if the project cost $10 million to build and they're building 10 units, then they would have to pay a million dollars a unit, which would be the construction cost. Now it doesn't cost a million dollars to build a unit. I'm just using that as an example for simplicity sake.

So this is what I was mentioning earlier where we did the kind of analysis and if you look on the left side, that table shows you what the in lieu fee would be based on a value gap approach and what the in lieu fee would be based on a construction cost approach. As you can see, the value gap between market and income controlled is substantially lower whether you're in the downtown overlay or another part of the city than what the cost to construct the units would be. So we just did a hypothetical 50-unit project. If you do it on site, obviously, there's nothing to pay because you deliver those units on site. the value gap based on our assumptions in our model turns out to be about $125,000 a unit. So if they didn't want to deliver the five units that they owed you, assuming a 10% set aside, they would submit $623,000 to the city. You can see it has a slight but not substantial impact on return. Obviously with construction costs, which is more than double, you can see the impact is much more substantial and it holds true also for the rest of the city.

So why would you consider one over the other, right? And so effectively, the value gap from a financial perspective I would argue is a more fair or financially consistent approach than you having to deliver the units on site. So it does provide more flexibility to the developer whether they build on site or whether they provide financial incentive or financial payment to the city. Excuse me.

The downside, the drawback of that is that you cannot build a unit for $124,000 or $95,000 if you're building outside of the downtown overlay. So as a result if you try to use that money to go build a unit somewhere else, it wouldn't deliver the full value. As you can see, you would almost be trading it two for one. So that is a consideration when you're doing it.

On the flip side of the coin, the construction cost approach, you know, what was the strength of one is the weakness of the other and so vice versa is, you know, if you go the construction cost approach, what you're doing is you're collecting enough money that you'd be able to then go build a unit somewhere else because you'd have the financial wherewithal to be able to acquire the land, do the development, and build the unit and obviously, it has a much more substantial impact on return because it's a higher dollar amount and as a result, it would be more challenging for a developer to choose that option.

Really at the end of the day what the consideration needs to be is what are we trying to get out of the IZ policy. If the goal truly is, is to ensure that new residential development is price diverse, then the construction cost approach may be something that you would lean towards because it would disincent people buying or developers buying out of the on-site units and they would deliver them on site. If you're looking for flexibility, if you're looking for the ability to work with unique projects, or situations where on site is either very challenging or not desired either by the developer or by the city and there are situations where that is the case, we work in a lot of communities where developments that are being done in less accessible, less retail serve, less services provided areas aren't as attractive for particularly income controlled housing for folks that generally would want to be closer to those services because it would help reduce their costs, particularly for example for transportation. But that being said is that depending upon the outcome, the goal that you create the greatest value on would determine which direction that you would want to go in that regard.

I mentioned earlier, we had recommendations for the percentage set aside and what target AMI that you would do. You're looking at our rental recommendation and it does differ whether you're in the downtown redevelopment overlay as opposed to the rest of the city. I mentioned that a couple of times and the reason is very simple. Rents are much higher for new construction projects in the downtown area than they are in the other parts of the city. So they can, frankly, support more affordability because as you provide more density on the site, it creates a greater value comparative to a market rate unit in the other parts of the city.

So as I mentioned earlier, projects under 10, we don't recommend anything for projects between 10 and 49. We recommend a 10% set aside where seven and a half are at 80% of AMI and two and a half percent are at 60% of AMI. So slightly cheaper. 50 to 100 would be a 15% where you would increase the 80% requirement and then projects over 100 unit, you would require 20% where 15 would be at 80% and five would be at 60. The reason why the affordability goes up as the size of project goes up is because the increase in returns makes it more feasible for larger projects to accommodate a greater percentage of affordability. As I mentioned earlier, smaller projects are more challenged to provide income control units or payment in lieu of income control units. As you get to larger projects, the economies of scale kick in and it makes it a little bit easier.

For areas outside the downtown where those areas where rents aren't as high, our recommendation is to implement a basically a lower set aside at those similar thresholds. So instead of 10, 15, and 20, it'd be 5, 7 ½ and 10. It's for the reasons that I mentioned, which is that those projects aren't able to generate as higher revenue and as a result, they're not as capable financially of supporting additional affordability.

We also did this analysis on the ownership side. Looked at it from that perspective and the price variations aren't as substantial in ownership depending upon where you are in the city as opposed to rental. So it's a single recommendation and you can see here that our recommendations follow a similar pattern. However, the difference is rather than 60%, which is very, very challenging on the ownership for a multitude of regions, reason one is the ability of those households to pay, two is those abilities of households to maintain those housing units. So you're looking at an 80% and then 100% tier and you can see on the table how that works.

So that is the bulk of my analysis. I'm going to stop sharing now and I'm happy to answer questions or wait until after the full presentation to answer questions then.

<u>Chairman Moran</u>

Yeah, I think we can break it up with questions in between each part if that's all right.

<u>Alderman Clemons</u>

Thank you and thank you for the presentation. So on one of the slides, you had an example and it said the “off-site units” and I'm wondering if you can explain what that is.

<u>Kyle Talente</u>

Sure. If I'm building a project at 123 Main Street and I owe you five affordable units, an off-site strategy would be I would work out a deal with the city where instead of delivering those five units at 123 Main Street, I do it on another piece of land somewhere else. This is done for a number of reasons. Like I mentioned earlier, sometimes a project is in an area that is not well served transportation, not well served for retail, or services and so maybe that's not a great place or a place that the city is interested in building income-controlled housing. It also might be in an area of the city, frankly, where there's already a high concentration of income-controlled housing either naturally occurring, or a like tech. project, or a public development. So you may want or there may be an opportunity to say, all right, we're not going to do those units on this property but we're going to find another property to deliver those units either in partnership with a nonprofit developer for example, or I'm just going to buy another piece of land and build them over there instead of in this project that I'm doing right here. There's a number of different ways to accomplish that. So that's what off-site development is and that's the reason why our recommendation is if you are going to consider that, you should be careful about making sure that you don't leave it say, all right, you can build a project here and then you can deliver your affordable units in an area. Frankly, that's not very desirable to build new housing but it may be cheaper for the developer so include some qualifications.

<u>Chairman Moran</u>

Follow up?

<u>Alderman Clemons</u>

Yeah, so my follow up to that is how do you prevent the developer from going in and purchasing what is a duplex and turning it into five units, for example, of affordable housing?

Kyle Talente

So there's a couple things. One is you can say if you're - in your example, you're buying two units and you're converting it to five. Then only the three would count because it's only a net increase of three units. So they would have to make sure they still deliver the number of units that they are required under the IZ policy.

The other way you could do is you could set within the requirements saying that it can't be a rehabilitation project. It has to be a new construction project. So you can set those types of parameters in the policy to - just using your example as a for instance to avoid having them only deliver three net new units or trying to deliver those units through a rehabilitation rather than a new construction.

Alderman Clemons

Follow up. And lastly with the half mile recommendation would you say like a half mile however within the boundaries of the city?

Kyle Talente

Oh yes, absolutely.

Alderman Clemons

Okay. All right.

Kyle Talente

I apologize. I should have been more clearer on that but yes, it would be the intention would be within half mile but still within the city.

Alderman Clemons

Okay. Yeah, just thinking of, you know, we for example like over by the river or something, you know, we wouldn't want somebody to build something and then have them build affordable units in Hudson or something like that which if you don't put it in the ordinance, then they might.

Kyle Talente

I would agree. That's the reason why we mention these things is saying you need to consider all the language in the Code because you're right if the language is not in there, or prescribing, or restricting, then oftentimes the development community will be very creative and find ways to meet their needs.

Alderman Clemons

Okay. Thank you.

