



**Economic & Planning
Systems, Inc.**
The Economics of Land Use

FEASIBILITY ANALYSIS OF INCLUSIONARY HOUSING REQUIREMENTS

REPORT

Prepared for:
City of Vallejo

Prepared by:
Economic & Planning Systems, Inc.

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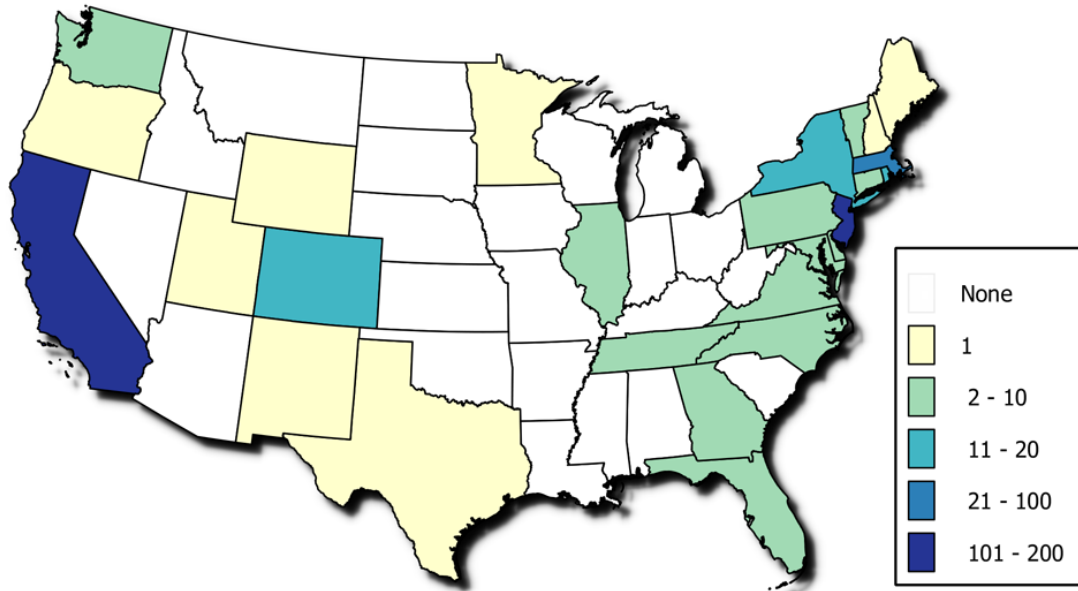
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1. Introduction and Summary of Findings

Inclusionary housing programs require that new market-rate residential development projects include a certain percentage of housing units at rents or sale prices that are affordable to lower-income households. These program requirements often vary for different product types and/or different tenures and also may include the option for new development to pay a fee in lieu of providing affordable units on-site, as an alternative means of compliance. First implemented in 1974, inclusionary housing programs have been adopted by hundreds of jurisdictions nationwide, including more than 100 cities and counties in the State of California (**Figure 1**). They are one of many tools that cities can use to achieve more affordable housing in their communities.

Figure 1 Total Inclusionary Zoning Programs by State

Figure 1: While many states have IZ programs, the distribution is heavily concentrated. Most states have between 1 and 10 programs, while New Jersey and California both have over 100. Hawaii has one program and Alaska has none.



Source: National Housing Conference, 2017.

The City of Vallejo does not currently have an inclusionary zoning ordinance but has recently opted to explore adopting one as a housing program from its recent 6th Cycle Housing Element. Economic & Planning Systems, Inc. (EPS) was retained by the City to conduct an economic feasibility study to determine what level of updated inclusionary requirements or equivalent in-lieu fees may be supportable in Vallejo in the context of current market conditions.

EPS analyzed how the inclusion of below-market-rate (BMR) units impacts the financial feasibility of new market-rate residential development by evaluating several options for a new inclusionary program using industry standard profit and return metrics. Such an analysis is intended to provide the City with context regarding the implications of adopting such requirements and potential unintended impacts on impeding new development. In addition, cities introducing or updating inclusionary housing programs often consider the requirements and fees set by their “peer cities.” **Appendix A** presents comparisons of inclusionary requirements and in-lieu fees for rental and ownership projects in several cities in the Bay Area, including others in Solano County.

The key findings and recommendations stemming from the feasibility analysis are summarized below. The subsequent chapters of this report provide details on the methodology and assumptions underlying the feasibility analysis, the results of the feasibility analysis, and the recommendations for inclusionary requirements by development product type that align with the feasibility findings.

Key Findings

1. **Market conditions for constructing new market-rate housing are currently poor across the Bay Area.** Construction costs have been rising faster than rents have been growing, and the production of new housing has slowed dramatically in recent years.
2. **Most building types in Vallejo currently face feasibility challenges, except for single-family detached homes.** This is due to combination of reasons, including high construction costs and the lower achievable market-rate sale prices and rents in Vallejo compared to much of the Bay Area. As a result, most types of projects do not meet the minimum returns that most developers require in order to move a project forward, even if all the units are offered at market rate prices.
3. **Inclusionary housing requirements will make new housing developments projects marginally less feasible.** By requiring some units to be sold or rented for less than they otherwise might, inclusionary housing programs reduce the revenues achievable from new development while not generally changing the costs of development. Thus, a developer’s return on investment decreases under an inclusionary program, and may diminish so much that the project is no longer an attractive investment and thus does not happen.
4. **Under near-term market circumstances, the City may consider starting with a modest inclusionary program.** Comparable Bay Area jurisdictions have rental requirements ranging from 6 to 10 percent and for-sale requirements ranging from 10 to 15 percent. Many of these requirements were adopted (or updated) several years ago under macroeconomic conditions different from

today. City staff identified several options of inclusionary programs to consider, which range from a total requirement of 4 to 6 percent BMR units for rental projects, and 5 to 10 percent BMR units for for-sale projects. These options are estimated to yield a cost ranging from approximately \$8 to \$50 per square foot of the market-rate units, and these figures (detailed on **Table 9** and **Table 10**) and can serve as the maximum allowable in-lieu fees.

5. **The City may consider incorporating alternatives to compliance, phasing in requirements, or waiting until market conditions improve to implement inclusionary housing requirements.** Due to current findings of market challenges, there is the concern that inclusionary requirements may suppress new housing production. However, phasing in requirements based on market indicators and/or setting an in-lieu fee that is modest relative to the cost of providing units on-site may be effective at minimizing negative feasibility impacts.

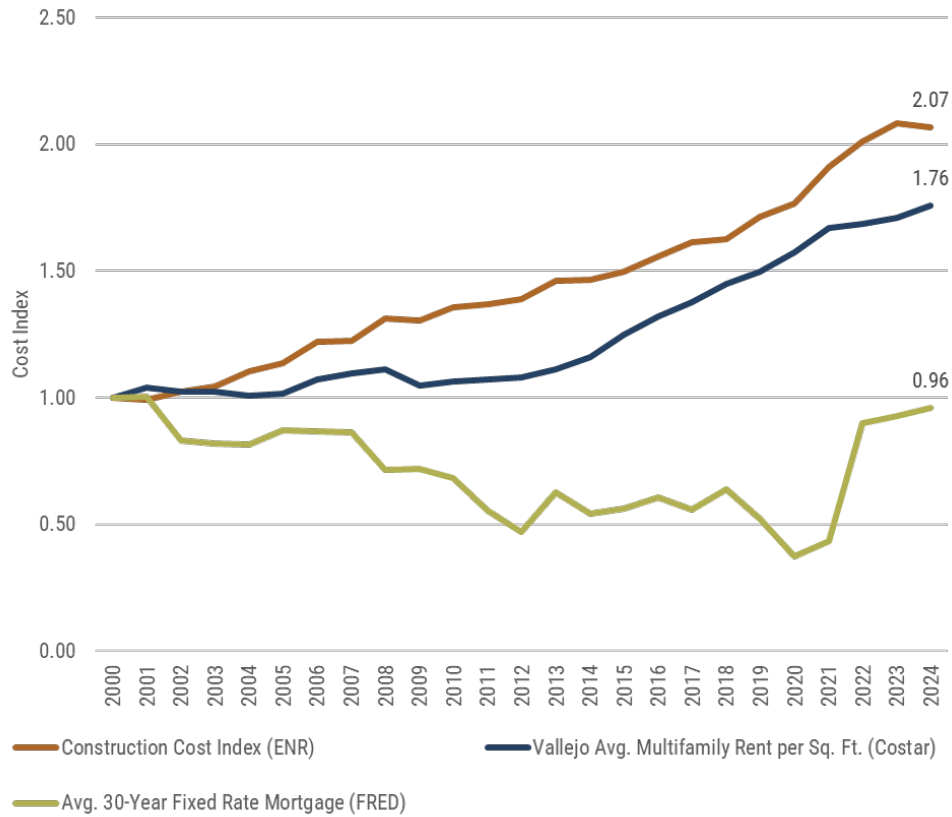
2. Background and Local Market Context

Housing Market Conditions and Challenges

The housing market in the Bay Area has encountered recent economic challenges that make it difficult to build new housing. In the last several decades, the rise in construction costs has outpaced market-rate rent growth, meaning that it is now more expensive than ever to build a new housing unit, with a diminishing level of returns. Vallejo is particularly challenged due to rents that are lower than the Bay Area average.

