



DATE: July 7, 2025
TO: Mayor and Members of the City Council
FROM: Kristin Pollot, AICP, Planning and Development Services Director
Hector Rojas, Long Range Planning Manager
**SUBJECT: RECEIVE A PRESENTATION AND PROVIDE DIRECTION REGARDING THE
PRELIMINARY FINDINGS OF THE INCLUSIONARY ZONING FEASIBILITY STUDY AND
COMMERCIAL LINKAGE FEE NEXUS STUDY**

RECOMMENDATION

Receive a presentation and provide direction regarding the preliminary findings of the Inclusionary Zoning Feasibility Study and Commercial Linkage Fee Nexus Study.

REASONS FOR RECOMMENDATION

Programs B 2.1.1 and B 2.1.2 of the City's 6th Cycle Housing Element (2023–2031), adopted in December 2024, direct staff to explore adoption of an Inclusionary Housing Ordinance and a Commercial Linkage Fee. These programs are intended to help Vallejo meet its Regional Housing Needs Allocation (RHNA) and expand affordable housing opportunities for low- and moderate-income households.

To implement these Housing Element programs, the City contracted with Economic & Planning Systems, Inc. (EPS) in August 2023 to prepare a feasibility study for inclusionary zoning and a nexus study for commercial linkage fees. EPS has completed preliminary analyses and will present its findings during the July 7 joint meeting.

This study session provides an opportunity for the City Council and Planning Commission to receive a presentation on the preliminary results, discuss potential policy options, and provide direction on whether to proceed with the development of one or both programs. This input will guide staff and consultants as they refine recommendations and determine appropriate next steps.

BACKGROUND AND DISCUSSION

Inclusionary housing ordinances require residential developers to include a percentage of units as affordable to low- and moderate-income households or, alternatively, to pay in-lieu fees that support affordable housing production. These ordinances have been used widely across the state to promote mixed-income communities and to expand the supply of affordable housing. Program B 2.1.1 of the Housing Element directs the City to seek developer input and conduct a nexus study prior to drafting an inclusionary housing ordinance for Council consideration by the third quarter of 2025.

Commercial linkage fees are fees exacted from developers to mitigate the housing impacts generated from new commercial projects. Fee revenues are used to subsidize affordable housing development for the local workforce. Program B 2.1.2 of the Housing Element requires the City to evaluate and consider a commercial linkage fee nexus analysis by the third quarter of 2025.

To fulfill these obligations, the City retained Economic & Planning Systems, Inc. (EPS) to conduct an inclusionary zoning feasibility study and a commercial linkage fee nexus study. EPS is a land use economics consulting firm with extensive experience preparing feasibility and nexus studies for jurisdictions across

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California. The City's contract with EPS is for a not-to-exceed amount of \$86,196, and it expires on September 11, 2025. The existing scope of work includes:

- A feasibility study for an inclusionary housing ordinance, including market analysis, peer city policy review, development prototype testing, and financial modeling of inclusionary requirements and in-lieu fee options.
- A nexus study for a potential commercial linkage fee, compliant with Assembly Bill (AB) 602, to quantify the relationship between nonresidential development and the need for affordable housing.
- Stakeholder engagement with developers, business representatives, and housing advocates.
- Presentation of findings and policy considerations to the City.

During this meeting, EPS will present its preliminary findings (a draft of the presentation is attached to this staff report). The presentation will provide an overview of the scope, methodology, and preliminary results of both studies, including:

- Key challenges facing residential and commercial development in Vallejo.
- Findings on what levels of inclusionary requirements and in-lieu fees may be financially feasible under current market conditions.
- Nexus-supported commercial linkage fee levels and policy options for implementation.
- Peer city comparisons for both policy types.

Staff is requesting input from the City Council and Planning Commission on whether to proceed with drafting an inclusionary housing ordinance and/or a commercial linkage fee program, and if so, which policy elements to prioritize. Options include: 1) moving forward with drafting, adoption, and enforcement of ordinances; 2) drafting and adoption of ordinances but deferring enforcement until market conditions improve; or 3) choosing not to pursue the policies at this time.

FISCAL IMPACT

There is no immediate fiscal impact associated with this item. The purpose of this study session is to receive a presentation and provide policy direction on the preliminary study findings. Depending on the direction provided by the City Council and Planning Commission, staff may evaluate potential fiscal impacts associated with the development, implementation, and administration of one or both programs. Any future fiscal implications will be analyzed and presented as part of subsequent policy development or ordinance adoption processes.

ENVIRONMENTAL REVIEW

The requested action is not considered a project under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378, as it would not result in a direct or reasonably foreseeable indirect physical change in the environment. Therefore, it is not subject to environmental review.

ATTACHMENTS

1.	Presentation Slides
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INCLUSIONARY HOUSING PROGRAM AND COMMERCIAL LINKAGE FEE NEXUS STUDY

City Council & Planning
Commission Study Session
City of Vallejo

July 7, 2025

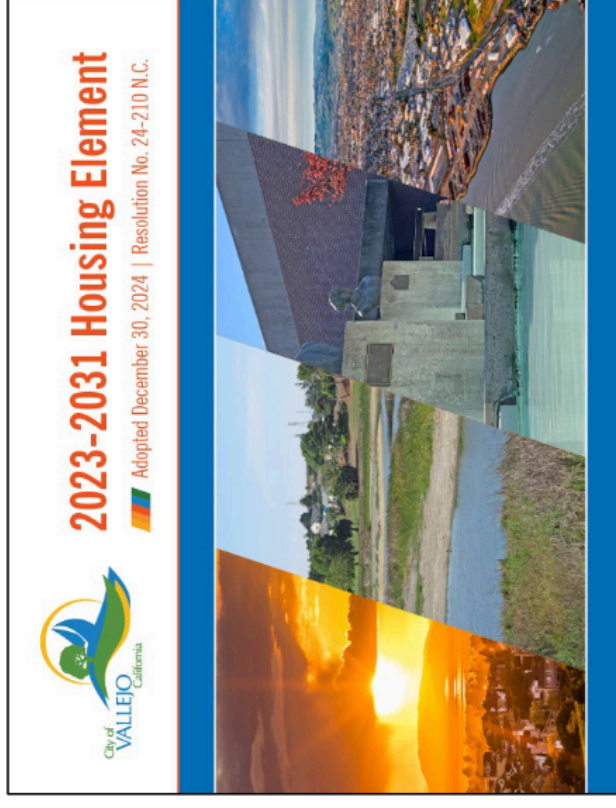


Economic & Planning Systems, Inc.
The Economics of Land Use

1330 Broadway, Suite 450 ■ Oakland, CA 94612
510.841.9190 ■ www.epsys.com

BACKGROUND & OBJECTIVES

- Vallejo Housing Element (2023–2031) instructs City staff to explore Inclusionary Housing and Commercial Linkage Fees as methods towards meeting RHNA goals.
 - Program B 2.1.1: Inclusionary Housing Ordinance
 - Program B 2.1.2: Commercial Linkage Fees
- Analysis with EPS began in August 2023. Staff to review by Q3 2025.



INCLUSIONARY HOUSING ORDINANCE

An **inclusionary housing ordinance** requires a residential developer to provide a percentage of units below market-rate rents or pay in-lieu fees (or other alternatives) towards an affordable housing fund.

- **Why adopt inclusionary housing?**
 - Increase affordable housing units alongside overall residential supply
 - Promote equity by providing housing opportunities across a range of income levels
 - Helps to meet the City’s RHNA requirements
 - Increases eligibility for One Bay Area Grant programs

COMMERCIAL LINKAGE FEE

Commercial linkage fees require developers of non-residential projects to pay fees that fund local affordable housing production.

- **Why adopt commercial linkage fees?**
 - New non-residential development brings in new workers and generates demand for local housing
 - Provide local housing for workforce and reduce commute times in and out of Vallejo
 - Promote equity by providing housing opportunities across a range of income levels
 - Helps to meet the City’s RHNA requirements
 - Increases eligibility for One Bay Area Grant programs

MEETING RHNA WITH AFFORDABLE HOUSING PROGRAMS

Program

**Inclusionary
Housing
Ordinance**

Income Limits

Very Low

Low

Moderate

Above Moderate

MEETING RHNA WITH AFFORDABLE HOUSING PROGRAMS

Program

**Inclusionary
Housing
Ordinance**


Income Limits

Very Low

Low

Moderate

Above Moderate

Market rate units 

MEETING RHNA WITH AFFORDABLE HOUSING PROGRAMS

Program

**Inclusionary
Housing
Ordinance**

Builds BMR units
or collects in-lieu fee

Income Limits

Very Low

Low

Moderate

Market rate units


Above Moderate

MEETING RHNA WITH AFFORDABLE HOUSING PROGRAMS

Program

**Commercial
Linkage
Fee**

Generates fee revenue
City can leverage



Income Limits

Very Low

Low

Moderate

Above Moderate

INCLUSIONARY HOUSING ORDINANCE

DO INCLUSIONARY REQUIREMENTS IMPACT FEASIBILITY?