Alderman Thibeault

Thank you, Mr. Chair. So I know when we've talked about inclusionary zoning before we've had tried to have that balance of if we go too far this way we, you know, won't get any. If we go too far this way, developers won't want to build here. How do we think this hypothetical plan or this plan and the re-Coding would beat developers? Would it help us get more developers in here or would we be concerned about if we would continue having building here in Nashua?

Sam Durfee, Planning Manager

Yeah, sure. I'll take a stab at that. So I think the key thing here is that you're providing options, right. So you have, I think, as Kyle's demonstrated some pretty market tested thresholds of both percentage of units needing to be required and what those respective AMIs are but then you also have a buyout option. So you could do something that you're getting a comparable density bonus to that. It should pencil out and work but if you don't have the management capacity or for some other reason you don't want to provide that, you have a buyout option which then those funds would ideally be funneled into the housing revolving loan fund, and then the city can then support other projects which would deliver affordable units.

Chairman Moran

Follow up?

Alderman Thibeault

Thank you, Mr. Chair. So in New Hampshire are there any other communities that do it like this and if so, how has that been working?

Sam Durfee, Planning Manager

Like this as in having an ordinance like this or a different questions?

Alderman Thibeault

Yeah having the options kind of like the structured here.

Sam Durfee, Planning Manager

It's not uncommon to see, you know, a target AMI and then also a buyout option. I think we're just kind of tailoring these to the Nashua market because, I think, as Kyle mentioned, you know, there's various reasons why certain forms of construction will work here and others will not. The same goes for, you know, it comes down to what the rents can support. So that is a very important input into the model in determining what the target AMIs are and those associated percentages are.

Alderman Thibeault

Okay. Great. Thank you.

Alderman Clemons

Thank you. A couple things. So is the intention with this ordinance to have this be the ordinance, the law if you will that if you're building something over 10 units you have to do this and, you know, basically you have the option of either adding a unit on there or to do the buyout? Is that the intention? Like there's no, oh, we're just not going to do it?

Sam Durfee, Planning Manager

Obviously, the intention is to update the ordinance we already have on the books because these aren't too dissimilar but there are a number of gaps elsewhere in our current Code, particularly relative to, you know, we're giving a density bonus. That's no good in a district that has no density maximums. So we're kind of tying it all together in a way that makes the policy more effective in delivering but then again, providing those relief valves through different options of ways of meeting the ordinance while still getting the density bonus.

Alderman Clemons

And my second question is on the density bonus how is that built in where obviously, it's not just the affordable piece. That's the bonus, right? What else is included in that bonus? So in other words if you get a density bonus, right, and let's say you're building 50 units, what is the density? What is the density bonus? Is it just the affordable piece or it must be?

Sam Durfee, Planning Manager

No, yeah. So you would say you're coming in with a project of 50 units. That's what you want to build. Okay, then that means per the ordinance, you're required to build - make five of those affordable. Then, I think Russ is pulling up the numbers, based on the table and the district that you're in that Kyle just showed, you know, you may be then required - you get eight units market rate. So the entire project is 58. Five of which are affordable and eight of those are the bonus to compensate for the five affordable.

Alderman Clemons

Yeah, okay. I was wondering what that…

Sam Durfee, Planning Manager

And that scales in different directions but that's the idea.

Alderman Clemons

Yeah.

Sam Durfee, Planning Manager

Yeah and I did want to add in one other thing. Relative to requiring, this is an opt in situation where if you want the density bonus, you have to provide affordables. You can still build that market rate and it's tied to something that Russ is going to get into relative to our overlay districts but there are incentives and - sorry, go ahead.

Alderman Clemons

Yeah, so that's what I was getting at because if - I guess where I'm coming from and maybe you can change my mind but where I'm coming from is if this is an opt in, right, I guess I don't like the idea of opting in and then being able to cash out. So in other words if we required this that this was something that, you know, if you're building in Nashua, you have to follow these rules I could see the cash out but if you're opting in and then you're going to cash out, right, then nobody, in my opinion, nobody immediately wins. You have to find a way to get those units later on from somebody else.

Sam Durfee, Planning Manager

Can you clarify when you say "cashing out" on a project?

Alderman Clemons

Yeah, so in other words instead of actually building the units, you're just pay the city to not do that.

Sam Durfee, Planning Manager

Sure but in that case, the city then has added capital to support affordable development housing. The trick is the rub is where these numbers are so closely tied and associated with market forces so that we're really close in like it's right on the line where someone's gonna have to make that judgment call based on their management strategy and what sort of project they want to do. We want to dial it so that the buyout is a little bit more costly than providing on site. So from a strict number's standpoint, it's more beneficial to build the units but if you really don't want to do that, it's cost you a little bit more and that's where the buyout comes in.

Alderman Clemons

Because what I don't like about that is that it provides - if you're building luxury condos somewhere or you're building a luxury apartment building, right, it provides that person or that developer the option to say, well, you know, we don't want those type of people here. In my opinion, fine, then, then you don't get the density bonus and to me, that's a value and I think it's one that, you know, quite frankly, I feel strongly about and I don't think I could support an ordinance that, again, if we were saying to everyone, we are requiring you to do this, you must do this, then I could see the cash out being a thing. But if you're opting into the density bonus to begin with, then I say we craft the ordinance to just say look if you're opting in, then build the units and we'll help you figure out a management strategy, right? Because I think that goes back to the compliance part of it.

Sam Durfee, Planning Manager

I think one important point to make is that we don't have the ability to mandate it by State law.

Alderman Clemons

Okay.

Sam Durfee, Planning Manager

We don't - we can't do it.

Alderman Clemons

Understood.

Sam Durfee, Planning Manager

More importantly and anecdotally, you know, we've had conversations with developers and this is always a very sensitive subject. A lot of other communities that sophisticated developers are working in are exposed to this. They have experience and there's always a buyout provision. Again, some are just not set up to do it this way. I think it's a matter of well we've heard from developers that we just will not do affordables. Okay well on our side, you know, how much can we squeeze you forward to make it, you know - but we don't want to kill the project, right? So that's the fine line that we have. As long as we're receiving some level of buyout money that we can actually deploy to generate units even though they're not going to be constructed as part of the project, it's not like we've left anything on the table. I mean to a degree we have but we still get something in return that can be deployed and generate affordable housing elsewhere and another time.

Chairman Moran

So if I can add in. What about I'm in the same league as Alderman Clemons about if it's going to be an opt in, it's you got to do it type of thing if you want the extra space. But have we considered like regulating what an opt out would look like if they were going to pay to the Housing Trust Fund rather than just I don't want to do it? Like setting standards to what would qualify as an opt out that would have to be approved by some means.

Sam Durfee, Planning Manager

Right. So you would basically be seeking a special permit of some kind allowing you to opt out of constructing and buying the in lieu of payment.

Chairman Moran

In lieu of payment and not having like I don't want to do it as an option but we don't have the financial resources, this, that, something tangible.

Sam Durfee, Planning Manager

Right. So the Planning Board has to grant a conditional use permit we'll say. Some mechanism that exists but you have to prove hardship or some other reason to even qualify for the buyout. Is that what you’re?

Sam Durfee, Planning Manager

Right. That's exactly what I'm framing.

Sam Durfee, Planning Manager

And Russ, you may be able to speak to this. We have something like that. You're okay as is.

Russ Preston

Just for the record, Russ Preston of Principle Group. Offices at 791 Tremont Street in Boston. So I think this is - we've had a lot of discussion with Sam and the rest of the team here at the city on how do we allow development to continue and not sort of turn off the spigot? I think that was, you know, how do we make sure that projects still move? I think this has come up with, you know, not all developers do all development. It's sort of like, you know, I've been in situations where well I only do rental. Well we want you to do condo. Well I don't do condo, I only do rental. I've seen this in housing development. Like there are, you know, having a mixed income building or project requires additional management and a different - you know, some companies might not just be set up to do that or some developers might not have experience doing that.