Several pieces of data demonstrate this trend. **Figure 2** shows the trends of construction costs, Vallejo's average multifamily rents, and the average 30-year fixed-rate mortgage, indexed from 2000 to 2024. Since 2000, construction costs have risen steadily and rents have not kept up at the same rate. When financing costs were lower, some projects could still proceed, but recent increases in interest rates have thwarted much new investment.

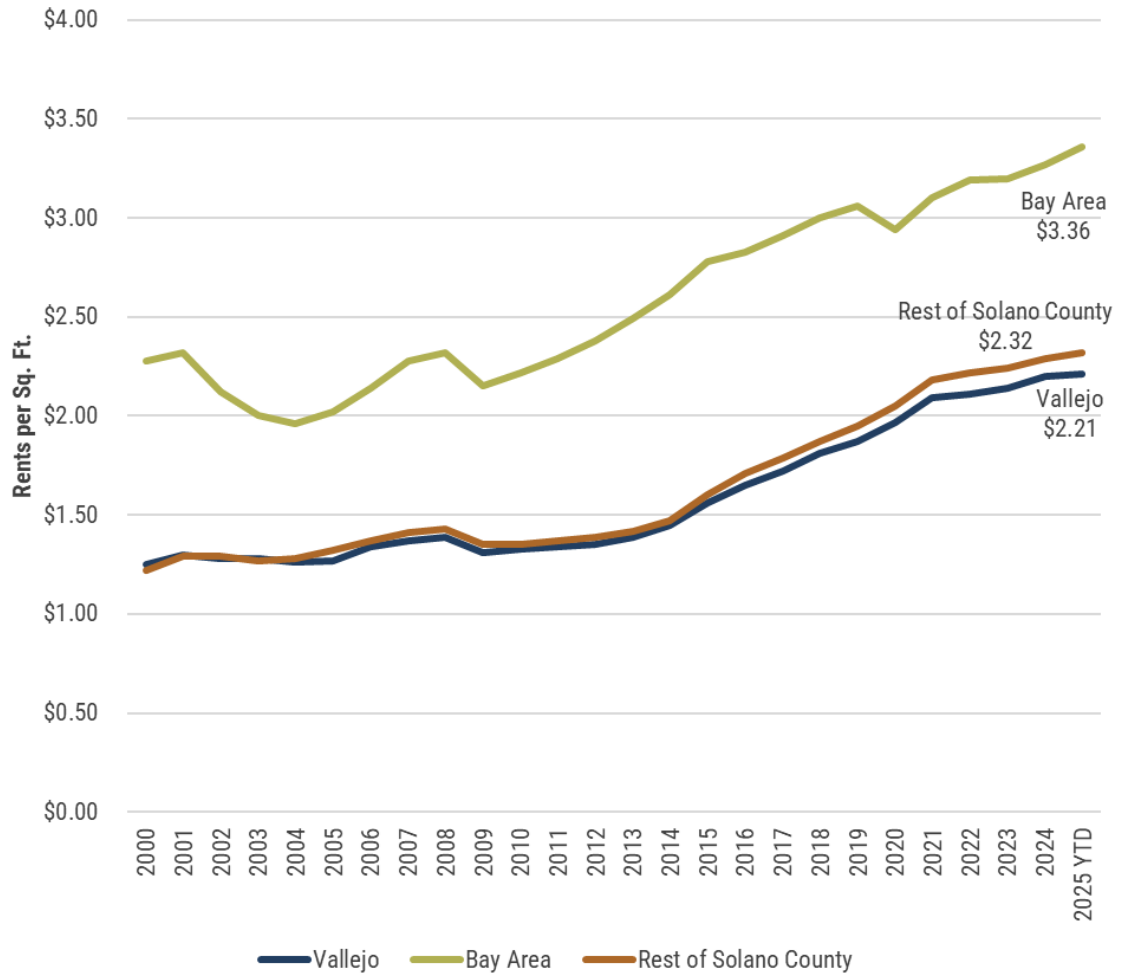
Figure 2 Index of Construction Costs, Multifamily Rents, Mortgage Rates, 2000 to 2024



Source: CoStar; Engineering News-Record; Federal Reserve Economic Data; Economic & Planning Systems.

Vallejo’s multifamily rents have also not increased at the same pace as in the rest of Solano County and the Bay Area generally, as shown in **Figure 3**. On a per-square foot basis, the monthly rent for a multifamily unit in Vallejo is \$2.21, which is 34 percent lower than the median in the Bay Area region (\$3.36) and 5 percent lower than the rest of Solano County (\$2.32). While this keeps current units in the city affordable, especially to lower-earning households, lower rent also means that new market-rate construction in Vallejo may be less competitive or attractive for developers in relation to nearby cities. This is especially critical as an inclusionary program relies on ongoing market-rate activity to deliver affordable units.

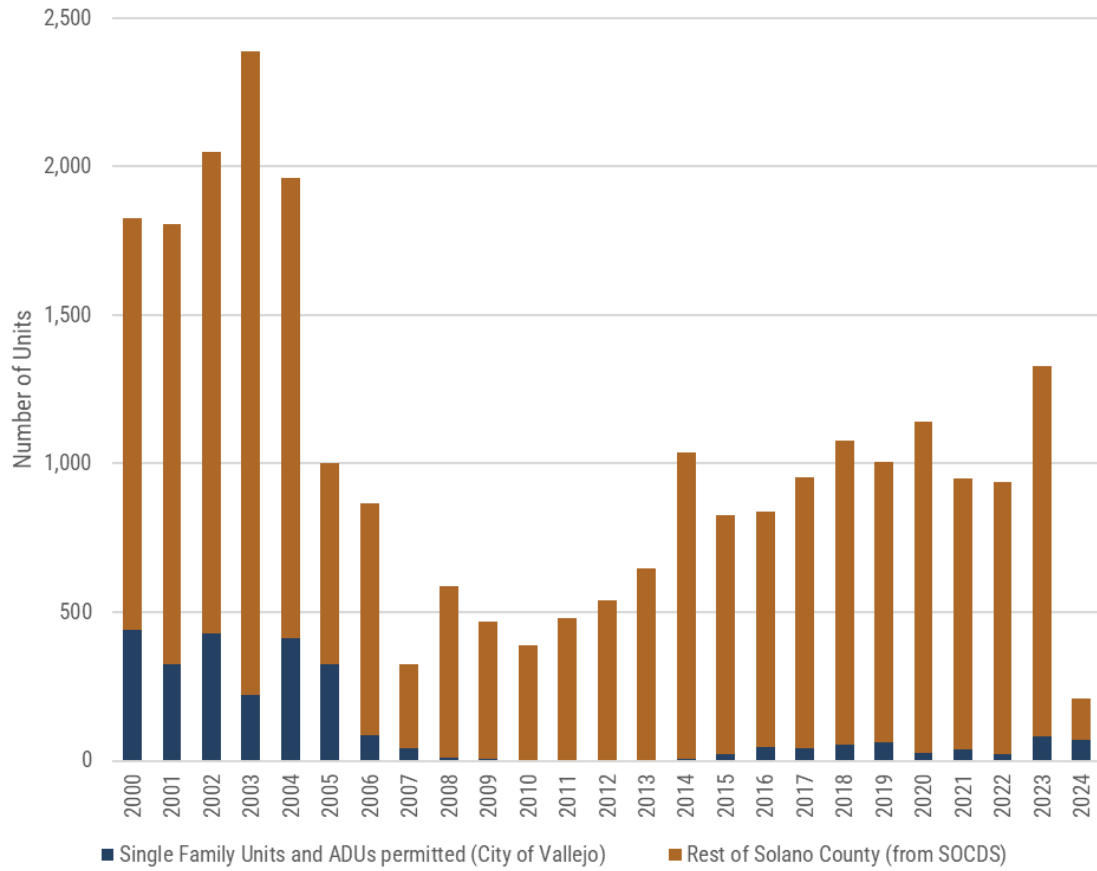
Figure 3 Multifamily Rents per Square Foot, 2000 to 2025