- Short answer: **Yes.**
 - Inclusionary units must be sold or leased below market value but cost the same to construct as the market-rate portion.
 - Reduces the developer profit or net operating income received.
- Other factors affecting feasibility (i.e., whether project can be built):
 - Land costs
 - Construction costs
 - City requirements (e.g., impact fees, entitlement process)
 - Density allowances
 - Achievable rents or sale prices

An inclusionary housing feasibility analysis aims to identify the level of inclusionary that the project can bear and remain feasible, given local market values and current development costs.

INCLUSIONARY HOUSING RESEARCH QUESTIONS

Question

1. What is happening in Vallejo's local housing market?
2. What are other cities doing for their inclusionary policies?
3. How is feasibility affected by other city requirements on development?
4. Can current projects accommodate inclusionary requirements and remain feasible?

EPS Task

- Conduct analysis of local market and economic conditions.
- Survey of policies in comparable jurisdictions
- Evaluate Vallejo's current impact fees against peer jurisdictions
- Assess the feasibility of inclusionary housing requirements given current housing market conditions

AFFORDABLE RENTS VS. VALLEJO'S RENTS

- A look at the current housing market comparing Average Median Income (AMI) and market-rate rents.
- Market rents in Vallejo are affordable to some households at the median income level for some household sizes but may become unaffordable at lower income categories.

Household Size	Median Income [1] 100% AMI	Affordable Monthly Rent at 100% AMI [2]	Number of Bedrooms [3]	Vallejo Monthly Market Rent [4]	AMI Level of Affordability
1	\$79,250	\$1,981	0 (studio)	\$1,459	74%
2	\$90,550	\$2,264	1	\$1,598	71%
3	\$101,900	\$2,548	2	\$1,976	78%
4	\$113,200	\$2,830	3	\$2,619	93%
5	\$122,250	\$3,056	4	\$3,105	102%

[1] Based on HCD Income Limits for Solano County (2024)

[2] Assumes 30 percent of income is spent on housing.

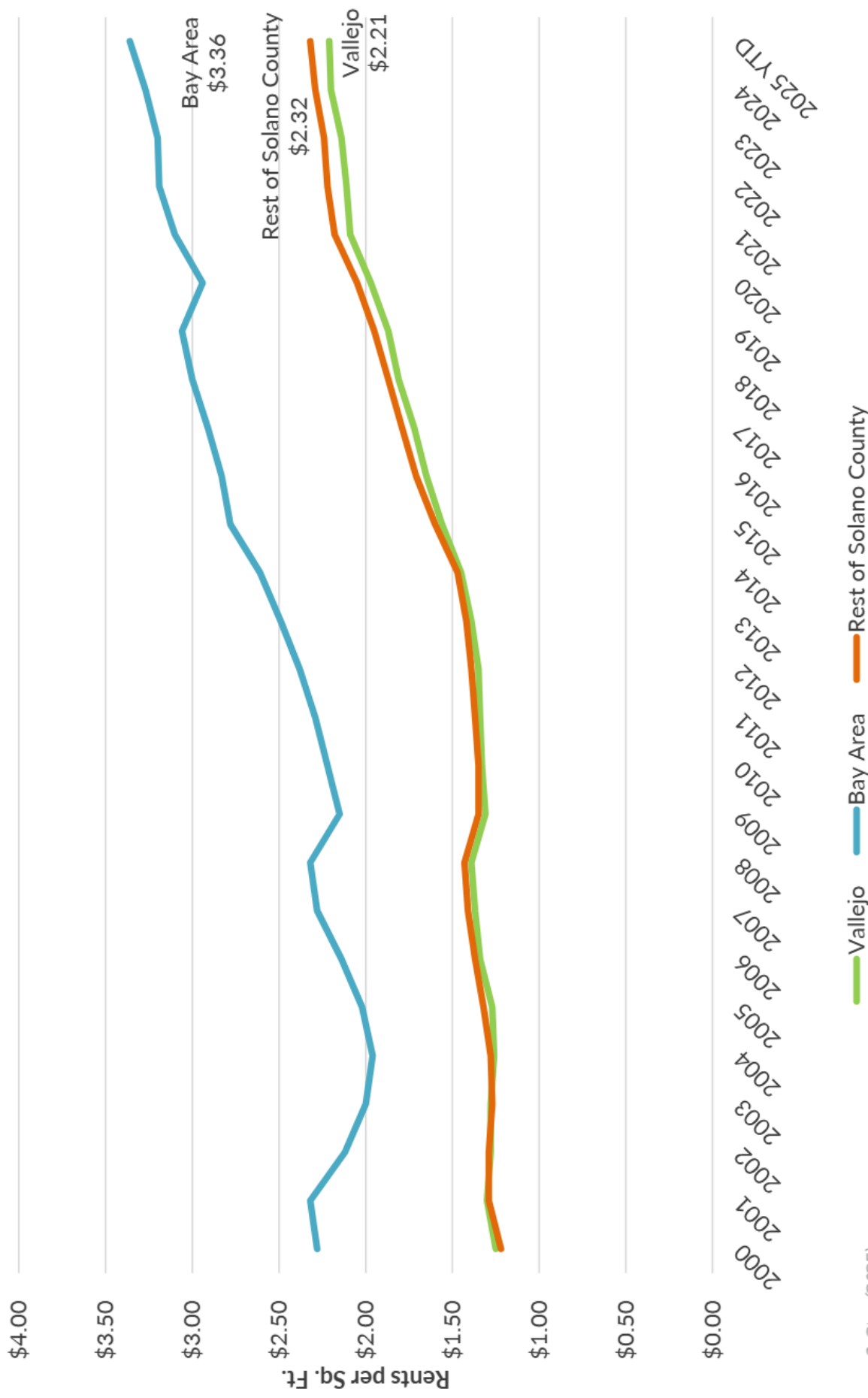
[3] Consistent with guidance in State law (Health and Safety Code Section 50052.5) on bedroom occupancy levels.

[4] Estimated from average reported rents by bedroom size from Zillow, Zumper, and Costar in April 2025.