So I think what Nashua is trying to do here is provide us a framework that aligns with your values across the community and with the Master Plan that you've already, you know, put forth. To do that within the State's current framework has been tricky. I think we've wanted to create something that allows multiple ways to achieve your goals and this in lieu payment I see being used in a couple different places where you're getting maybe larger scale development that are done by developers who don't have experience with affordable housing that could create funding that otherwise would not materialize, that could then be used to deliver other types of affordable projects in other areas of the city, and that's a tool that you don't currently have that we can deploy in this way.

Then what happens is, you know, are the benefits of that larger project that's opting into the density, we have other things they have to do to do that density like the creation of new parks, or the creation of better streetscape. Like there are other benefits that come with that overlay district that if then they choose, hey, I just can't do this affordable housing. I'm not set up to do that. Through a discretionary permit, we can sort of say yes or no to that and then those funds could flow into projects that are in need of those funding. I think that's the sort of system. And, you know, stepping back, this is a complicated puzzle and I think like how do we do this in a way that sets up a framework that can give certain tools to different types of projects when needed?

Chairman Moran

I'm just as wary as Alderman Clemons and I'll call on Alderwoman Kelly up next. But I'm very apprehensive to say not have any type of regulation or special permit process because as we know, developers could also take advantage of the city's zoning generosities and, you know, save a few bucks by just donating directly to the Housing Trust Fund which takes time to repurpose that money.

Russ Preston

Right, correct.

Chairman Moran

As opposed to the building that's about to happen.

Alderwoman Kelly

Thank you. I have a number of questions. So I think Kyle is the one who presented. The value gap analysis, you went pretty quickly through that. So I'm interested in how you're calculating that in payment of. It seems like that value gap is what you're using. Is that correct?

Kyle Talente

Yes, it is.

Alderwoman Kelly

Okay. So it's just the gap between. It's not necessarily enough to build a new unit.

Kyle Talente

Correct. So the value gap approach calculates what the value differences between a market rate unit and an income-controlled unit and then says, okay, in downtown, for example, it's like $125,000. The way that value is calculated is you look at what is the operating income of a market rate unit and then you capitalize that. It's basically what it would be worth as to what sold it and then you do the same thing for the income control unit. The difference in those values is what that number is. So effectively what that means is, is that a developer will be gaining value by being allowed to rent it at market rate over what it would be worth it was rented at a lower price point. So that $125,000 in downtown, for example, isn't sufficient because when we calculated it, the total construction cost for a project like that we would be about twice that much, about $250,000.

So the value gap calculation doesn't capture the 100% value of what it would take to build a unit. It captures the value between a market rate and that affordable unit. As I showed and hopefully that you get that presentation, you can distribute it to you. Did you see the difference between either buying out and delivering market rate units or delivery units on site is about the same which is what the intent of the analysis was? What would it need to be for them to be financially neutral basically?

Alderwoman Kelly

Follow up?

Chairman Clemons

Follow up.

Alderwoman Kelly

So in a rentals scenario, how many years are you basing that on?

Kyle Talente

It's a 10-year hold period.

Alderwoman Kelly

10-year hold. Okay, thank you. I have two more if I could.

Chairman Moran

Go ahead.

Alderwoman Kelly

So the other thing you talked about was - and not just payment in lieu, but off-site build. One of the things you said, which I always think is interesting, is the idea of not concentrating all affordables in one spot. Maybe this is a Sam question but my question is, do we have the ability within the proposed new Code to make sure that any of those off-site builds don't end up having the same effect?

Sam Durfee, Planning Manager

I don't believe that we have standards associated, currently that we don't have them drafted, associated with locations other than the half mile radius, right. So we want them close but not too disparate. It would prevent, you know, say there's a development in the southwest quadrant. They wouldn't be able to locate their affordables on East Hollis Street. There has to be some proximity within the neighborhood of where the development is occurring. We could take a stab at drafting those. I think it would be very difficult and may result in some unintended consequences that may end up preventing those off sites from being built because there's going to be so many case by case nuances that are going to be difficult to capture and account for in any regulation.

Unidentified Male Speaker

If I may add to that? That's the intent of the proximity requirement. Basically, what that does is it proxies that you don't want them to all be able to build in one area and the distance requirement mitigates that without having to go through a very detailed and complex approach to try and analyze it. It's a very common tool used in many communities to do just that.

Chairman Moran

Alderwoman Kelly has a follow up question but I also have a clarifying. Does this - would it also apply still even if it's off site about the equalness of the units being built compared to the ones at the market rate if they're off site? They would be the same build expectations of what is being…?

Unidentified Speaker

Yeah, I mean that is our intention right now and I think that's - maybe back up to the another scenario we've thought through with this is, you know, right now it's difficult to do sort of higher, missing middle, you know, that sort of 14 to 20 unit apartment building. Something that you know is greater than 10 units but less than, you know, your 45 - 50-unit kind of podium style apartment. Getting more missing middle housing into production is a goal, I think, an achievable goal for Nashua. So I'm seeing this as a mechanism for if I've got a 16-unit apartment building that I can do on a 60-foot lot, or 55-foot lot, something manageable, I might do off site and contribute that to a larger building. So it's a tool that I think make those smaller projects that sort of medium size to missing middle size that might be very difficult to do otherwise.

Chairman Moran

Thank you for that.

Alderwoman Kelly

Thank you. It's a pretty good tee up for my next question which was around - I know that those margins that you play in, especially with affordables, are really tight and we definitely have had some fluctuations in market, and price, and, you know, getting things in. How often do you look at those numbers and make sure that they're aligning with what's happening in the market?

Unidentified Speaker

If that's a question for me, our recommendation is doing it no longer than every two years but we usually recommend you try and do it every year because market conditions do change.

Sam Durfee, Planning Manager

Yeah, and I think we have an ask of Kyle, and Russ, and collectively give us some sort of formula or index to track, some way that that's the Planning Board with the ability to annually update based on some prescribed inputs tied to the Construction Price Index, something like that. Some way that we can annually - interest rates get plugged in. All the things that go into the cost of construction and understanding what the average rent is. There's a way to craft it and then it's a simple formula exercise that we would run every year and update it just to make sure that we are consistent with the market.

Alderwoman Kelly

Thank you. All set.

Alderman Clemons

So in regards to the offsite if somebody was to do that, what are the requirements or what are we proposing the requirements are in so far as the timing of the construction?

Unidentified Speaker

We don't currently have a requirement in the regulations for it must occur within 24 months, something along those lines. You know, we're envisioning this is happening during a site plan approval type process so you would have to have another project fairly well identified in order to kind of secure that offsite approval. I mean it's certainly something we could explore, you know. I think that, you know, the scenario where it's a third party or is it the same party that's doing the offsite, there are questions around that but that's really up to the market to sort out.

Yeah, I see there's something we want to do there that doesn't say, well, I'll do it off site and then it's a decade later and they still haven't done it. I think that's a prudent sort of issue to resolve for a possible issue.

Alderman Clemons

Yeah, so, yeah, no it's 100% a concern because, you know, I understand from the point of view of maybe you're doing that because you need the market units to be able to - maybe you're financing it that way, right, where you need those market units to then afford the affordability. So I don't mind timing, you know, like a year after or something like that, right, but like there has to be something concrete, I think, in the ordinance to basically say, listen, the shovels gotta be in the ground. This thing's gotta be moving in a certain period of time no later than, you know. So I, and again, you don't want to also have the situation where they were going to do it simultaneously, they see the ordinance, and then they decide to put it off a year. You know what I mean. But not that I don't think they would because like anything else, the prices of construction escalate year over year. But, yeah, I think there needs to be some sort of mechanism to make sure that these things are being done as we want them to.