Source: CoStar; Economic & Planning Systems

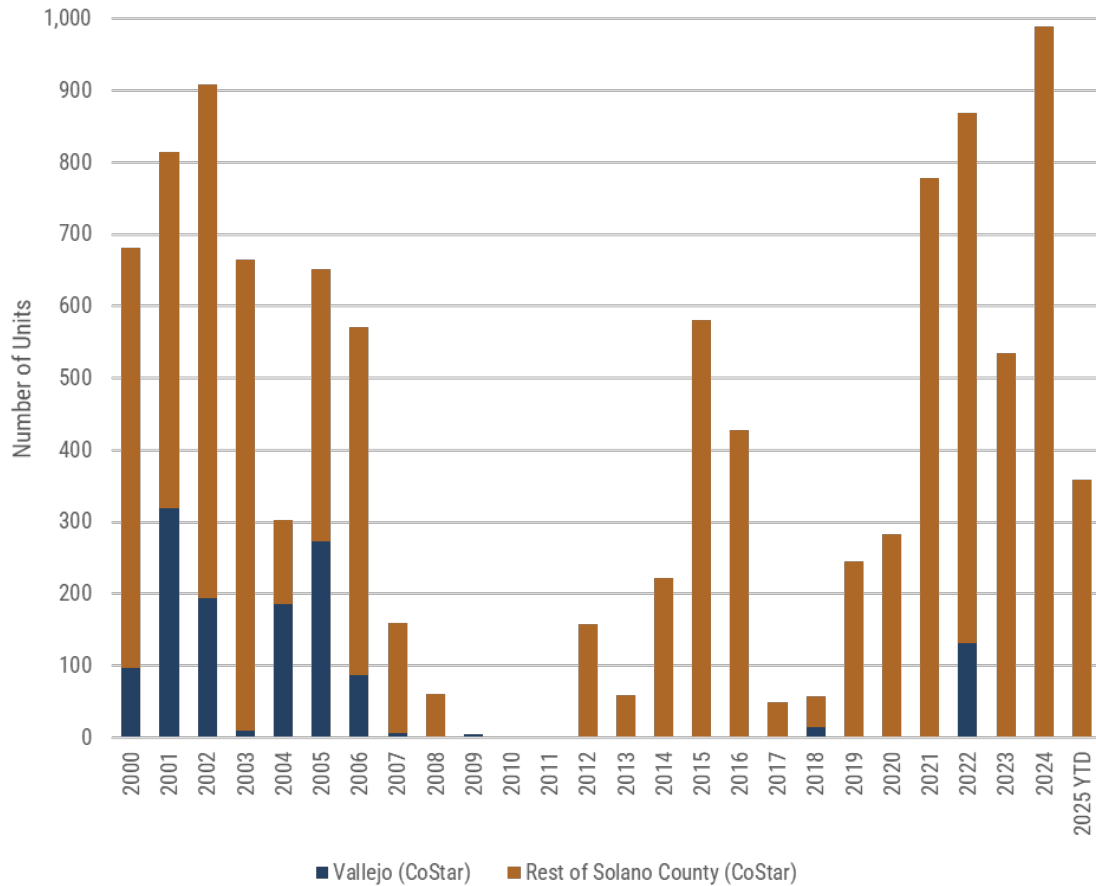
Finally, even as other cities in Solano County have picked up in development activity in the last decade, Vallejo lags behind. **Figure 4** and **Figure 5** show the single-family (and accessory dwelling units) permitted and multi-family units under construction in the county from 2000 to 2024. Vallejo now has a much smaller market share compared to the early 2000s, despite being Solano County’s most populous city.

Figure 4 Single Family Units and ADUs Permitted in Solano County, 2000 to 2025



Source: City of Vallejo; U.S. Department of Housing and Urban Development (HUD); Economic & Planning Systems.

Figure 5 Multifamily Units Under Construction in Solano County, 2000 to 2025



Source: CoStar; Economic & Planning Systems.

Housing Regulatory Context

Regional Housing Needs Allocation

The State of California requires every jurisdiction to adequately plan for its community’s housing needs, as specified by the Regional Housing Needs Allocation (RHNA), which determines the amount of housing units needed for each jurisdiction by income category.

Vallejo has an allocation of 2,900 total units to be permitted between 2023 and 2031. **Table 1** displays the RHNA breakdown by income levels. The allocation is slightly concentrated in affordable units, with 54 percent of the total units at Moderate Incomes or below. Inclusionary housing programs can help cities achieve their RHNA numbers in the lower-income affordability categories, as long as market-rate or typically “Above Moderate” income units are also being constructed

Table 1 RHNA Allocation for Vallejo, 2023-2031

Affordability Category	Units	Percentage
Very Low Income	690	23.8%
Low Income	369	12.7%
Moderate Income	495	17.1%
Above Moderate	<u>1,346</u>	<u>46.4%</u>
Total	2,900	100.0%

Source: California HCD; Economic & Planning Systems, Inc.

6th Cycle Housing Element

The City of Vallejo adopted its 6th Cycle Housing Element (2023-2031) in December 2024. This policy document, mandated by the State of California, requires cities to identify policies and strategies required to meet current RHNA numbers. Within the Element, Vallejo has **Program B.2.1.1. Inclusionary Housing Ordinance**, which commits the City to exploring an inclusionary housing strategy and options, with a goal of creating 150 lower- and moderate-income units, with at least 50 in mixed-income developments. As stated in Vallejo’s Housing Element:

“To address the need for affordable housing, and as outlined by the City’s Housing Strategy, the City will prepare a nexus study, research an inclusionary housing ordinance, and seek developer input prior to drafting an ordinance.”

Household Incomes and Affordability

HCD Income Limits

Affordable rents and sale prices for below-market-rate units are based on maximum housing costs affordable to households at various household income levels. Income levels are set by the California Department of Housing and Community Development (HCD) on an annual basis. According to the 2025 HCD Income Limits for Solano County (**Table 2**), the Area Median Income (AMI) is defined as \$113,200 for a household of four.

Table 2 Solano County 2025 Income Limits by Persons in Household

Affordability Category	Maximum Percentage of County Median	Number of Persons in Household							
		1	2	3	4	5	6	7	8
Acutely Low Income	0% - 15%	\$13,100	\$14,950	\$16,850	\$18,700	\$20,200	\$21,700	\$23,200	\$24,700
Extremely Low Income	30%	\$28,850	\$33,000	\$37,100	\$41,200	\$44,500	\$47,800	\$51,100	\$54,400
Very Low Income	50%	\$48,100	\$54,950	\$61,850	\$68,700	\$74,200	\$79,700	\$85,200	\$90,700
Low Income	80%	\$76,950	\$87,950	\$98,950	\$109,900	\$118,700	\$127,500	\$136,300	\$145,100
Median Income	100%	\$87,200	\$99,700	\$112,150	\$124,600	\$134,550	\$144,550	\$154,500	\$164,450
Moderate Income	120%	\$104,650	\$119,600	\$134,550	\$149,500	\$161,450	\$173,400	\$185,400	\$197,350

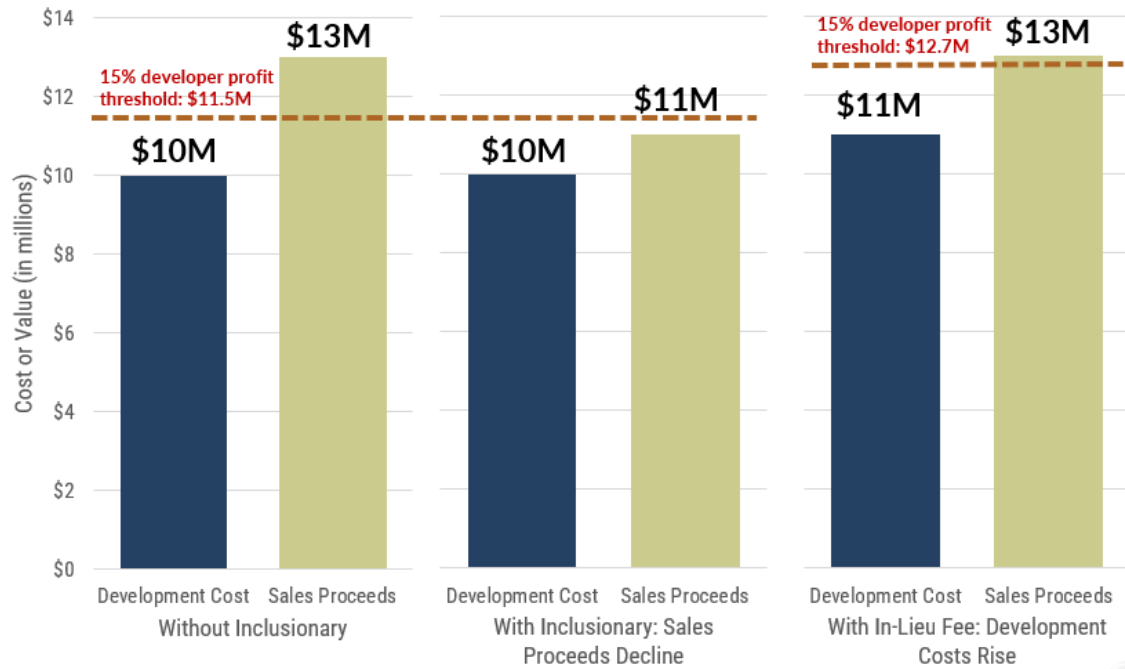
Sources: CA Department of Housing and Community Development; Economic & Planning Systems, Inc.