Source: Economic & Planning Systems

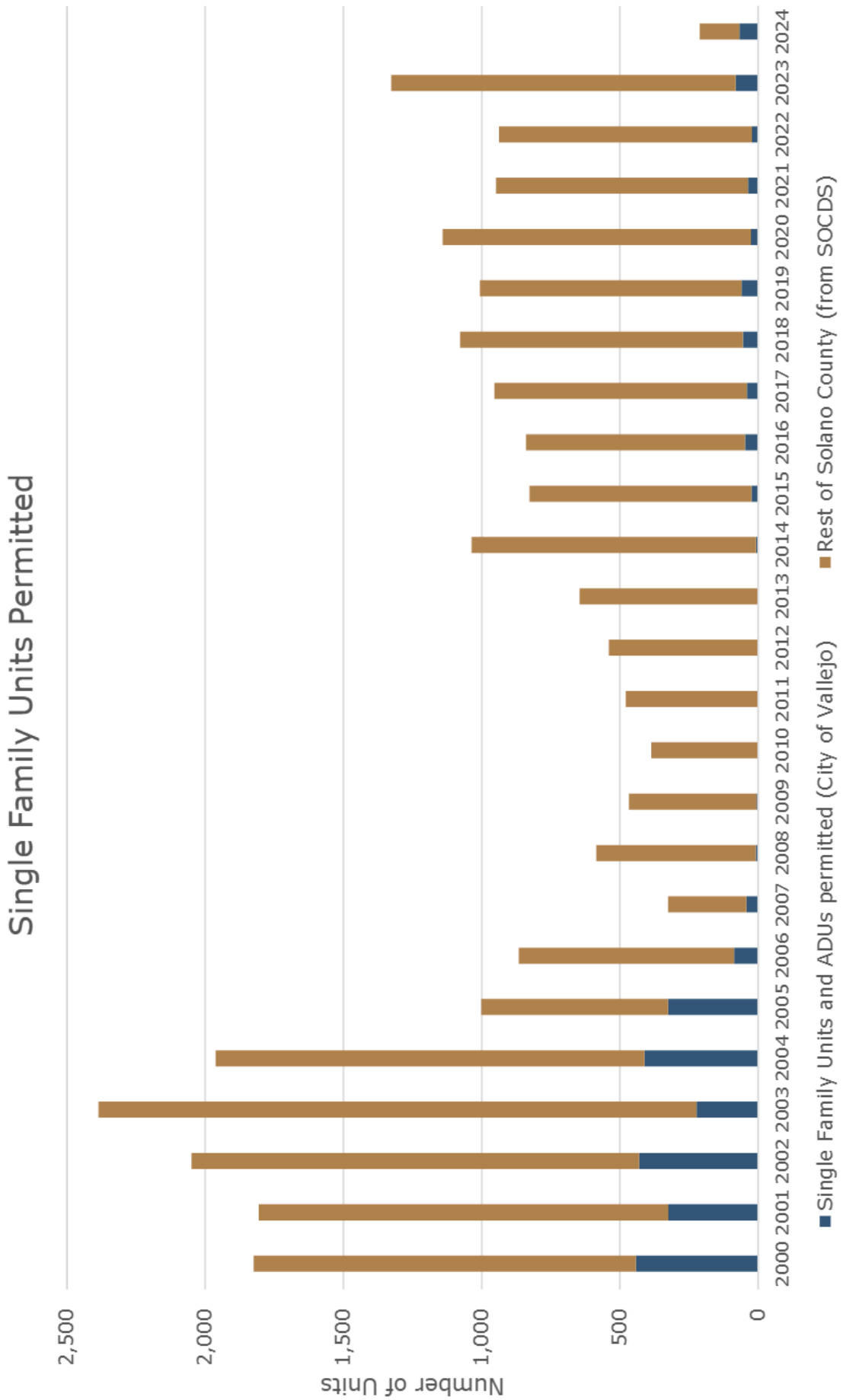
VALLEJO RENTS ARE MODEST COMPARED TO COUNTY & BAY AREA

Multifamily Rents per Square Foot, 2000 to pres.



Source: CoStar (2025)

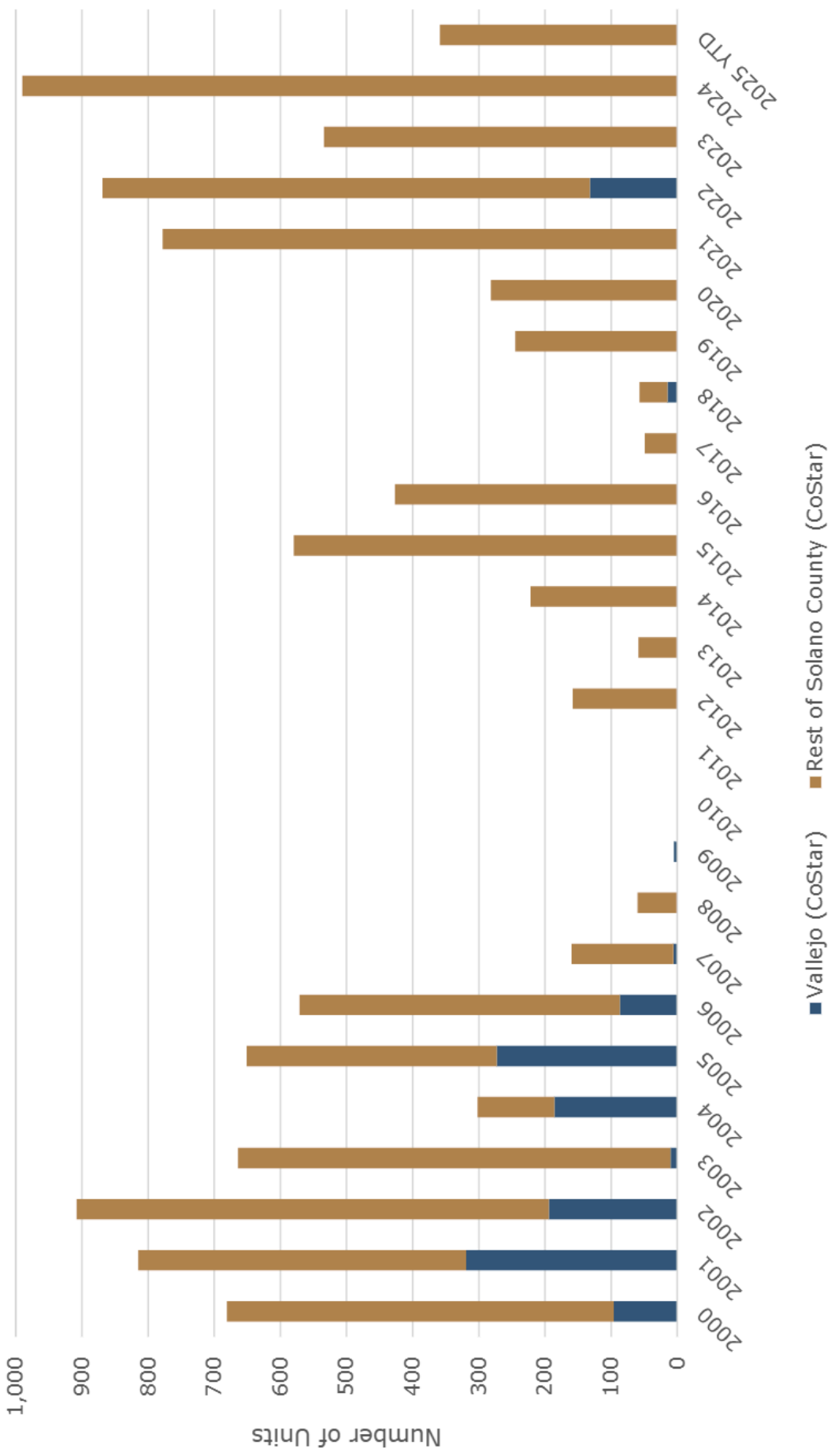
VALLEJO'S MARKET SHARE HAS DIMINISHED GREATLY