Russell Preston

Could I do a follow up to that? I think just as for context, I think that's something we could do. I mean another scenario that we're seeing given the current housing market and sort of, you know, the sort of financing interest rates. We're seeing in a multi-unit phase or a master plan type project where they might be doing, you know, two, four buildings, we're seeing the workout happen now where they're doing what it might have to be for Kyle's numbers, maybe it's 10% or 15% of the units are affordable in that building as a phase of the project. They're saying no, we're actually going to take those out of that building and do a LIHTC deal where it's a 60/40 affordable that's one phase of the project and then a full market as another phase of project, and that's getting projects to go now that we're stuck. So I think that's another scenario where it's just, it's internal to maybe one master plan or one project. So the timing thing, I think, you know we could look at that in more detail but it makes sense to try and, you know, make sure they're delivered in the same development cycle of course.

Alderman Clemons

Yeah, I think as long as - thank you. I think as long as the priority is on the affordable, meaning that like that's not lost in it. So in other words if you want to build the affordable first, have at it, right, but otherwise, it has to be done.

Alderman Thibodeau

Thank you, Mr. Chair. I don't know who the question will be directed to exactly but regarding the size and the quality of an affordable versus a market rate house - a variety of schools of thought, right. I've heard from some people who have actually been through, you know, the system and they're like well now that I've elevated my position in life, you know, why should somebody who can afford the full rate house have the same square footage, quality of fixturing, and whatnot in my house.

And then the other school of thought of that is to have, you know, I can't wait till I can move into the nicer units or whatever. And then on the other side of that, we've had some developers in here recently who have brought it up from their strategy on how they run their business that to them, it just makes more sense because what happens if somebody, you know, job raised, whatever, right. Their stature in life changes and they can afford more, right, so they get priced out of the affordable unit and then what the developer was telling us is that, alright, so now the unit they had is now no longer an affordable unit. So it's from their business model, it makes sense that they're all the same. The same quality, same size because it's not unit 5 is not the affordable unit. We just need to have five affordable units in the building, right? So when they price out, now another unit becomes that affordable unit.

So I'm just curious how this ordinance would be written. Are we going to make that a desirable approach or are we hand tying with the way that's going to be written that they must, they shall, however that's going to be worded, be the exact same size. Because I think as a business model for some of them, it might make sense but for another business, maybe that's not how they want to run it. I'm just curious how that is intended to be written. That was a long question I know.

Chairman Moran

And who wants to field it?

Unidentified Speaker

I can take a first pass at it because part of our practice is dealing with housing and managing affordable, some affordable units. So I've seen this firsthand. I think there is two decision points here for you all here how to handle it Nashua. I think there's a definite practice and school of thought in the affordable housing world – capital a that, you know, we should deliver equal units to everyone in a project like that. But I think coupling that with that affordable units on a plan that's linked to an approval and that unit can't morph to a market, that's an administrative thing that Sam and I've talked about but we need to do a little more work on. I think what you've explained is healthy because what we're finding with some of our other municipalities we work with is that they're really worried about displacement of affordable units that have upward mobility and that annual income check is something that we want to not be – like how do we set that up properly so that they know they're not going to have to go find another unit if they get a better job or something along those lines.

So I think that's sort of a nuance that we want to make sure is done properly so that it makes sense. I think there's a way we can do that to make it work. I think what I find having built these types of buildings before is that there needs to be some wiggle room. I think there are policies we've worked with that have no wiggle room and it makes it very difficult for the life of the building, that second generation, or 10 years on for that kind of that to happen. I think worse, you know, not to speak for Sam, but I think there's some administrative burden to how you run that every year that you all have to look at your net, you know, and okay what are we taking on, how are we doing that, or who we partnering with to do that to just manage that yearly sort of thing that happens with housing.

Chairman Moran

Did that fully answer your question? I know Manager Durfee can answer more.

Alderman Thibodeau

If you had one that elaborate on that one. I get it. It was probably a very long, confusing question. I think that answered what I was going for.

Chairman Moran

Great. All right.

Alderwoman Kelly

I just wanted to add some context here as the liaison to the Housing Revolving Fund. There's some really interesting things that that Committee has done. So while there are things that it's being talked about in this chamber that we can't necessarily do through Code. If the money goes in there through in lieu payments, that Committee has made it a really strong rubric of how we score those things so that things like hired, you know, our what's the EMI? PMI. Thank you. My brain is broken. It's been a long day. We prioritize that. We prioritize people who might be a local builder. There's a lot of different things in that rubric that are incentivized so that when we put that money in as mostly, you know, a gap funding, we can have that project better align with what we want to see in the city. So it does give us that mechanism to have a little bit more control over what that project looks like if they're lending money from our housing revolving fund.

Alderman Gouveia

Thank you, Mr. Chairman. Question probably to Mr. Durfee. Kind of a weird one but hearing along the lines of having kind of the separated affordable units to the normal units. What would happen if somebody built their normal units and then just never built the affordable side?

Sam Durfee, Planning Manager

It's a fair question. So we would obviously want to prevent that from happening in the first place. You know, I see a way where there's a condition on the site plan that you have to have permitting underway for your off sites before you can get a building permit. There could be something really heavy like that where your primary project is not going anywhere unless you have shown good faith effort in getting something else moving. I mean, I think that we would probably establish some sort of a check like that where there is clear motivation to get moving on your off sites before a primary project ever happens. I mean aside from that, you know, if it ever got through the cracks, you know, you can provoke a site plan approval. What you're kicking people out of your units now? Probably not but, you know, I think the only remedy to that is to prevent it before it happens.

Alderman Gouveia

Sure. I think that's kind of what I would like to see is kind of what happens there because talk is cheap. People can come in and say whatever they want. Yeah, we're going to build it. It'll happen over there and then we just never get around to it and what would happen because obviously if these ordinance changes go on the books, we want to make sure they're getting built.

Alderman Clemons

Well I would imagine that the city would sue them and get the in lieu payment, right? I mean if we went down the in lieu payment road, I would imagine that we'd sue them. If it was the other way around where they were just supposed to have the units in there, we'd sue them to get the units in there. I mean that's what I would hope the city would do but.

Alderman Gouveia

But at that point couldn't you have already built the - sorry Mr. Chairman - at that point, couldn't you have already built the bonus density by them? Then what would you do? You're going to take away the bonus density?

Sam Durfee, Planning Manager

While we're in in litigation?

Alderman Gouveia

So see this where I get confused on it. I know it's a very far-fetched situation. The odds of it happening are probably very slim but.

Chairman Moran

We potentially have an answer.

Unidentified Speaker

Well, I'm thinking out loud on this because I - I've always thought of this as a way to get more housing built but what you're saying is this is I would prevent a bad faith developer weaseling out of their commitments. I think we could put, you know, either they're in violation of their conditions of their permit and there are remedies that the city can take. We could prescribe those and there could be a mechanism where we kick into a penalized payment in lieu. So the stick is there in the Code already. That might be one way we do it so you're not kind of in the courts trying to figure this out. There are other cities in New England that have to monitor these things that do need to get audited from time to time, you know and I think depending on the timing, there may be some connection to, you know, permit renewal or CO. I think there's, you know, some link. I think this is off site in that like the scenario I gave where it's two separate buildings in the same master plan project but this is truly off site where I'm partnering with a housing organization to do a building across the neighborhood where it's not necessarily they're on the same construction timeline. That's the scenario that I think might be harder to connect. So there might be a way we could do this where there's a little more teeth on that.

Alderman Gouveia

Okay.