3. Methodology and Assumptions

In an inclusionary program, developers are required to set aside a portion of their units for lower-income households. When a developer builds the affordable units within a project that is primarily market-rate units, the project's construction costs are not significantly affected. However, the revenue the developer can expect from the affordable units is less than the revenue from the market-rate units. The developer is, in effect, subsidizing the development of the affordable units with revenue from the market-rate units. The subsidy is greater for units affordable to Very Low-income households than it is for Low-income households and Moderate-income households.

In many jurisdictions, the developer may be given an option to pay a fee in lieu of providing the units on site. When a developer pays an in-lieu fee, all the units are sold or rented as market-rate units, so the revenue potential is not affected. However, the construction costs are affected by the amount of the in-lieu fee. **Figure 6** provides an illustrative example of how these different options affect the developer's sales proceeds on a for-sale project, assuming a 15 percent profit threshold is required for feasibility and to attract investment that allows the project to proceed. In this example, the project exceeds the feasibility threshold without any inclusionary requirements or with an in-lieu fee but is infeasible if inclusionary units are added. Given a choice, a developer is likely to pay the in-lieu to meet the city's affordable housing requirement.

Figure 6 Illustration of Impacts on Feasibility



Source: Economic & Planning Systems

Return Metrics and Feasibility Threshold

Inclusionary housing programs are only able to deliver affordable units if new market-rate residential development is occurring and can achieve prices or rents that support the additional costs of including affordable units. Therefore, before evaluating the development feasibility of updates to the City’s inclusionary housing program, EPS evaluated the local residential market activity. This evaluation provides a sense of the types of market-rate development that are occurring along with the prevailing sales prices and rents of new residential development.

The assessment of financial feasibility for real estate development products is based on calculating financial return metrics and comparing them against typical industry target thresholds. In the case of residential development, relevant return metrics are based on comparing total project revenues to total project construction costs.

This analysis establishes a feasibility threshold based on two standard return metrics used by real estate developers. These return metrics reflect the value of the investment in a project, and are a critical element in informing a developer’s “go/no-go” decision to proceed with development:

- For ownership, or for-sale housing products (typically single family detached and attached homes, including townhomes and

condominiums), the feasibility threshold is based on the return metric of “profit margin,” calculated as the percentage by which total project value (sales proceeds) exceeds total project cost. Based on EPS research and feedback from developers active in Solano County, the analysis assumes that developers in Vallejo and the surrounding region will require at least a 15 percent profit margin on for-sale development projects. Therefore, any project attaining a profit margin at or above 15 percent would be considered feasible in this analysis and could arguably support some inclusionary requirement.

- For rental housing products (typically, multifamily apartments), the feasibility threshold is based on the return metric of “yield on cost,” calculated by dividing the annual net operating income (NOI) by the total costs of development. Based on EPS research and experience, the analysis assumes that developers in Vallejo and the surrounding region will require a yield on cost of at least 5.5 percent.

It is important to note that these return metrics do not specifically account for the time value of money and are based on the assumption that a project could be entitled, constructed, and sold or leased in a standard rather than attenuated timeline.

Product Prototypes

The prototype residential products used in the feasibility analysis were informed by EPS research on the local housing market. Research included review of recent developments and proposed projects, discussions with developers active in the region, and discussions with City staff. The characteristics for the prototype development products used in this analysis are summarized in **Table 3**. They include two rental prototypes: lower baseline density multifamily apartments (30 units/acre) and higher-density multifamily apartments (65 units/acre). There are three for-sale prototypes –single-family detached homes, single-family small lot homes, and condominiums. A recently constructed example of each prototype specific to the City of Vallejo is also given, if available.

The unit characteristics for each prototype are meant to represent average unit sizes, with the resulting analysis demonstrating feasibility for an average residential project of that product type. However, any specific project will have its own cost and revenue factors that may be impacted in part by its unit mix and design characteristics.

Table 3 City of Vallejo Prototype Residential Products

Item	Single Family Detached	Small Lot Single Family Detached	Multifamily Attached Condominium	Baseline Density Multifamily Apartment	Higher Density Multifamily
Tenure	Ownership	Ownership	Ownership	Rental	Rental
Building Type	Detached	Detached	Multifamily	Multifamily	Multifamily
Density (units/acre)	8	15	30	30	65
Unit Square Feet (gross)	2,200	1,600	1,500	1,200	1,200
Unit Square Feet (net)	2,200	1,600	1,200	950	950
Number of Bedrooms	4	3	2	2	2
Parking per Unit	2	2	1.5	1.5	1.5
Parking Type	Attached Garage	Attached Garage	Podium	Surface	Podium
Vallejo Example	201 Rollingwood Dr			1765 Broadway	2118 Sacramento St

Source: City of Vallejo; Costar; EPS discussions with local active developers

Developer Cost Assumptions

Housing construction costs categories include land acquisition, site preparation, hard costs (e.g., construction labor and materials), and indirect or “soft” costs (e.g., architecture, entitlement, marketing, etc.). For multifamily projects that include a structured garage or separate surface lot, EPS also defines parking costs per unit as a separate line item. Data from recent developments and land transactions in the local market have been combined with information from interviews with various housing developers to inform the construction cost assumptions used in this analysis. Total development costs are inclusive of construction costs (typical land costs plus “hard costs” for labor and materials plus “soft costs” for entitlement, design, financing, marketing, etc.) and the minimum developer profit. This total development cost thus represents the total unit value at or above which the developer would have financial incentive to construct this unit. **Table 4** below summarizes the estimated costs per unit for each product prototype. **Appendix B** contains detailed tables and assumptions for these costs.

Table 4 Construction Costs for Prototype Residential Products

	Single Family Detached	Small Lot Single Family Detached	Multifamily Attached Condo	Baseline Density Multifamily Apartment	Higher Density Multifamily Apartment
Construction Costs	\$687,925	\$544,800	\$634,413	\$500,313	\$529,887
Development Costs (with 15% developer profit)	\$791,114	\$626,520	\$729,575	n/a	n/a

Source: CoStar; Redfin, Economic & Planning Systems.

Market Value Assumptions

To understand how inclusionary requirements affect overall project value, EPS also estimated the current market value of units in Vallejo for each product type.

Market-rate Rents

For rental apartments, the metric used to determine feasibility is yield-on-cost, which is calculated as annual net operating income (NOI) divided by construction costs. Annual NOI is calculated as annual rent minus annual operating expenses, which are assumed at \$10,000 per market-rate unit in this analysis. Current market-rate rents for recently constructed products are reported by CoStar to be \$3.06 per square foot, which equates to \$2,907 per month for a 2-bedroom, 950 square-foot apartment. Assuming that the NOI must equal 5.5 percent of the total construction costs, the estimated NOI could support a construction cost of \$452,436.

Market-rate Sale Prices

For the for-sale prototypes, the value of the unit is equal to the estimated sale price. The sale prices for each prototype are established based on market research and conversations with local developers. Current sales prices for newly constructed condominium units, estimated by Redfin, are reported to be \$402,831 per typically sized two-bedroom unit; single family small lot units are valued at \$576,000 per 3-bedroom unit, and new single family detached homes are selling for approximately \$792,000 per 4-bedroom unit. **Table 5** shows the market values used in the feasibility analysis for each product type.

Table 5 City of Vallejo Residential Market Values

	Sale Price			Capitalized Market Value and Monthly Rent	
	Single Family Detached	Small Lot Single Family Detached	Multifamily Attached Condo	Baseline Density Multifamily Apartment	Higher Density Multifamily Apartment
Market Value	\$792,000	\$576,000	\$402,831	\$452,436	\$452,436
Monthly Rent	-	-	-	\$2,907	\$2,907

Source: CoStar, Redfin, Economic & Planning Systems.

Affordable Housing Values

Inclusionary housing programs typically aim to supply housing affordable to the Very Low-, Low-, and Moderate-income categories. In general, Very Low-income households are defined as those earning up to 50 percent of AMI. Low-income households earn up to 80 percent AMI and Moderate-income households earn up to 120 percent of AMI, adjusted for household size.