Sources: City of Vallejo, HUD SOCDs

VALLEJO'S MARKET SHARE HAS DIMINISHED GREATLY

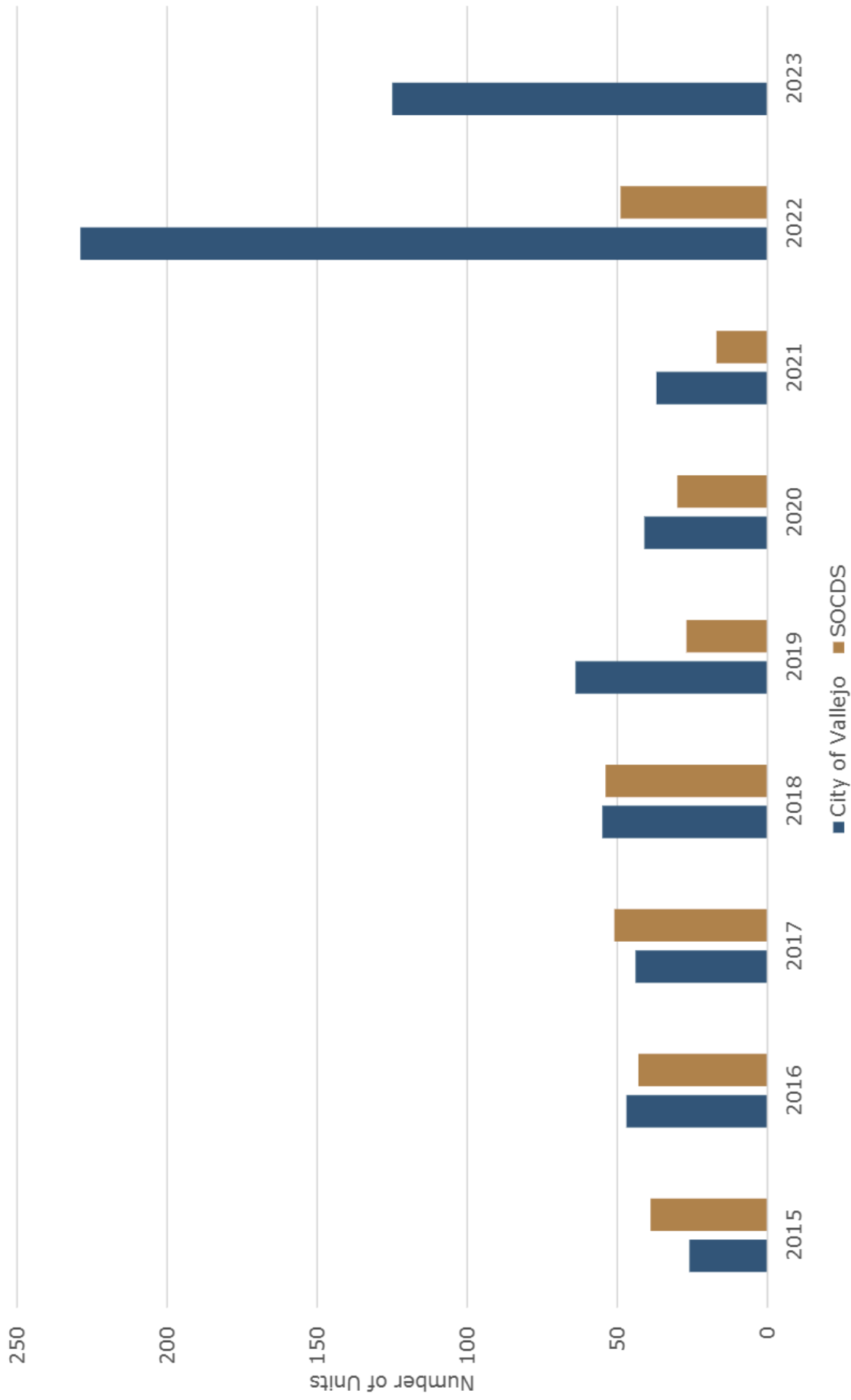
Multifamily Units Under Construction



Source: CoStar

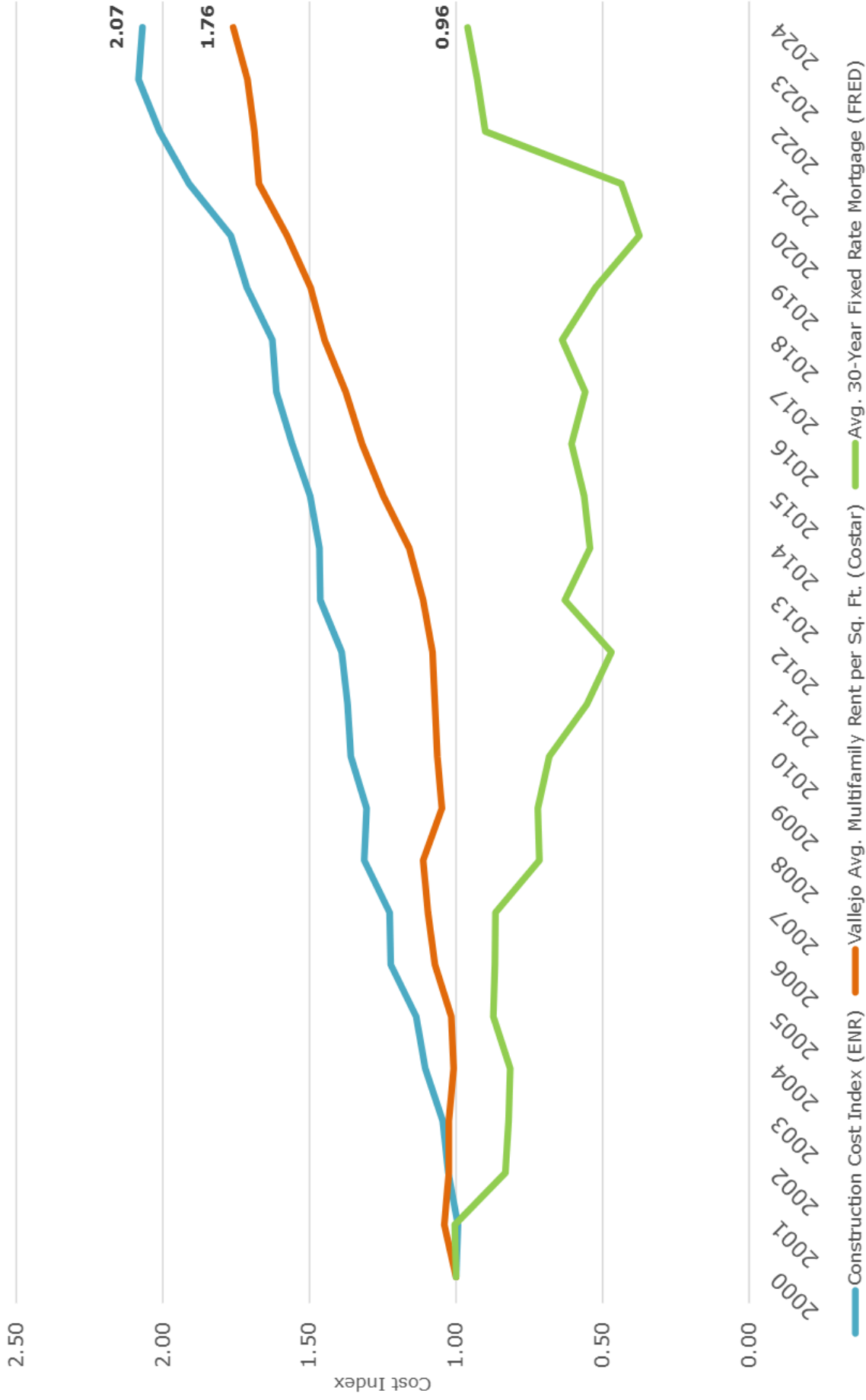
CITY'S RECENT PERMITTING HAS EXCEEDED UNIT DELIVERIES

Comparison of Residential Permit Data from City and HUD, 2015 to 2023



CONSTRUCTION COSTS HAVE RISEN FASTER THAN RENTS

Index of Construction Costs, Multifamily Rents, Mortgage Rates, 2000-2024

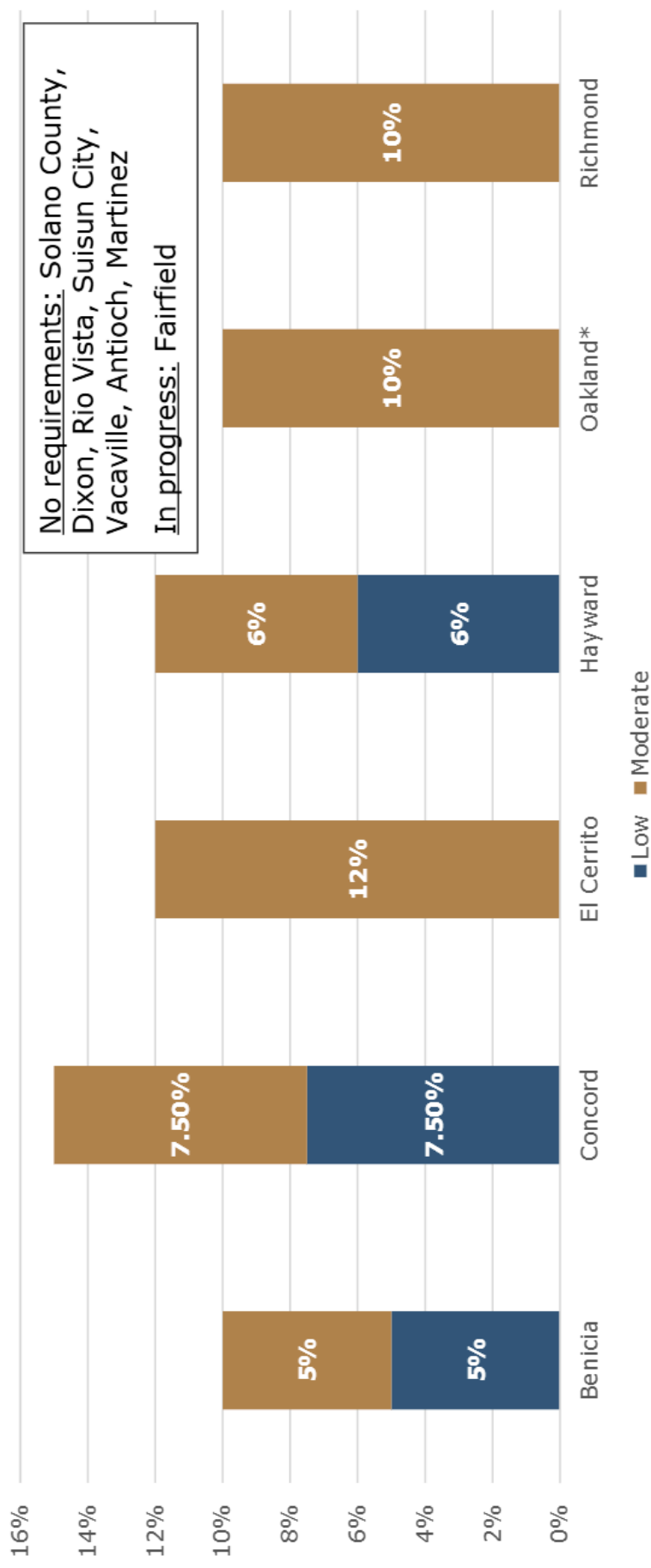


INCLUSIONARY REQUIREMENTS IN OTHER CITIES

OWNERSHIP

- Ownership requirement ranges from 10 to 15 percent.
- Currently, Benicia is the only Solano County city with an inclusionary requirement.