Chairman Moran

It makes sense that we don't want to assume bad faith which is we always want to assume good faith. I'm sure we're all aware of developers that use scabs and cut corners.

Alderwoman Kelly

Thank you. So my question is you said "partner", which is actually something I was thinking about. If people choose to do like the off-site build is there a potential opportunity for like a partnership say I need to build five, and I need to build five, and they're already doing five. Like are we seeing that potential scenario?

Unidentified Speaker

I think that's part of the sort of marketplace or the kind of ecosystem of housing creation network could come from this.

Alderwoman Kelly

I guess I bring it up too because like there's only infinite or there's only a finite amount of land left. So we're going to have to start to think about that as we continue to grow the City.

Alderman Clemons

Piggybacking on that is there and density bonus for somebody that's building affordable housing? Like if the whole thing is affordable housing?

Sam Durfee, Planning Manager

Right so I mean in the way that our approach to density is written into the Code, we use density factors. So market rate is $850, you need 850 square feet for a unit. If you're providing IZ units, it's 650. A LIHTC project would already be operating at 650 because they they're providing IZ units regardless of the fact that they're all IZ units.

Alderman Clemons

Yeah, okay. So they automatically would get that then. Okay.

Unidentified Speaker

If I may?

Chairman Moran

Yes.

Unidentified Speaker

And I think there's this sort of marketplace of off (inaudible) in lieu that can also come into those projects. So I think that's where it's kind of a bundle of tools hopefully.

Alderwoman Kelly

Just one more like theoretical question here. Obviously, you guys are consultants. With all these options, what have you seen be most successful with other cities? Like in lieu, or the offsite, or is it a mix? What have you seen for success in other places or other clients?

Kyle Talente

Yes, so I would say that the communities that have the ability to be flexible and creative are the ones that generally have the greatest success.

Chairman Moran

So if I can recap to you Manager Durfee, sounds like the Committee is overall supportive of the direction you're going in and it looks like the feedback we're offering is some regulation on how an opt out can happen, when, and why, and where, and what happens when the time period could be for building those off-site units under a permit or something, and what was it the special permit, again, for opting out. There was one more thing I felt was important.

Alderman Clemons

Well I just want to say, I'm not completely in this. I'm just speaking for myself but I'm not completely in - I am not completely sold on the payment in lieu. The total construction cost, maybe because I think - my issue with the payment in lieu is it does not account for the actual construction cost of the unit and in addition to that, costs escalate. So if your project gets approved in 2025 but doesn't actually get built till 2027, when is the payment due? Is it due in 2027 after the project's completed and now you've got 2025 dollars. But even if you collected it in 2025 up front, now it's sitting in an account waiting for Alderwoman Kelly's Committee to find something to use it on and again, it's 2025 not 2027, or 2028, whatever it is, right? So if it's the full construction costs on the other hand, you have the same problem but you have more cash, right, and it's closer to what the actual construction cost would be later on down the line. So the gap that you'd have to find to fund that would be less.

Chairman Moran

So more parsing out what is considered appropriate for an opt out and within the confines of one spectrum Alderman Clemons people who don't want it at all that anyone can opt out but proposing some options that we would all support.

Sam Durfee, Planning Manager

Could I just propose – I'll give an example, right. You have a really unique situation, say the Mohawk Tannery. You have an incredibly contaminated site. There's obviously a huge amount of capital that needs to go into the cleanup, right? I think that there we could set up avenues where there's an administrative or either it's a Planning Board decision. It's a type of permit that you either are doing construction costs or you're doing the value gap and I think that there's these decision points where, oh, you're cleaning up a super fund site. Well, I think, well in that case, you know, value gap makes a lot of sense. I think that providing some relief but structured, there's guidance around those. I think we could experiment with a few of those to get closer and make sure that there are opportunities. You know, the biggest properties are the ones that are dirty. We do want to see those clean. We want to see them brought into productive use. They typically require some special treatment. So I think that we've experience with that now so I think that we can take those learned experiences and apply them in a regulatory fashion.

Alderman Clemons

Yeah, that makes a lot of sense. It makes a lot of sense that if you're dealing with a contaminated site, some place that's going to require a lot of environmental cleanup, and I'm not talking about just asbestos, right, but I'm talking about like serious EPA hazards. Yeah, and that's why I was so supportive of the Mohawk Tannery development even though it's providing, you know, very few in comparison to everything else affordable housing is because they're cleaning up a super fund site for us, right, and they're still managing to get some affordable housing in there. So I think that's a good point. It's something that I absolutely would be open to in those particular situations. I think we'd have to just see the language but I'd be interested to review it more.

Sam Durfee, Planning Manager

Thank you.

Russel Preston

Could I ask just because we're going to have to go solve all this when we leave so I want to just clarify. Kyle on the construction cost, that internal rate of return is still within your range it's just on the lower end. Is that correct? I just want to…

Kyle Talente

Yes, yes. We wanted to show what the impact is and it's still within the range but, you know, a 3% swing in IRR is pretty substantial.

Russell Preston

So let us look at that a little bit and I think how we value that buyout has been a big conversation. I think tying it to milestones that makes sense with construction, and I have seen it where there is annual escalations or it's connected to some index too. So I think there's ways we can address those two issues. I think it does come down to the type of project that Sam was saying. Like what's the right? There's no single silver bullet on this thing. I think it's lots of BBs, and lots of, you know, it's a whole toolbox of stuff that we've got to create to make this work. So this was great feedback. I think we have a lot of homework here to do but I'm feeling like we can figure that one out though.

Alderman Thibeault

Thank you, Mr. Chair. I just want to, I guess, react to the summary of what we want as Committee. There's four of us here on the Committee. I'm not sure we're all aligned exactly the way the Chair was summarizing it back. So because there's nothing really, we're not voting on anything here. We're not like we each have our own opinions on things and then we have two other Aldermen in here that also have their opinions of things. So I just, I mean, I'm more in lieu than probably Alderman Clemons is as far as that particular thing. So I don't know what we're trying to decide here. You know, it's a presentation of what you guys have come up with and we can offer suggestions but I'm not sure we're deciding anything tonight for you guys. It's just giving you some advice from some of us, and then you guys taking it back, and maybe looking at what you have, and maybe adjusting to what some of that feedback has been, and then bringing it either back as a full, you know, re-Code or.

So something like this particular thing, inclusionary zoning, that's not just going to be in your plan, right? We're going to have to do an ordinance for that because it's going to have to replace the current ordinances we have in there now for inclusionary zoning, right?

Sam Durfee, Planning Manager

This is a part of the entire re-Code document. So the zoning ordinance component of the Land Use Code and it's important to say that because this isn't a single piece of legislation that we want to propose to replace what's currently there because it's tied into new districts and everything else. It can't be piecemeal.

Alderman Thibeault

Okay. So that's what I thought. I've heard a couple times ordinances changes and I was like I thought it was just the whole packet. Here's the re-Code and this is what we'll eventually be voting on. So I'm glad you cleared that up because that's how I thought it was. Yeah, exactly. That's what I thought it was. I didn't think it was going to be piecemeal and I wanted to make sure that we didn't have to go revoking ordinances and changing stuff around.

But yeah, I just want to make sure that we're not necessarily offering a summary of what all four of us think because I think we might think different things on different pieces of this. So I was like just giving some of the feedback that some people had that may be beneficial. Reworking that where the whole Committee or the whole Board does then be able to think to pass it.

Chairman Moran

And I think as we learned in the past if we took a vote on what we thought would actually be legal and all these other things, so I think summarizing what a lot of the key points of the conversation back and you giving us options to what is actually plausible makes more sense than us going round, and round, and voting on what the Committee wants and then it not being practical at all. Thank you.