Based on the household income limit at each income level, as defined by the State for all jurisdictions in Solano County, EPS calculated the maximum spending towards housing costs affordable at each income level. The analysis assumes that households spend 30 percent of their gross annual income on total housing costs. For rental units, housing costs include rent and utilities. EPS estimates NOI per unit by subtracting operating expenses and utilities from housing payments, then calculates unit values based on the assumption that the NOI represents 5.5 percent of the total unit value.

For for-sale units, housing costs include mortgage and interest payments, insurance, property taxes, and Homeowners' Association (HOA) dues. To calculate the maximum affordable sale price for these for-sale units, EPS estimated these housing costs and subtracted it from 30 percent of gross annual income to obtain the maximum income available for a mortgage payment. This mortgage payment was converted into an affordable home sale price assuming a 5 percent down payment and a 30-year mortgage with a fixed interest rate of 5 percent.

Table 6 indicates the maximum annual incomes for County households associated with each income category for the assumed household size, as well as the supportable rental unit values and for-sale prices associated with each income category.

Table 6 Affordable Unit Values

Item	Very Low Income	Low Income	Moderate Income
Single Family Detached (For Sale)			
Maximum Household Income ¹	\$74,200	\$118,700	\$161,450
Supportable Home Price	\$156,500	\$319,500	\$476,100
Small Lot Single Family Detached (For Sale)			
Maximum Household Income ¹	\$68,700	\$109,900	\$149,500
Supportable Home Price	\$148,500	\$312,500	\$444,500
Multifamily Condominiums (For Sale)			
Maximum Household Income ¹	\$61,850	\$98,950	\$134,550
Supportable Home Price	\$131,900	\$267,100	\$398,300
Baseline Density Multifamily Apartments (Rental)			
Maximum Household Income ¹	\$61,850	\$98,950	\$134,550
Supportable Unit Value	\$131,000	\$160,673	\$421,082
Higher Density Multifamily Apartments (Rental)			
Maximum Household Income ¹	\$61,850	\$98,950	\$134,550
Supportable Unit Value	\$131,000	\$333,364	\$482,091

[1] Reflects 2025 HCD Income Limits for a three-person household for apartments and condominiums, a four-person household for small lot single-family homes, and a five-person household for single-family detached homes.

Equivalent In-Lieu Fee Calculation

For an inclusionary program, the equivalent in-lieu fee is the level of fee that would be economically equivalent to the developer constructing the required affordable units on-site. At this fee level, there is no financial advantage to building inclusionary units versus paying in-lieu fees because both options represent the same level of subsidy that the developer has to provide.

To calculate this, EPS subtracted the supportable unit values that each income level can afford (“Value” in **Table 7**) from the unit’s development cost (“Cost”) to get the subsidy or equivalent in-lieu fee per affordable unit. What this indicates, for example, is that a developer that provides a prototypical single-family home (of four bedrooms) in Vallejo that is priced affordable for a Low Income household (of five persons) would effectively be subsidizing that unit at a cost of \$471,614.

Alternatively, an in-lieu fee payment to the City of \$471,614 for that unit would enable the developer to provide the unit as market-rate but still contribute an equivalent amount to the City’s affordable housing resources.

Table 7 Subsidy per Affordable Unit

Subsidy or Equivalent In-Lieu Fee per Affordable Unit	Very Low Income (50% AMI)	Low Income (80% AMI)	Moderate Income (120% AMI)
Single Family Detached			
Cost	\$791,114	\$791,114	\$791,114
Value	\$156,500	\$319,500	\$476,100
Subsidy Gap	\$634,614	\$471,614	\$315,014
Small Lot Single Family Detached			
Cost	\$626,520	\$626,520	\$626,520
Value	\$148,500	\$312,500	\$444,500
Subsidy Gap	\$478,020	\$314,020	\$182,020
Multifamily Attached Condo			
Cost	\$729,575	\$729,575	\$729,575
Value	\$131,900	\$267,100	\$398,300
Subsidy Gap	\$597,675	\$462,475	\$331,275
Baseline Density Multifamily Apartment			
Cost	\$500,313	\$500,313	\$500,313
Value	\$131,000	\$333,364	\$482,091
Subsidy Gap	\$369,313	\$166,950	\$18,222
Higher Density Multifamily Apartment			
Cost	\$529,887	\$529,887	\$529,887
Value	\$131,000	\$333,364	\$482,091
Subsidy Gap	\$398,887	\$196,523	\$47,796

Source: Economic & Planning Systems

4. Feasibility Analysis

Market-rate Development Feasibility

The first step in assessing feasible inclusionary housing requirements for Vallejo is to evaluate whether fully market-rate projects under defined product prototypes are financially feasible. EPS calculated the yield-on-cost or profit margin for each product prototype without inclusionary requirements, assuming the current market-rate prices and development costs described above in **Table 4** and **Table 5**. As shown in **Table 8**, only single-family detached homes appear to be marginally feasible under the current relationship of construction costs and market-rate sale prices. Other product types do not appear to reach their minimum return thresholds under present market conditions in Vallejo.

Table 8 Development Feasibility for Vallejo Housing Prototypes

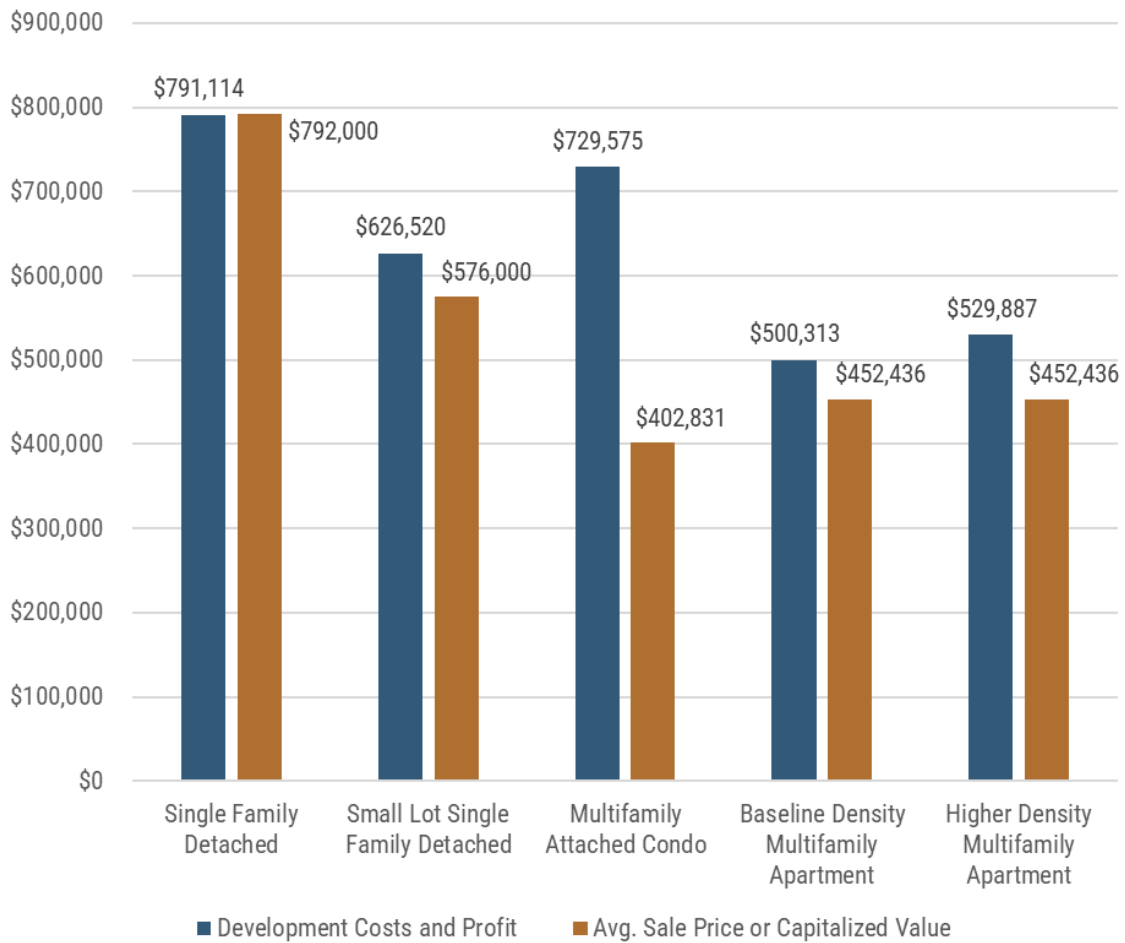
Item	Feasibility Threshold	Results
Single Family Detached		
Development Costs Per Unit		\$687,925
Average Sale Price		\$792,000
Profit		\$104,075
Profit Margin	15%	15.13%
Small Lot Single Family Detached		
Development Costs Per Unit		\$544,800
Average Sale Price		\$576,000
Profit		\$31,200
Profit Margin	15%	5.73%
Multifamily Attached Condo		
Development Costs Per Unit		\$634,413
Average Sale Price		\$402,831
Profit		(\$231,583)
Profit Margin	15%	-36.50%
Baseline Density Multifamily Apartment		
Development Costs Per Unit		\$500,313
Net Operating Income Per Unit		\$24,884
Yield on Cost	5.5%	4.97%
Higher Density Multifamily Apartment		
Development Costs Per Unit		\$529,887
Net Operating Income Per Unit		\$24,884
Yield on Cost	5.5%	4.70%