For-Sale Inclusionary Requirements in Peer Cities



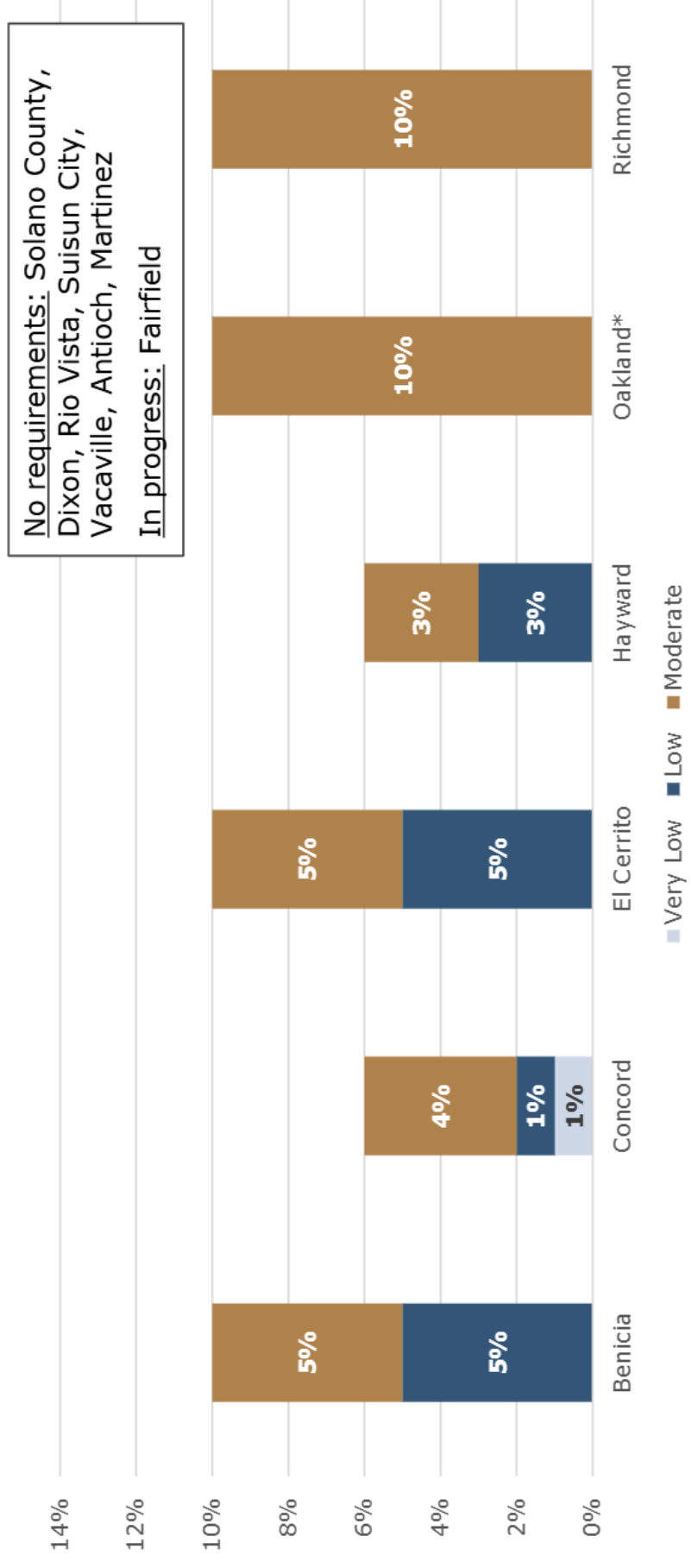
*Oakland has affordable housing impact fee requirements and presents an on-site affordable housing option as alternative.

INCLUSIONARY COMPARISON TO OTHER CITIES

RENTAL

- Rental requirement ranges from 6 to 10 percent.
- Currently, Benicia is the only Solano County city with an inclusionary requirement.

Rental Inclusionary Requirements in Peer Cities

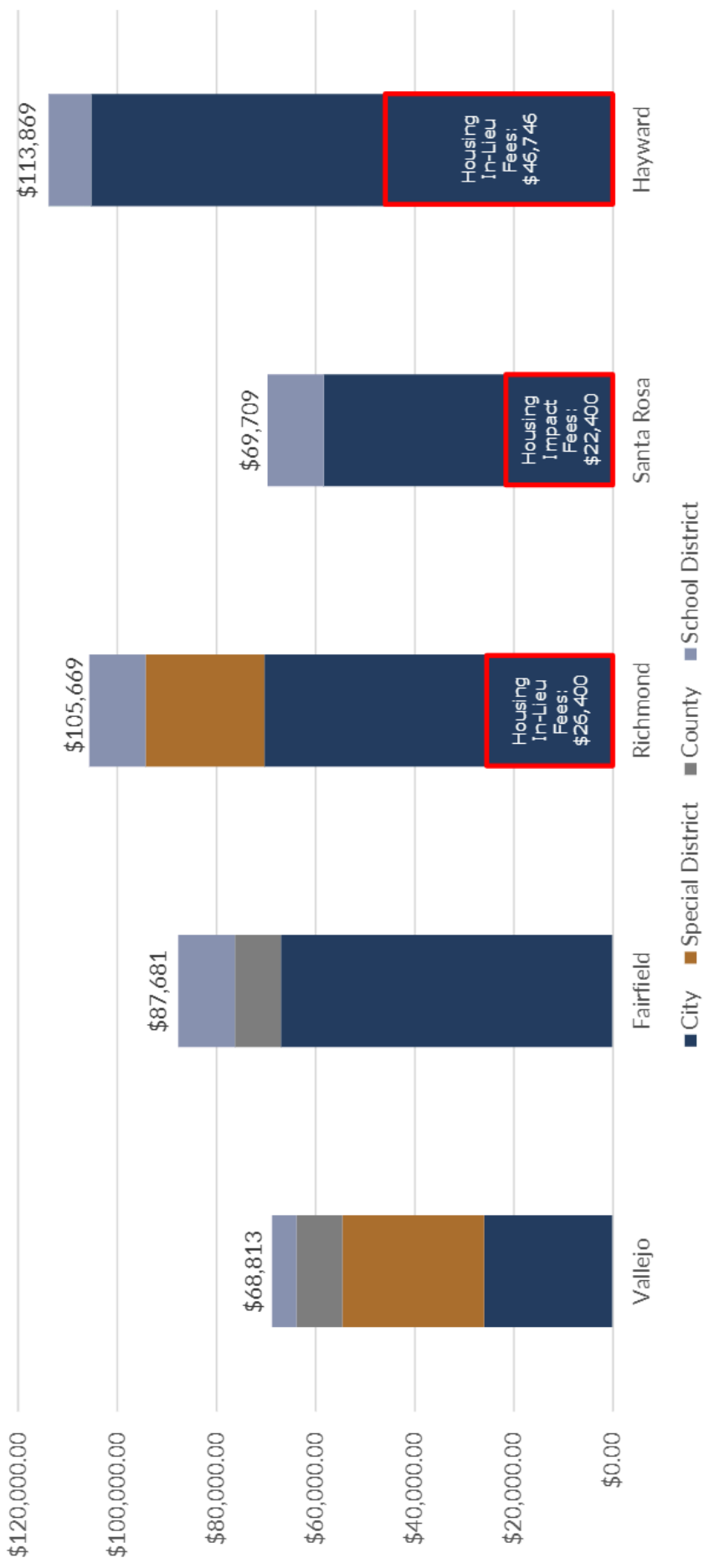


*Oakland has affordable housing impact fee requirements and presents an on-site affordable housing option as alternative.