Alderwoman Kelly

Yeah, I've got some of the concerns around the in lieu I've definitely been concerned because we've seen it in so many other areas, right, where we have a sidewalk in lieu and you pay that and then we never have enough money to actually build that sidewalk. So that is something that I am concerned about.

What I do think I want to hear if we, you know, when we get a second draft of this is like how do we balance that because I do hear also what Kyle said, which is we have to be flexible, we have to be creative, we have to have lots of tools in our toolbox because we can't make it so hard to build here that people won't build here but we still want to have those affordables, and we want to start being able to integrate, you know, more incomes in all places not concentrated. So I think you guys have a good idea of what our wish list is but I do worry about the in lieu of and what happens if we continually put ourselves at a deficit to not be able to ever build those affordables.

Alderman Gouveia

Thank you, Mr. Chairman. More of just an overview of - because we talked about this a while back about how we wanted to tackle the re-Code effort. I think what we kind of drew up was going through bite sized pieces of the re-Code, then getting kind of having the hard cover draft in front of us when we're looking at the physical piece of legislation, then going through it one last time kind of like a work session if you will where we could offer amendments to pieces that we could potentially amend given that it's obviously legal. So I think that's kind of the direction that we wanted to go upon and I think that'll be good because I know like just thinking of it right now, it's a lot to kind of chew on and kind of make a snap decision for me. I want to get some more opinions from the community as well. I think its still kind of a fluid document if you will. So I think that's the way I would like to see us at least proceed.

Chairman Moran

Yeah, I think that's how in conjunction with the Planning Department how we worked out and how this was being presented to the PEDC.

Alderman Thibeault

Thank you, Mr. Chair. So have you gone with this through like through this with any developers or getting their thoughts on it?

Sam Durfee, Planning Manager

Not the IZ specifically. We've talked about it at a conceptual level. These numbers are incredibly fresh after a lot of work on Russ and Kyle's part. We do intend to workshop this with developers and it's also informed by conversations we've had with developers. We haven't had the opportunity to float these in front of them and get a sense, you know, react to this you know.

Alderman Thibeault

Okay, thank you.

Chairman Moran

Do you have a time line that would happen?

Sam Durfee, Planning Manager

As soon as we can.

Chairman Moran

Is there anything additional to the presentation that you want?

Unidentified Speaker

So this is integrated into the Code and, I think, there's sort of some - we can, you know, I think the process was good here. I think my anticipation was this was great feedback. This is very much a working document. I think we will come back to you with updates, and further thoughts, and be able to make more edits. I think having some time then to show you how it works with the other elements would be helpful. I think that sort of this has been a lot, so I think like how this is connected to the other elements will be easier once we kind of, I think, can do some more homework on what we heard tonight. So I don't need a decision. I think this is great and there'll be more soon. I'm hoping we might have something, you know, later in September that can be back to you all.

Alderman Thibeault

Thank you, Mr. Chair. Do we have other - what's the next piece that we're going to get or are we going to get another piece before we get the whole? I mean I know we already have the whole thing but as far as, like going in this kind of detail.

Sam Durfee, Planning Manager

Sure. Yeah, so another one of these sessions. Yeah at our Thursday session, we floated a couple other things. You know, we can still cover site standards. I could if the Chair is open to it, I can shoot a list of options over.

Chairman Moran

That'd be great.

Sam Durfee, Planning Manager

I think we've hit the big things. You know, we began with the real bones and the building blocks of the Code. I think we have a pretty good understanding of its functionality. We've gotten into the more difficult, you know, impactful parts of the Code. I think with parking last week and IZ this week. I mean those were the really big things. So I think we can get a little bit more granular and understand now how sites would function, and look, and feel which I think is a very integral part of making the development that come out of this Code successful and, you know, that begets further investment and more development because they're of high quality. So I think that's, you know, we've built the car and now we're just putting on really flashy paint.

Chairman Moran

And if we need to have more than one meeting a month until we hit everything that the Committee feels comfortable with then so be it.

Sam Durfee, Planning Manager

Once a week, roger that.

Alderman Clemons

I just think to Alderman Gouveia's point though, I think it will once the draft, you know, comes in for its first reading, I think we're going to need multiple meetings to go through the draft and, you know, kind of look at it again.

Sam Durfee, Planning Manager

Sure.

Alderman Clemons

As valuable as these meetings are, because they absolutely are because I hope that, you know, the feedback has developed, you know, what the final product will be, and then we'll go through, and kind of do the fine-tooth comb if you will.

Sam Durfee, Planning Manager

Absolutely. We're doing incredible work right now in these sessions that we are not going to have to redo later. I think we're bringing that level of finish for that draft that comes to you as a first reading piece of legislation. The level of finishing is going to be that much higher. So thank you for your time.

Chairman Moran

Thank you.

Unidentified Speaker

Mr. Chair I know this is a public meeting. I'd just like to advertise. We had an office hours beforehand. We're doing another public office hours on September 10th from 5 to 7. That's virtual on Zoom. So if you go to the re-Code website, Nashuarecode.com, you can get the link to that and register. So there's still very much kind of feedback loops there for the public to engage too if they want to.

Chairman Moran

Great and thank you for sharing that with everyone.

Alderman Thibeault

So thank you. So will we have - does Donna have this presentation? Like is this something that we'll be able to - okay, thank you.

Alderwoman Kelly

I just had a question around the workshops. Are those the only ones that are planned? Are we looking at others? The reason I ask is because they've both been from 5 to 7 so I want to make sure a good swath of people are able to come if they can.

Sam Durfee, Planning Manager

Yeah, we don't have any currently scheduled because I think we're creating them and we're figuring out what topics, and where, and when. So, I mean we'll publish those that and we fully intend to do more in person, more virtual. We're also figuring out, you know, timing, when's the best, what's the best format, and things like that. We fully intend to do more sessions with the public.

Alderwoman Kelly

Great. Thank you.

Chairman Moran

All right. Well thank you both for your time and yours as well Kyle. I appreciate it.

COMMUNICATIONS - None

NEW BUSINESS – RESOLUTIONS - None

NEW BUSINESS – ORDINANCES – None

TABLED IN COMMITTEE - None

GENERAL DISCUSSION - None

PUBLIC COMMENT - None

REMARKS BY THE ALDERMEN - None

ADJOURNMENT

MOTION BY ALDERMAN GOUVEIA TO ADJOURN
MOTION CARRIED

The meeting was declared closed at 8:37 p.m.

Alderman Derek Thibeault
Committee Clerk

CITY OF NASHUA

INCLUSIONARY ZONING

AUGUST 2025

PREPARED BY RKG ASSOCIATES

RKG

STUDY INTENTION

The City of Nashua is reworking their zoning ordinance and wants to know if the City's housing market can adopt an Inclusionary Zoning (IZ) policy without negatively impacting housing development.

An IZ policy requires developers to provide a percentage of income-controlled units (referred to as 'set aside') priced to a specific income level (referred to as 'target income threshold'). IZ policies typically have specific conditions (e.g., minimum project size) that must be met to trigger the requirements.

By allocating a proportion of income-restricted units, it is likely that financial feasibility will be adversely impacted through reduced financial returns due to lower revenue streams. Thus, the City aims to adopt IZ measures that are calibrated with policy changes to mitigate the negative impacts.

This analysis provides an understanding of the severity of impact that various IZ policy options could have on new construction development within the City. This includes (but is not limited to) set-aside rate, target income level, location in the City, and type of development.

ANALYSIS APPROACH

The financial feasibility model is a proforma-based Excel model that is designed to test the financial impact of potential policy changes against the financial risk/reward of a residential development. All financial feasibility modeling is based upon three principal components: construction costs, operational costs, and operational revenues.