Source: Economic & Planning Systems

Single-family detached housing is only slightly feasible because the estimated average sale price of \$792,000 represents a profit margin of 15.13 percent over development costs. Single-family small lot units do not reach the 15 percent threshold for feasibility. For condominiums, development costs exceed the sale value that could be received for the product type, so the profit margin is actually estimated to be negative. Rental apartments are challenged because rising construction costs and reduced market rents together demonstrate weak net operating income and therefore low yield-on-cost.

Another perspective of evaluating this is to compare the costs with minimum developer profit or yield-on-cost included to determine whether market values are in excess of that. **Figure 7** shows the prototypes comparing their development costs and profit with their sale price or capitalized value. Only single-family detached units have a sale price that exceeds the developer cost plus minimum profit level.

Figure 7 Development Costs and Profit vs. Market Value of Vallejo Housing Prototypes



Source: Economic & Planning Systems

It is important to note that this analysis only reflects an average prototypical project, and any specific project may have its own cost and revenue factors that may be impacted in part by its unit mix. There are many factors that can impact the financial feasibility of any particular development project. For example, if a project can acquire land at a lower price or provide less parking than what is represented in the above assumptions or identify lower-cost financing, the project economics may improve. Similarly, a developer may find that there is sufficient market demand to achieve rents or sale prices higher than those assumed in this analysis.

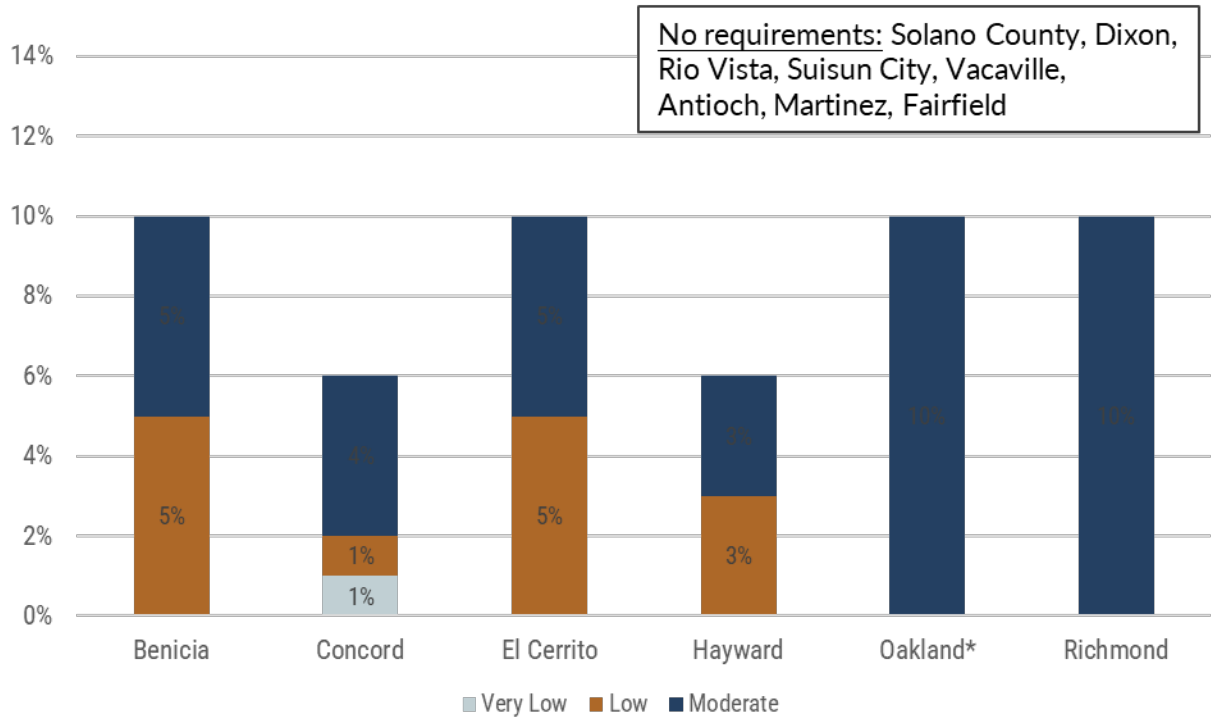
Inclusionary Requirements in Other Jurisdictions

Understanding how other local cities have adopted their inclusionary programs can help Vallejo select an inclusionary level or fees that keeps the housing market competitive with their peer jurisdictions.

EPS evaluated the inclusionary requirements for all cities in Solano County, and select other jurisdictions in Alameda County and Contra Costa County. Currently, Benicia is the only city in Solano County with a requirement, although others like Fairfield or Vacaville have also recently considered it. **Figure 8** shows several comparable cities' inclusionary requirements for rental projects, which range from 6 to 10 percent and primarily include Low Income and Moderate Income levels, although Concord also requires some Very Low Income units. **Figure 9** presents the requirements for for-sale units in the same cities. The for-sale programs target only Low Income and Moderate Income levels with requirements between 10 and 15 percent. For Very Low Income households, even with properties priced affordably, they are likely to face additional challenges towards homeownership such as securing mortgage financing or keeping up with maintenance costs and property taxes.

A detailed table comparing requirements and fees is included in **Appendix A**.

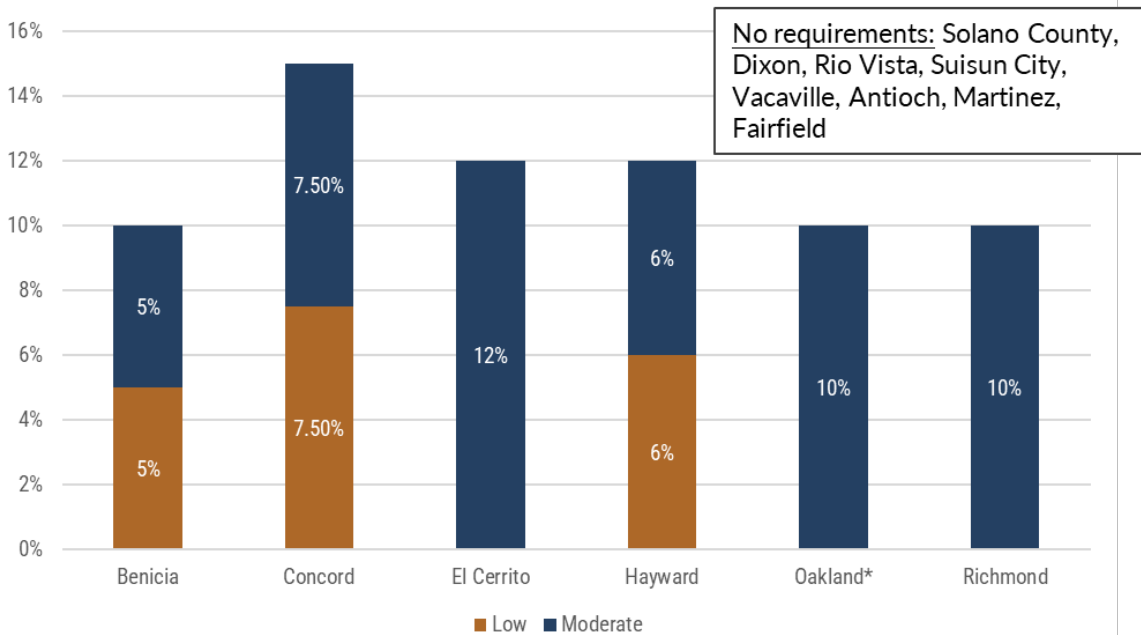
Figure 8 Rental Inclusionary Requirements in Peer Cities



*Oakland has affordable housing impact fee requirements and presents an on-site affordable housing option as alternative.

Source: Economic & Planning Systems

Figure 9 For-Sale Inclusionary Requirements in Peer Cities



*Oakland has affordable housing impact fee requirements and presents an on-site affordable housing option as alternative.