VALLEJO'S IMPACT FEES ARE AT OR BELOW THOSE IN SIMILAR CITIES

SINGLE-FAMILY DETACHED

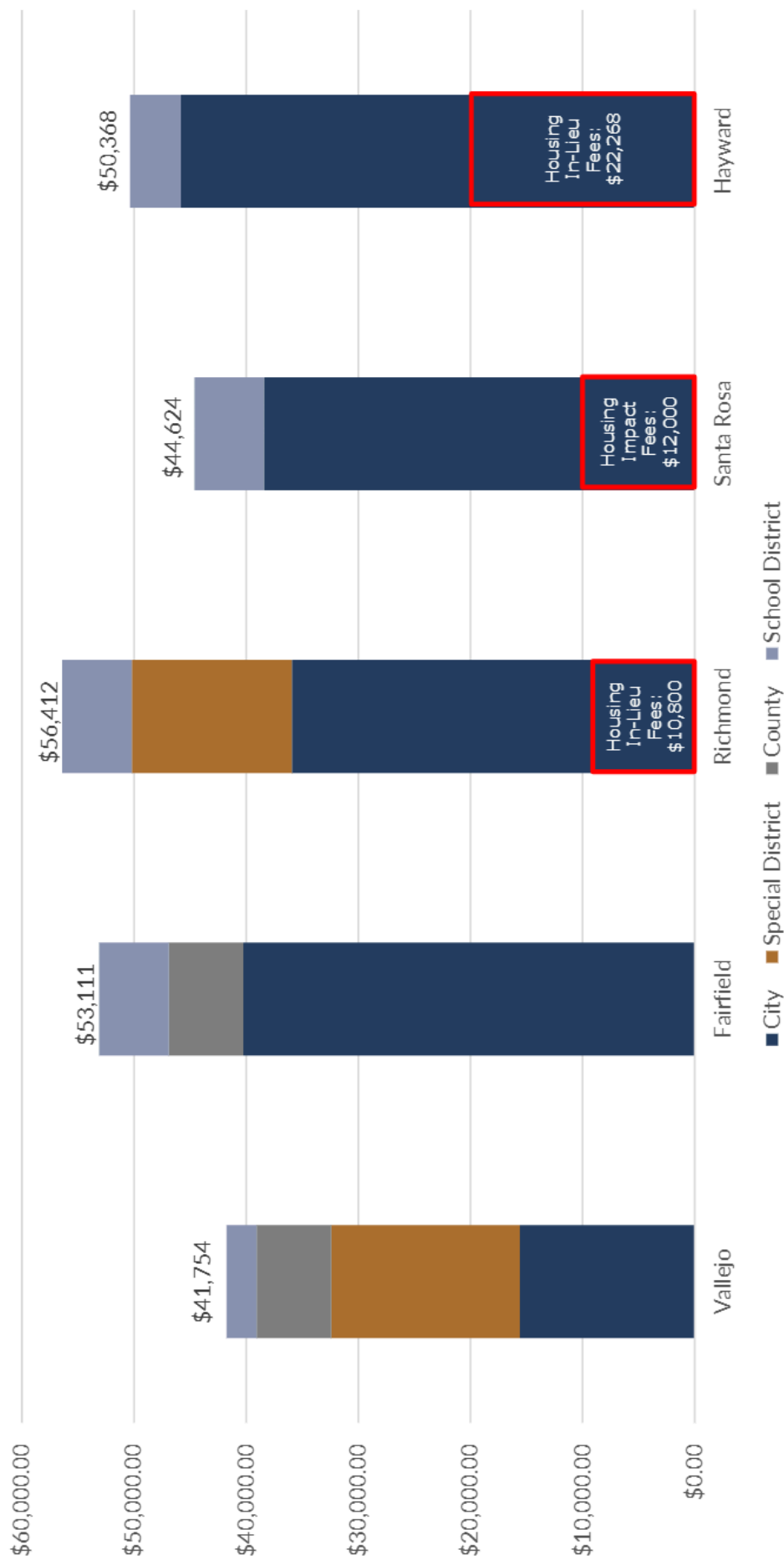
- Fees per unit for prototype single-family detached unit, includes city, county, school district, utility district fees.
- Housing fees make up 25 to 41 percent of total impact fees among cities that have them.



VALLEJO'S IMPACT FEES ARE AT OR BELOW THOSE IN SIMILAR CITIES

MULTIFAMILY

- Fees per unit for prototype single-family detached unit, includes city, county, school district, utility district fees.
- Housing fees make up 19 to 44 percent of total impact fees among cities that have them.



FEASIBILITY MODEL METHODOLOGY

Develop prototype housing products

Representing housing types being built or planned for in Vallejo

Calculate development costs, affordability, market value

Costs include land, construction, fees, profit. Affordability at varying income levels assumes 30% of income is spent on housing. Market value estimate is for-sale price or net operating income.

Verify assumptions with developers

Compare costs & market value for feasibility

For feasibility, market value > developer costs (incl. profit)

If feasible, test inclusionary against profit or NOI

Assume minimum 15% profit margin (for-sale) or 7% yield-on-cost (rental)



DEVELOPMENT PROTOTYPES

USED FOR ESTIMATING AFFORDABLE HOUSING SUBSIDIES

- Five development prototypes represent the types of residential projects that may occur in Vallejo.

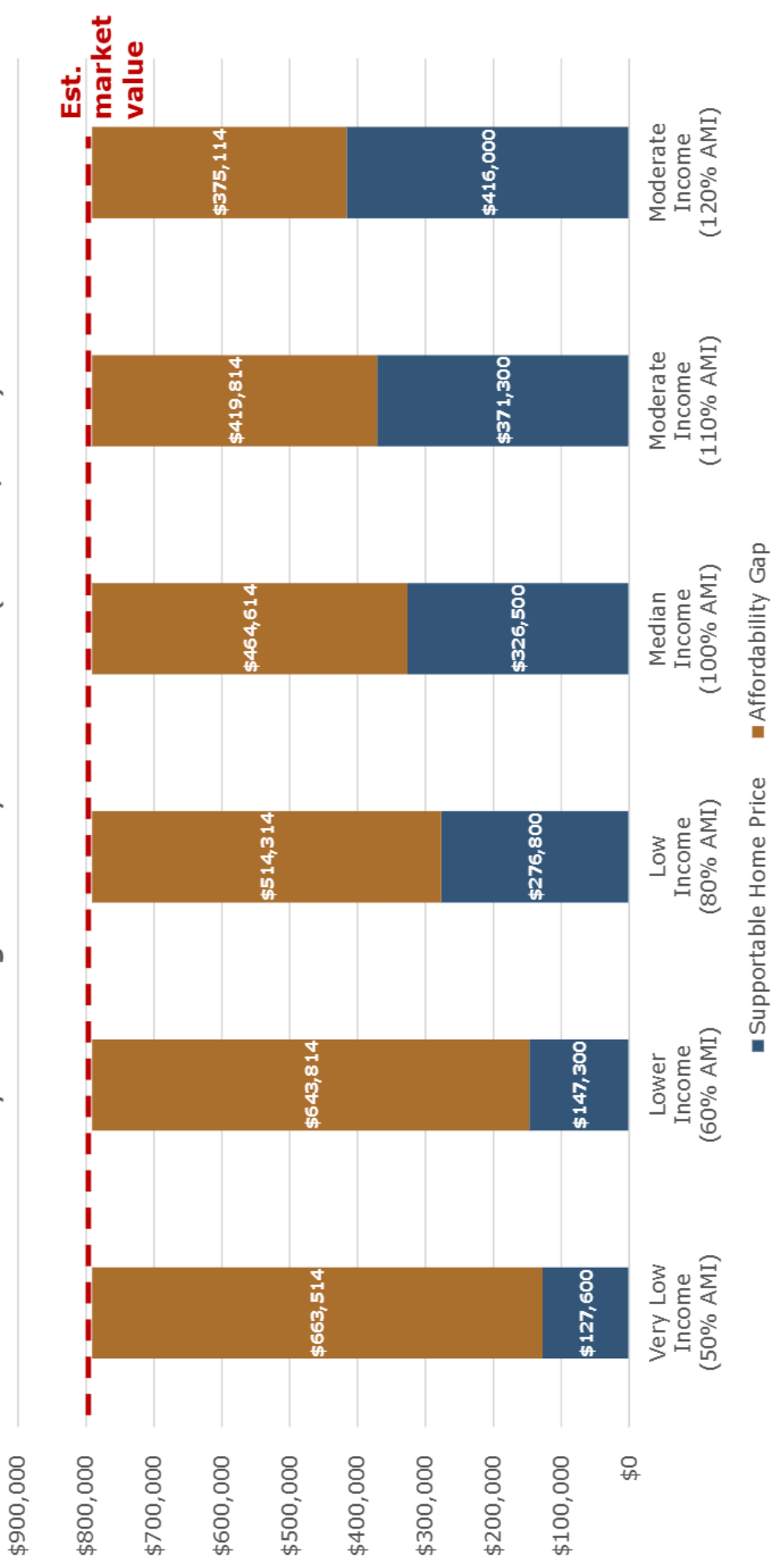
Category	Bedrooms	Unit Size (ft ²)	Tenure	Density
Single-Family Detached	4	2,200	For Sale	8 units/acre
Single-Family Small Lot	3	1,600	For Sale	15 units/acre
Multifamily Condominium	2	1,200	For Sale	30 units/acre
Low Density Multifamily	2	950	Rental	30 units/acre
High Density Multifamily	2	950	Rental	65 units/acre

INCLUSIONARY HOUSING - GAP ANALYSIS

SINGLE-FAMILY DETACHED

- The cost of development aligns with the current market value for Single-family Detached housing, suggesting that the project is just barely feasible.