Construction Costs

- Soft costs – design, entitlements and preparation
- Hard costs – materials and construction
- Land costs – physical location

Operation Costs

- Financing costs – debt and equity to pay for the project
- Traditional 'OpEx' categories (e.g., marketing, management, repairs)
- Real property taxes

Operational Revenues

- Rental rates and sale prices (ownership)
- Parking revenue
- Other revenues (e.g., vending/laundry)

Data sources: CoStar, Apartments.com, Redfin, Zillow, US HUD

Rates of Return

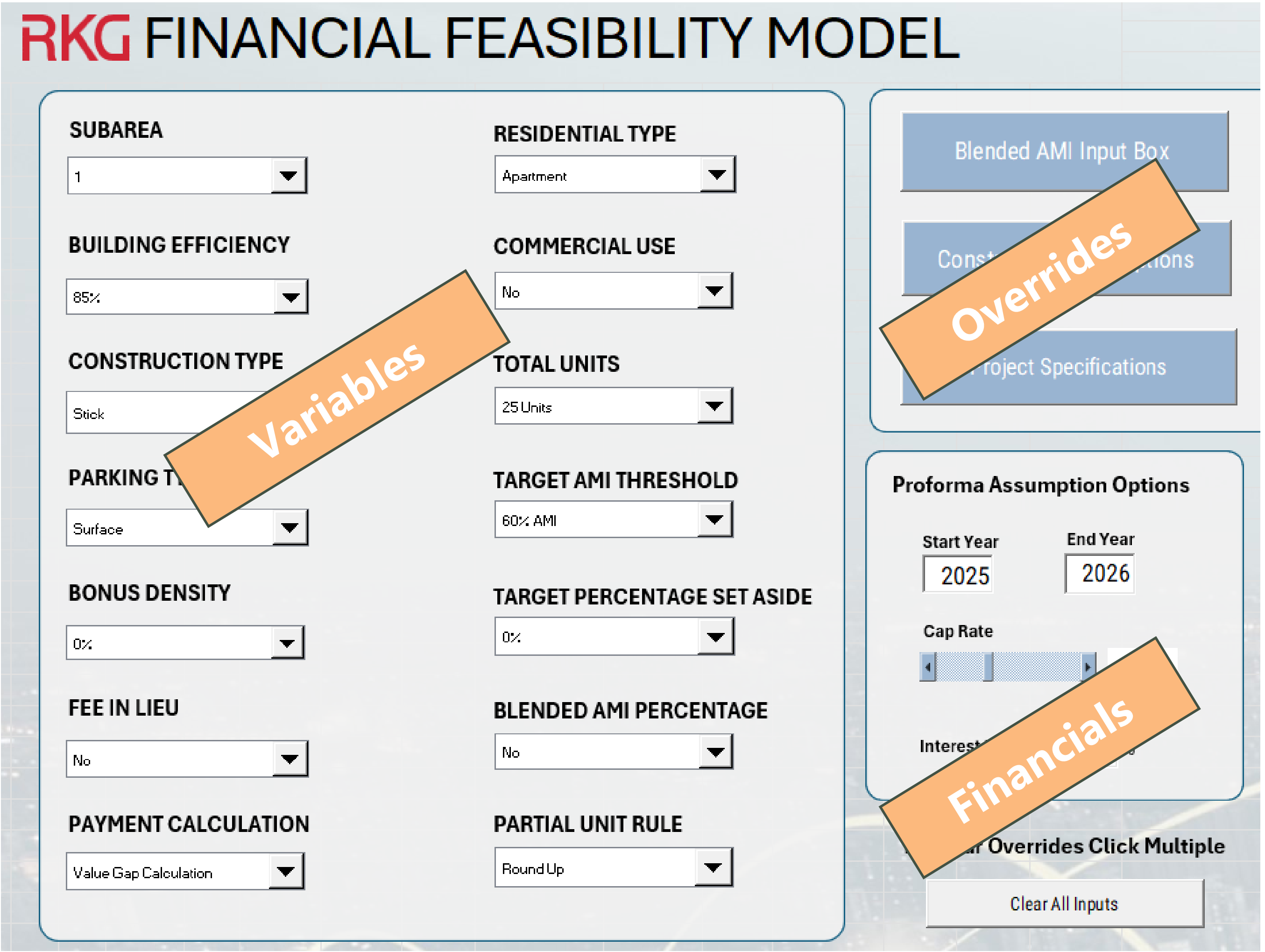
- Internal Rate of Return (IRR) – Impact of the time-value of money
- Return on Cost (ROC) – Performance of the full asset

Return Expectations*	Conservative	Moderate	Aggressive
Rental			
IRR	12.5%	13.5%	15.0%
ROC	5.75%	6.00%	6.50%
Ownership			
IRR	20.0%	25.0%	30.0%

*Return expectations reflect feedback provided by real estate developers interviewed by RKG Associates with knowledge of the greater Nashua real estate market. Return expectations will vary developer to developer.

FINANCIAL MODEL

- Model runs on market data collected through research and interviews
- Variables allow user to select common development types, location, and affordability requirements
- Model design allows user to customize for a unique project
- Financials deal with both financing and incentives
- RKG will run this model to determine of various potential IZ policy changes



RESULTS – APARTMENT

Total units to reach feasibility
Baseline Density Factor
IRR (Threshold = 15.00%)

- General assumptions:
  - Downtown rental market
  - Wood-frame construction
  - 5 Floors = 65,000 ZLA
- Q1: Baseline density factor
  - 1,125 sq ft works for an apartment building
- Q2: Recommended set aside
  - Baseline zoning at 10% at 75% AMI to reach 850 baseline density factor
- Q3 & Q4: Overlay set aside
  - The table shows set aside and target AMI for different density factors (e.g., a density factor of 707 sq ft for 15% of the units at 70% AMI)

20,000 sq ft lot		Set Aside			
		0%	10%	15%	20%
AMI	50%	58 units 1,125 sq ft 15.00%	87 units 747 sq ft 15.06%	114 units 570 sq ft 15.12%	160 units 406 sq ft 15.00%
	60%	58 units 1,125 sq ft 15.00%	80 units 813 sq ft 15.01%	100 units 650 sq ft 15.08%	130 units 500 sq ft 15.04%
	70%	58 units 1,125 sq ft 15.00%	78 units 833 sq ft 15.07%	92 units 707 sq ft 15.00%	112 units 580 sq ft 15.02%
	80%	58 units 1,125 sq ft 15.00%	73 units 890 sq ft 15.07%	84 units 774 sq ft 15.03%	96 units 677 sq ft 15.00%

Geometrically Constrained

Geometrically Don't Work

RESULTS – SMALL APARTMENT

Total units to reach feasibility
Baseline Density Factor
IRR (Threshold = 15.00%)

- General assumptions:
  - Downtown rental market
  - Wood-frame construction
  - 3 Floors = 39,000 ZLA
- Q1: Baseline density factor
  - 1,125 sq ft works for small apartment buildings
- Q2: Recommended set aside
  - Baseline zoning at 10% at 75% AMI to reach 850 baseline density factor
- Q3 & Q4: Overlay set aside
  - The table shows set aside and target AMI for different density factors (e.g., a density factor of 600 sq ft for 20% of the units at 70% AMI)

20,000 sq ft lot		Set Aside			
		0%	10%	15%	20%
AMI	50%	34 units 1,125 sq ft 15.00%	50 units 780 sq ft 15.13%	67 units 582 sq ft 15.14%	95 units 411 sq ft 15.07%
	60%	34 units 1,125 sq ft 15.00%	50 units 780 sq ft 15.46%	60 units 650 sq ft 15.16%	75 units 520 sq ft 15.02%
	70%	34 units 1,125 sq ft 15.00%	47 units 830 sq ft 15.07%	54 units 722 sq ft 15.21%	65 units 600 sq ft 15.03%
	80%	34 units 1,125 sq ft 15.00%	44 units 886 sq ft 15.08%	48 units 813 sq ft 15.02%	56 units 696 sq ft 15.03%

Geometrically Constrained

Geometrically Don't Work

IMPLICATIONS

- Under current market conditions for an arms-length project, developers would build wood-frame (up to 5 stories) because it provides the greatest financial return. Concrete and steel construction is infeasible at any size due to high costs in comparison to the revenues generated.