Source: Economic & Planning Systems

Equivalent In-Lieu Fees of Inclusionary Housing Options

At the November 24, 2025 study session with City Council, EPS and City staff received direction to proceed with identifying requirements and fees of a modest inclusionary program. Based on research into how peer cities have set their program requirements, staff developed three options to explore for rental and ownership each, presented below in **Table 9** and **Table 10**. From this, EPS calculated the equivalent in-lieu fees on each program option, using the subsidies per affordable unit previously calculated on **Table 7**.

Of the options presented for rental projects, the total inclusionary requirement ranges from 4 to 6 percent. For a rental project, an in-lieu fee is equivalent to roughly \$10,000 to \$16,000 per market rate unit. For a for-sale product, the options vary by the total project size, with smaller projects below 100 units receiving a reduced requirement and lower in-lieu fees as a result.

Table 9 Rental Inclusionary Program Options and Calculated In-Lieu Fees

Product Type	Inclusionary Option A	Inclusionary Option B	Inclusionary Option C
Inclusionary Requirement for Rental (20+ units)			
Very Low Income	1%	2%	2%
Low Income	4%	2%	4%
Moderate Income	<u>0%</u>	<u>0%</u>	<u>0%</u>
Total	5%	4%	6%
In-Lieu Fee (Subsidy) for 100 Unit Project			
Lower Density Multifamily Apartment - Total	\$1,037,112	\$1,072,526	\$1,406,425
per Affordable Unit	\$207,422	\$268,132	\$234,404
per Market Rate Unit	\$10,371	\$10,725	\$14,064
per Market Rate Square Foot	\$8.64	\$8.94	\$11.72
Higher Density Multifamily Apartment - Total	\$1,184,980	\$1,190,820	\$1,583,867
per Affordable Unit	\$236,996	\$297,705	\$263,978
per Market Rate Unit	\$11,850	\$11,908	\$15,839
per Market Rate Square Foot	\$9.87	\$9.92	\$13.20

Source: Economic & Planning Systems

Table 10 For-Sale Inclusionary Program Options and Calculated In-Lieu Fees

Product Type	Inclusionary Option A	Inclusionary Option B	Inclusionary Option C
Inclusionary Requirement for For Sale (20 to 99 units)			
Very Low Income	0%	0%	0%
Low Income	3%	4%	5%
Moderate Income	<u>2%</u>	<u>3%</u>	<u>5%</u>
Total	5%	7%	10%
In-Lieu Fee (Subsidy) for 50 Unit Project			
Single Family Detached (20-99 units)	\$1,022,434	\$1,415,748	\$1,966,569
per Affordable Unit	\$408,974	\$404,499	\$393,314
per Market Rate Unit	\$20,449	\$28,315	\$39,331
per Market Rate Square Foot	\$9.29	\$12.87	\$17.88
Single Family Small Lot Detached (20-99 units)	\$653,050	\$901,070	\$1,240,100
per Affordable Unit	\$261,220	\$257,449	\$248,020
per Market Rate Unit	\$13,061	\$18,021	\$24,802
per Market Rate Square Foot	\$8.16	\$11.26	\$15.50
Multifamily Condominium (20-99 units)	\$1,024,988	\$1,421,864	\$1,984,377
per Affordable Unit	\$409,995	\$406,247	\$396,875
per Market Rate Unit	\$20,500	\$28,437	\$39,688
per Market Rate Square Foot	\$17.08	\$23.70	\$33.07
Inclusionary Requirement for For Sale (100+ units)			
Very Low Income	0%	0%	0%
Low Income	5%	6%	7.5%
Moderate Income	<u>3%</u>	<u>4%</u>	<u>7.5%</u>
Total	8%	10%	15%
In-Lieu Fee (Subsidy) for 100 Unit Project			
Single Family Detached (100+ units)	\$3,303,110	\$4,089,738	\$5,899,706
per Affordable Unit	\$412,889	\$408,974	\$393,314
per Market Rate Unit	\$33,031	\$40,897	\$58,997
per Market Rate Square Foot	\$15.01	\$18.59	\$26.82
Single Family Small Lot Detached (100+ units)	\$2,116,160	\$2,612,200	\$3,720,300
per Affordable Unit	\$264,520	\$261,220	\$248,020
per Market Rate Unit	\$21,162	\$26,122	\$37,203
per Market Rate Square Foot	\$13.23	\$16.33	\$23.25
Multifamily Condominium (100+ units)	\$3,306,203	\$4,099,953	\$5,953,130
per Affordable Unit	\$413,275	\$409,995	\$396,875
per Market Rate Unit	\$33,062	\$41,000	\$59,531
per Market Rate Square Foot	\$27.55	\$34.17	\$49.61

Source: Economics & Planning Systems, Inc.

Alternatives to Compliance or Implementation

The feasibility results suggest that under current market conditions, it may be challenging to implement any of the inclusionary options as mandatory requirements. However, there are alternatives to compliance or options for implementation that may be considered in response to housing production challenges in the market. The options discussed in this section have been included in various inclusionary policies in local jurisdictions and other locations across California.

Most inclusionary zoning policies include some exemptions or alternatives to compliance that are typically written into the adopted ordinance. For example, certain situations or types of development, such as ADUs or reconstruction after natural disasters, are commonly exempted from inclusionary requirements. In addition to allowing the payment of in-lieu fees, the ordinance may identify other alternatives for complying with local regulations, such as off-site construction of affordable housing, offering affordable rental units within a for-sale development, or dedication of land for affordable housing.

Jurisdictions can also adopt options relating to the implementation of the inclusionary policy. For example, phasing in requirements or fees over a period of time may allow developers time to prepare for upcoming changes. Setting market-based triggers (e.g., aggregate number of units entitled) to initiate an inclusionary policy bases its implementation on unbiased data showing improved market conditions. Such triggers may mitigate concerns that an inclusionary policy would be too restrictive on current housing production.

Cities may also reduce the in-lieu fee below the economically equivalent amount, which would incentivize payment of fees over providing inclusionary units but would generate affordable housing fund revenue for the City with which they may pursue a more flexible range of housing programs and projects. They may also vary requirements by geography within the City or by building type to encourage specific development areas or types.

All of these options represent policy decisions made based on a number of factors, including current development pipeline, stakeholder feedback or public receptiveness, and the goals of other housing programs in the city.

Appendices

Appendix A: Survey of Inclusionary Requirements in Select Jurisdictions

Table A-1 Ownership Inclusionary Requirements as of January 2024

County	Jurisdiction	Overall Inclusionary Requirement	Income Targets	Project Size Threshold	In-Lieu Fee	Last Ordinance Update
Solano County	Vallejo			<i>no inclusionary requirement</i>		
	Solano County			<i>no inclusionary requirement</i>		
	Benicia ¹	10-15%	1/2 Moderate 1/2 Low	10 units	calculated by formula	2023
	Dixon			<i>no inclusionary requirement</i>		
	Fairfield			<i>no inclusionary requirement</i>		
	Rio Vista			<i>no inclusionary requirement</i>		
Contra Costa County	Suisun City			<i>no inclusionary requirement</i>		
	Vacaville			<i>no inclusionary requirement</i>		
	Antioch			<i>no inclusionary requirement</i>		
	Concord ²	15%	1/2 Moderate 1/2 Low	5 units	\$20 per sq. ft.	2022
	El Cerrito ³ Martinez	12%	Moderate	9 units	\$24 per sq. ft.	2018
Alameda County	Richmond ⁴	10% 7%	Moderate; OR Low	10 units	\$0-12 per sq. ft.	2020
	Oakland ⁵	10% 5%	Moderate; OR Low; OR Very Low	all	\$10,785-\$31,006 per unit.	2016
	Hayward ⁶	12%	1/2 Moderate 1/2 Low	2 units	\$19.22-\$25.97 per sq. ft. habitable space	2023

[1] In Benicia, developments of less than 100 units have a requirement of 10% while developments of 100 units or more have a requirement of 15%.

[2] In Concord, the in-lieu fee option applies to Ownership projects 5 to 9 units; projects 10 units or greater must build. Fractional units pay \$254,838 x fractional unit amount.

[3] El Cerrito only allows in-lieu fees to be paid on fractional inclusionary units below 0.5; must-build requirement applies otherwise.

[4] Fee varies by project size and geographic location within Richmond

[5] Oakland has affordable housing impact fee requirements and presents an on-site affordable housing option as alternative. Fee varies depending on the zone of construction and the housing type.

[6] Hayward has 7.5% Moderate requirement for condominiums greater than 35 DU/ac. Fee varies depending on housing type and density level.