Subsidy for Single-Family Detached (8 units/acre)

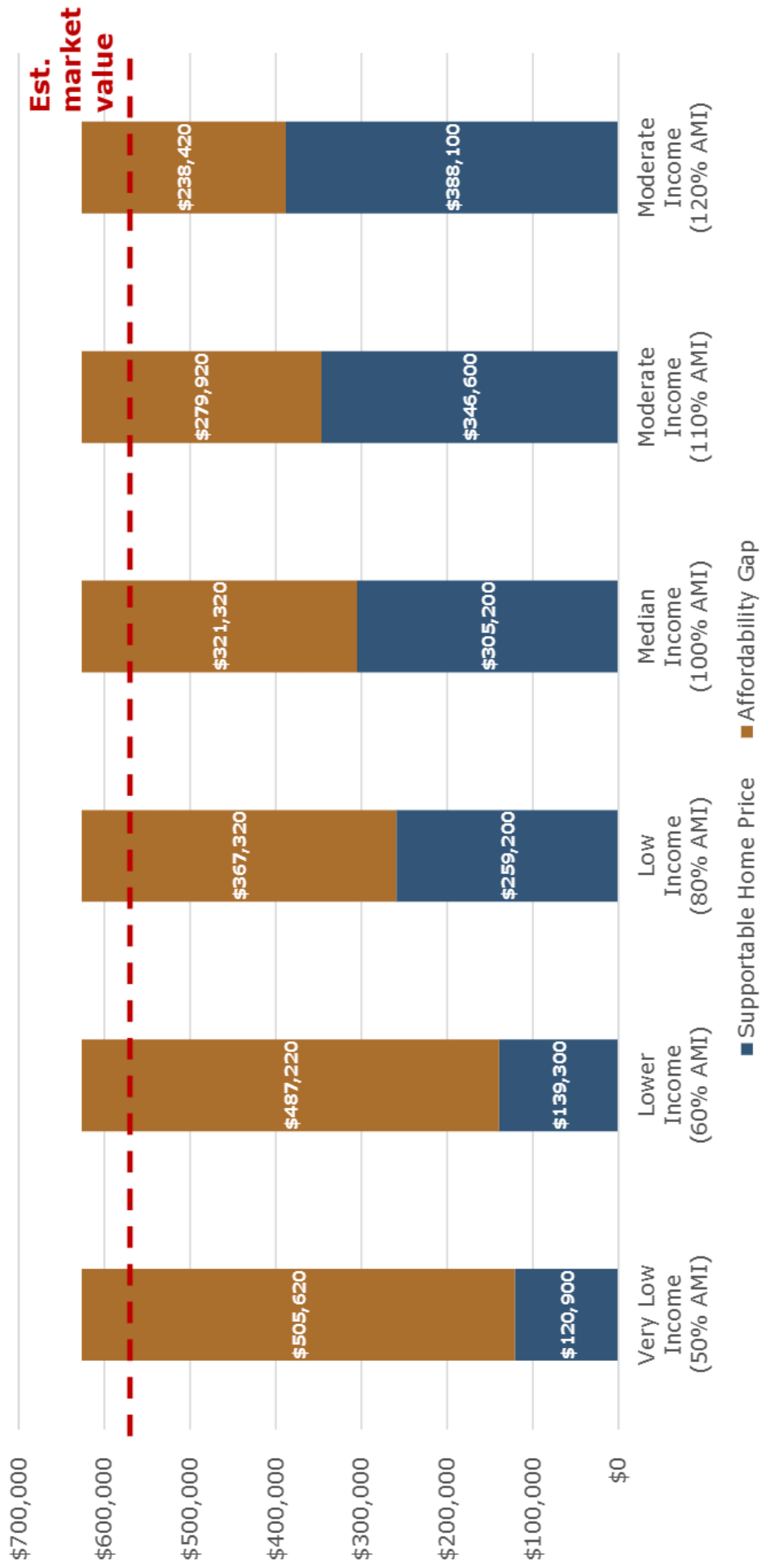


INCLUSIONARY HOUSING – GAP ANALYSIS

SINGLE-FAMILY SMALL LOT DETACHED

- The cost of development exceeds the current market value for Single-family Small Lot Detached housing and cannot accommodate inclusionary.

Subsidy for Small Lot Single Family (15 units/acre)

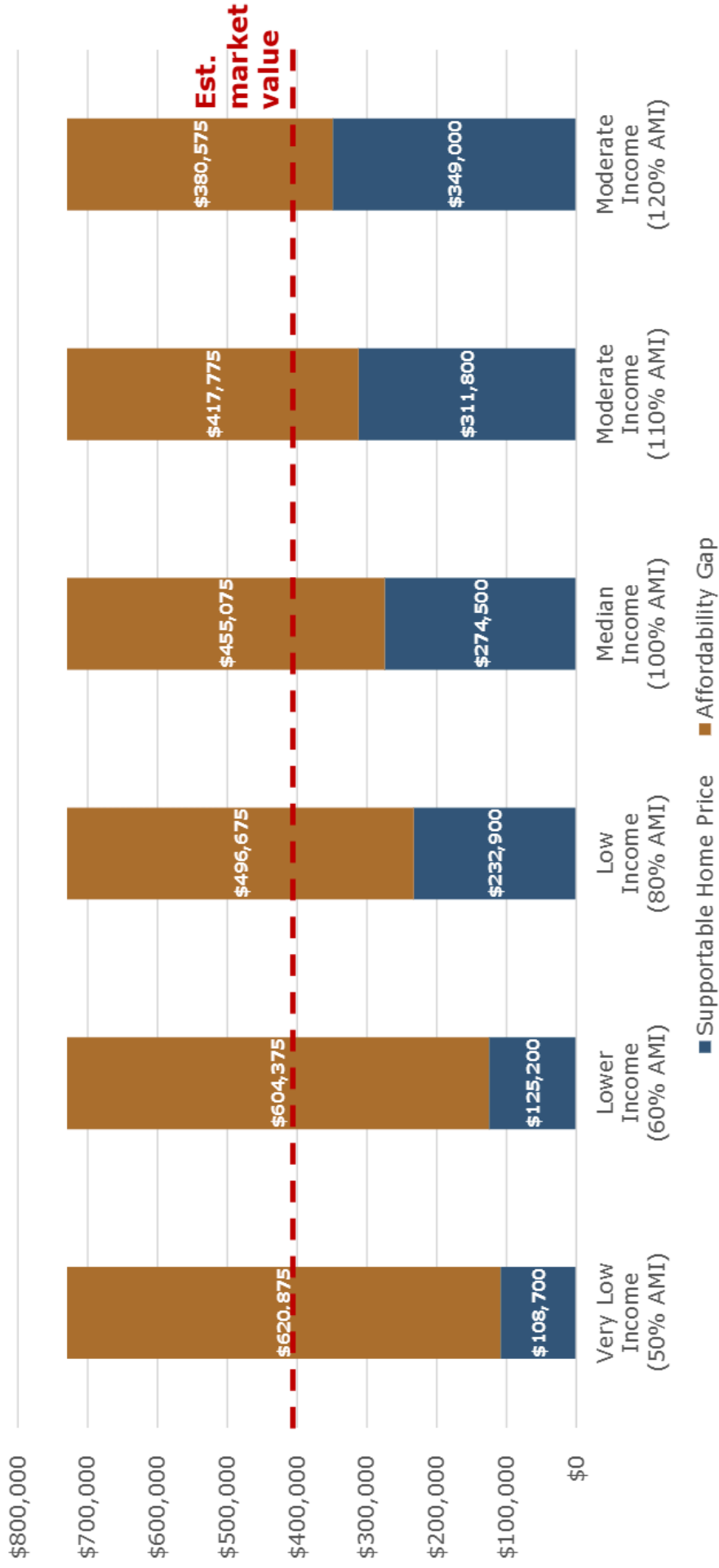


INCLUSIONARY HOUSING – GAP ANALYSIS

MULTIFAMILY ATTACHED CONDO

- The cost of development exceeds the current market value for condominiums and cannot accommodate inclusionary.