- Findings are consistent across all building typologies that allow height that requires different construction typologies.

- Targeting a lower area median income will lower the density factor. RKG recommends adopting a graduated scale for an IZ policy at different project sizes. Taking this approach will benefit larger projects as they can accommodate more affordability due to economies of scale.

RECOMMENDATIONS

- **Minimum unit threshold**
  - 10 units (first whole unit is due)
  - Supports missing middle housing development
- **Off-site units**
  - Require units to be within close-proximity of development project parcel (e.g., within 0.5 miles)
- **Unit pricing**
  - See following table for recommendation
- **Development standards**
  - Ensure all IZ units are similar sized and development quality as market rate units
- **Compliance**
  - Require annual submission of income qualification (as appropriate)
- **Payment in lieu option**
  - Ensure City is receiving adequate value to build the affordable unit elsewhere
  - Value-gap calculation vs construction cost

OPTION 1: VALUE GAP APPROACH

Applicants may request to make a payment in lieu of providing one (1) or more required IZ Units by Site Plan Approval [Special Permit]

In addition to the review criteria for all Site Plan Approvals Special Permits specified in Article XIII. § 190-97B Criteria for Approval, the review board shall make findings considering the following in its discretion to approve or deny a Site Plan special permit authorizing a payment in-lieu of IZ Units:

a. If receipt of an in-lieu payment is advantageous to the City in creating or preserving affordable housing compared to the IZ Units that would have been otherwise provided

The in-lieu payment for an IZ Unit is calculated as (A*B) where:

a. A is the amount of IZ Units not provided, and

b. B is the difference between the average sale value of comparable market-rate units sold within the City of Nashua over the previous twelve (12) months and the sale price of an IZ Unit in the ownership or rental price tier that would have been provided, as calculated according to [IZ Unit Price].

In-lieu payments must be made to the Housing Revolving Fund

OPTION 2: CONSTRUCTION COST APPROACH

Same as Option 1 except for…

The in-lieu payment for an IZ Unit is calculated as (A*B) where:

a. A is the amount of IZ Units not provided, and

b. B is the total construction cost (inclusive of land acquisition, soft costs, development costs, and hard costs) of the project divided by the total unit count

PAYMENT IN LIEU EXAMPLE

Performed financial analysis of 50-unit apartment development (5 IZ units required) to determine impact of payment in lieu policy compared to delivering units on-site

	In-Lieu Fee (Per Unit)	Total Cost	IRR
Downtown Overlay District			
On-Site	$0	$0	15.0%
Value Gap	$124,715	$623,575	14.8%
Construction Cost	$255,289	$1,276,445	13.0%
Rest of City			
On-Site	$0	$0	15.0%
Value Gap	$95,320	$476,600	14.3%
Construction Cost	$237,794	$1,188,970	12.2%

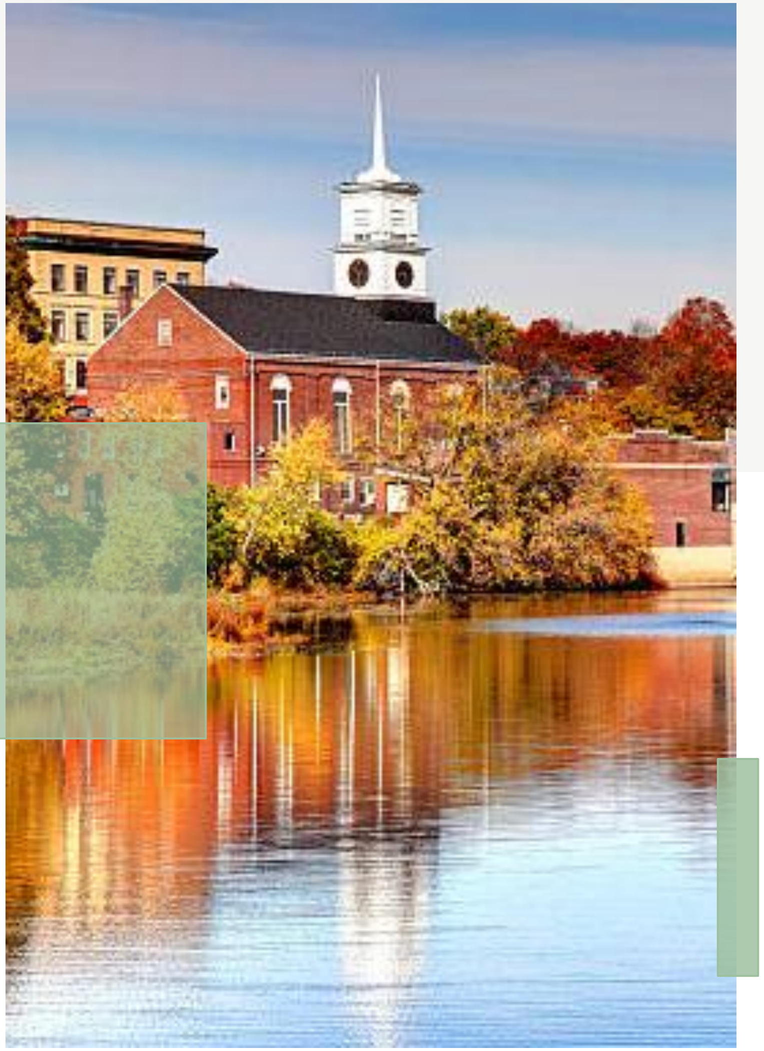
BENEFITS	DRAWBACKS
On-Site Development	
Distributed units	No flexibility
Financially calibrated	
Value Gap Approach	
Financially consistent with on-site	Does not deliver full unit value
Flexibility	Unequal impacts throughout city
Construction Cost Approach	
Delivers full unit value	Negative financial impact

RECOMMENDATIONS – RENTAL HOUSING

Dwelling Units	Location	Total Percent Required	Tier 1 Target AMI	Tier 2 Target AMI
Less than 10	Downtown Redevelopment Overlay District	NA	NA	NA
10 – 49	" "	10%	7.5% at 80% AMI	2.5% at 60% AMI
50 – 99	" "	15%	12.5% at 80% AMI	2.5% at 60% AMI
100+	" "	20%	15% at 80% AMI	5% at 60% AMI
Less than 10	Downtown East, Suburban Retrofit, and Neighborhood Infill Redevelopment Overlay	NA	NA	NA
10 – 49	" "	5%	2.5% at 80% AMI	2.5% at 60% AMI
50 – 99	" "	7.5%	5% at 80% AMI	2.5% at 60% AMI
100+	" "	10%	7.5% at 80% AMI	2.5% at 60% AMI

RECOMMENDATIONS – OWNERSHIP HOUSING

Dwelling Units	Location	Total Percent Required	Tier 1 Target AMI	Tier 2 Target AMI
Less than 10	All Redevelopment Overlay Districts	NA	NA	NA
10 – 49	“ “	10%	80% AMI	NA
50 – 99	“ ”	15%	10% at 80% AMI	5% at 100% AMI
100+	“ ”	20%	10% at 80% AMI	10% at 100% AMI



RKG ASSOCIATES INC

Nashua Inclusionary Zoning Analysis
August 2025