Table A-2 Rental Inclusionary Requirements as of January 2024

City	Overall Inclusionary Requirement	Income Targets	Project Size Threshold	In-Lieu Fee	Last Ordinance Update
Solano County	Vallejo			<i>no inclusionary requirement</i>	
	Solano County			<i>no inclusionary requirement</i>	
	Benicia	10-15%	5% Moderate 5% Low	10 units calculated by formula	2023
	Dixon			<i>no inclusionary requirement</i>	
	Fairfield			<i>no inclusionary requirement</i>	
	Rio Vista			<i>no inclusionary requirement</i>	
	Suisun City			<i>no inclusionary requirement</i>	
	Vacaville			<i>no inclusionary requirement</i>	
Contra Costa County	Antioch			<i>no inclusionary requirement</i>	
	Concord	6%	4% Moderate 1% Low 1% Very Low	5 units \$15 per sq. ft.	2024
	El Cerrito ¹	10%	5% Moderate 5% Low	10 units \$19 per sq. ft.	2018
	Martinez			<i>no inclusionary requirement</i>	
	Richmond ²	10% 9%	Moderate; OR Low	10 units \$0-12 per sq. ft.	2020
Alameda County	Oakland³	10% 10% 5%	Moderate; OR Low; OR Very Low	all \$9,692-\$27,684 per unit.	2016
	Hayward	6%	1/2 Low 1/2 Very Low	\$23.44 per sq. ft. habitable space	

[1] El Cerrito only allows in-lieu fees to be paid on fractional inclusionary units below 0.5; must-build requirement applies otherwise.

[2] Fee varies by project size and geographic location within Richmond

[3] Oakland has affordable housing impact fee requirements and presents an on-site affordable housing option as alternative. Fee varies depending on the zone of construction and the housing type.

Appendix B: Detailed Development Costs of Product Prototypes

Table B-1 Development Costs for Single Family Detached

Item	Single Family Detached	
	Assumptions	Per Unit
Development Prototype		
Tenure	Ownership	
Parcel Size	1 acre	
Density	8 units/acre	
Unit Size (gross)	2,200 sq.ft.	
Unit Size (net)	2,200 sq.ft.	
Number of Bedrooms	4 per unit	
Parking	2 spaces per unit	
Development Costs		
Land Costs	\$1,200,000 per acre	\$150,000
Site Preparation	\$25 per sq.ft. of land	<u>\$136,125</u>
<i>Subtotal, Land</i>		<i>\$286,125</i>
Direct Construction Costs	\$120 per sq.ft.	\$264,000
Parking Costs	\$0 per space	<u>\$0</u>
<i>Subtotal, Direct Costs</i>		<i>\$264,000</i>
Development Impact Fees [1]	\$70,000 per unit	\$70,000
Planning and Building Fees	\$15,000 per unit	\$15,000
Indirect Costs [2]	20% of direct costs	<u>\$52,800</u>
<i>Subtotal, Indirect Costs</i>		<i>\$137,800</i>
	% of direct costs	52%
Total Construction Costs		\$687,925
per square foot		\$313
Developer Profit Threshold	15% of total construction costs	<u>\$103,189</u>
Total Development Costs		\$791,114
per square foot		\$360

Sources: Costar; Marshall & Swift; EPS discussions with local active developers

Table B-2 Development Costs for Single Family Small Lot Detached

Item	Small Lot Single Family Detached Assumptions	Per Unit
Development Prototype		
Tenure	Ownership	
Parcel Size	1 acre	
Density	15 units/acre	
Unit Size (gross)	1,600 sq.ft.	
Unit Size (net)	1,600 sq.ft.	
Number of Bedrooms	3 per unit	
Parking	2 spaces per unit	
Development Costs		
Land Costs	\$1,200,000 per acre	\$80,000
Site Preparation	\$25 per sq.ft. of land	<u>\$72,600</u>
<i>Subtotal, Land</i>		<i>\$152,600</i>
Direct Construction Costs	\$160 per sq.ft.	\$256,000
Parking Costs	\$0 per space	<u>\$0</u>
<i>Subtotal, Direct Costs</i>		<i>\$256,000</i>
Development Impact Fees [1]	\$70,000 per unit	\$70,000
Planning and Building Fees	\$15,000 per unit	\$15,000
Indirect Costs [2]	20% of direct costs	<u>\$51,200</u>
<i>Subtotal, Indirect Costs</i>		<i>\$136,200</i>
% of direct costs		53%
Total Construction Costs		\$544,800
per square foot		\$341
Developer Profit Threshold	15% of total construction costs	<u>\$81,720</u>
Total Development Costs		\$626,520
per square foot		\$392

Sources: Costar; Marshall & Swift; EPS discussions with local active developers

Table B-3 Development Costs for Multifamily Attached Condominium

Item	Multifamily Attached Condo Assumptions	Per Unit
Development Prototype		
Tenure	Ownership	
Parcel Size	1 acre	
Density	30 units/acre	
Unit Size (gross)	1,500 sq.ft.	
Unit Size (net)	1,200 sq.ft.	
Number of Bedrooms	2 per unit	
Parking	1.5 spaces per unit	
Development Costs		
Land Costs	\$1,000,000 per acre	\$33,333
Site Preparation	\$15 per sq.ft. of land	<u>\$21,780</u>
<i>Subtotal, Land</i>		<i>\$55,113</i>
Direct Construction Costs	\$255 per sq.ft.	\$382,500
Parking Costs	\$33,500 per space, podium-style	<u>\$50,250</u>
<i>Subtotal, Direct Costs</i>		<i>\$432,750</i>
Development Impact Fees [1]	\$48,000 per unit	\$48,000
Planning and Building Fees	\$12,000 per unit	\$12,000
Indirect Costs [2]	20% of direct costs	<u>\$86,550</u>
<i>Subtotal, Indirect Costs</i>		<i>\$146,550</i>
% of direct costs		34%
Total Construction Costs		\$634,413
per square foot		\$423
Developer Profit Threshold	15% of total construction costs	<u>\$95,162</u>
Total Development Costs		\$729,575
per square foot		\$486

Sources: Costar; Marshall & Swift; EPS discussions with local active developers

Table B-4 Development Costs for Baseline Density Multifamily Apartment

Item	Baseline Density Multifamily Apartment	
	Assumptions	Per Unit
Development Prototype		
Tenure	Rental	
Parcel Size	1 acre	
Density	30 units/acre	
Unit Size (gross)	1,200 sq.ft.	
Unit Size (net)	950 sq.ft.	
Number of Bedrooms	2 per unit	
Parking	1.5 spaces per unit	
Development Costs		
Land Costs	\$1,000,000 per acre	\$33,333
Site Preparation	\$15 per sq.ft. of land	<u>\$21,780</u>
<i>Subtotal, Land</i>		<i>\$55,113</i>
Direct Construction Costs	\$255 per sq.ft.	\$306,000
Parking Costs	\$10,000 per space, surface parking	<u>\$15,000</u>
<i>Subtotal, Direct Costs</i>		<i>\$321,000</i>
Development Impact Fees [1]	\$48,000 per unit	\$48,000
Planning and Building Fees	\$12,000 per unit	\$12,000
Indirect Costs [2]	20% of direct costs	<u>\$64,200</u>
<i>Subtotal, Indirect Costs</i>		<i>\$124,200</i>
	% of direct costs	39%
Total Construction Costs		\$500,313
per square foot		\$417

Sources: Costar; Marshall & Swift; EPS discussions with local active developers

Table B-5 Development Costs for Higher Density Multifamily Apartment

Item	Higher Density Multifamily Apartment	
	Assumptions	Per Unit
Development Prototype		
Tenure	Rental	
Parcel Size	1 acre	
Density	65 units/acre	
Unit Size (gross)	1,200 sq.ft.	
Unit Size (net)	950 sq.ft.	
Number of Bedrooms	2 per unit	
Parking	1.5 spaces per unit	
Development Costs		
Land Costs	\$1,000,000 per acre	\$15,385
Site Preparation	\$15 per sq.ft. of land	<u>\$10,052</u>
<i>Subtotal, Land</i>		\$25,437
Direct Construction Costs	\$275 per sq.ft.	\$330,000
Parking Costs	\$33,500 per space, podium-style	<u>\$50,250</u>
<i>Subtotal, Direct Costs</i>		\$380,250
Development Impact Fees [1]	\$48,000 per unit	\$48,000
Planning and Building Fees	\$12,000 per unit	\$12,000
Indirect Costs [2]	20% of direct costs	<u>\$64,200</u>
<i>Subtotal, Indirect Costs</i>		\$124,200
	% of direct costs	33%
Total Construction Costs		\$529,887
per square foot		\$442

Sources: Costar; Marshall & Swift; EPS discussions with local active developers