Gap Analysis for Multifamily Attached Condo (30 units/acre)

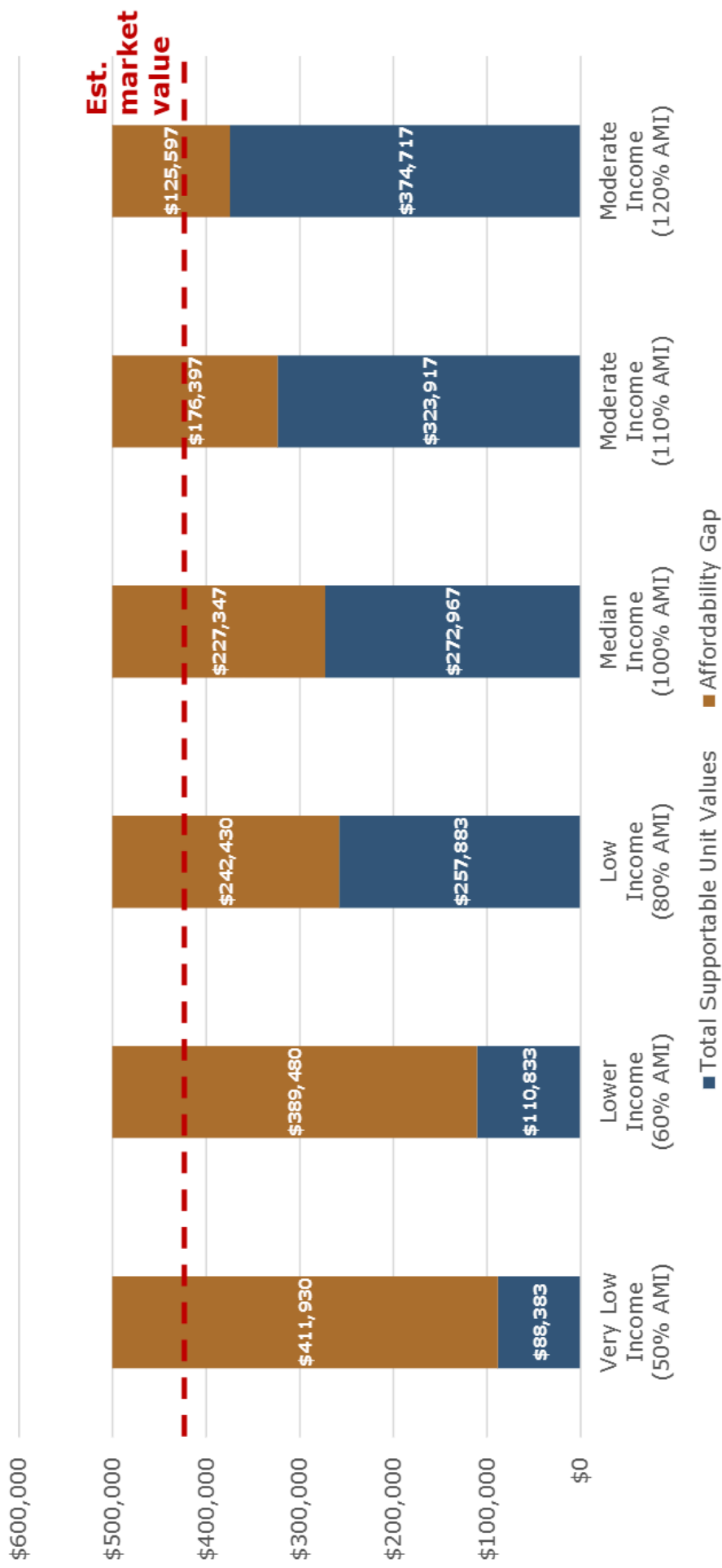


INCLUSIONARY HOUSING – GAP ANALYSIS

LOW-DENSITY MULTIFAMILY RENTAL

- The cost of development exceeds the current market value for low-density multifamily and cannot accommodate inclusionary.

Subsidy for Low Density Multi-family Rental (30 units/acre)

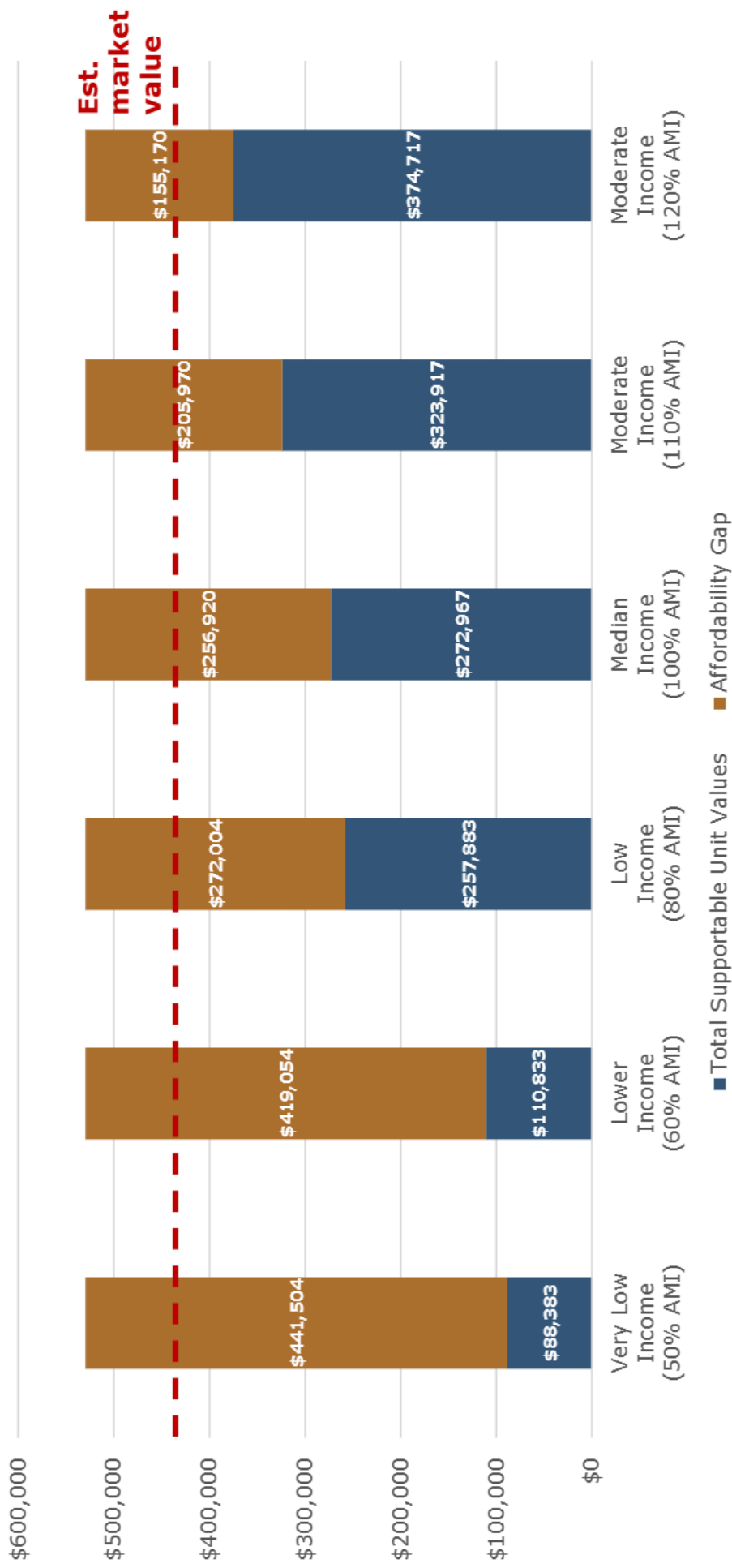


INCLUSIONARY HOUSING – GAP ANALYSIS

HIGHER-DENSITY MULTIFAMILY RENTAL

- The cost of development exceeds the current market value for high-density multifamily and cannot accommodate inclusionary.

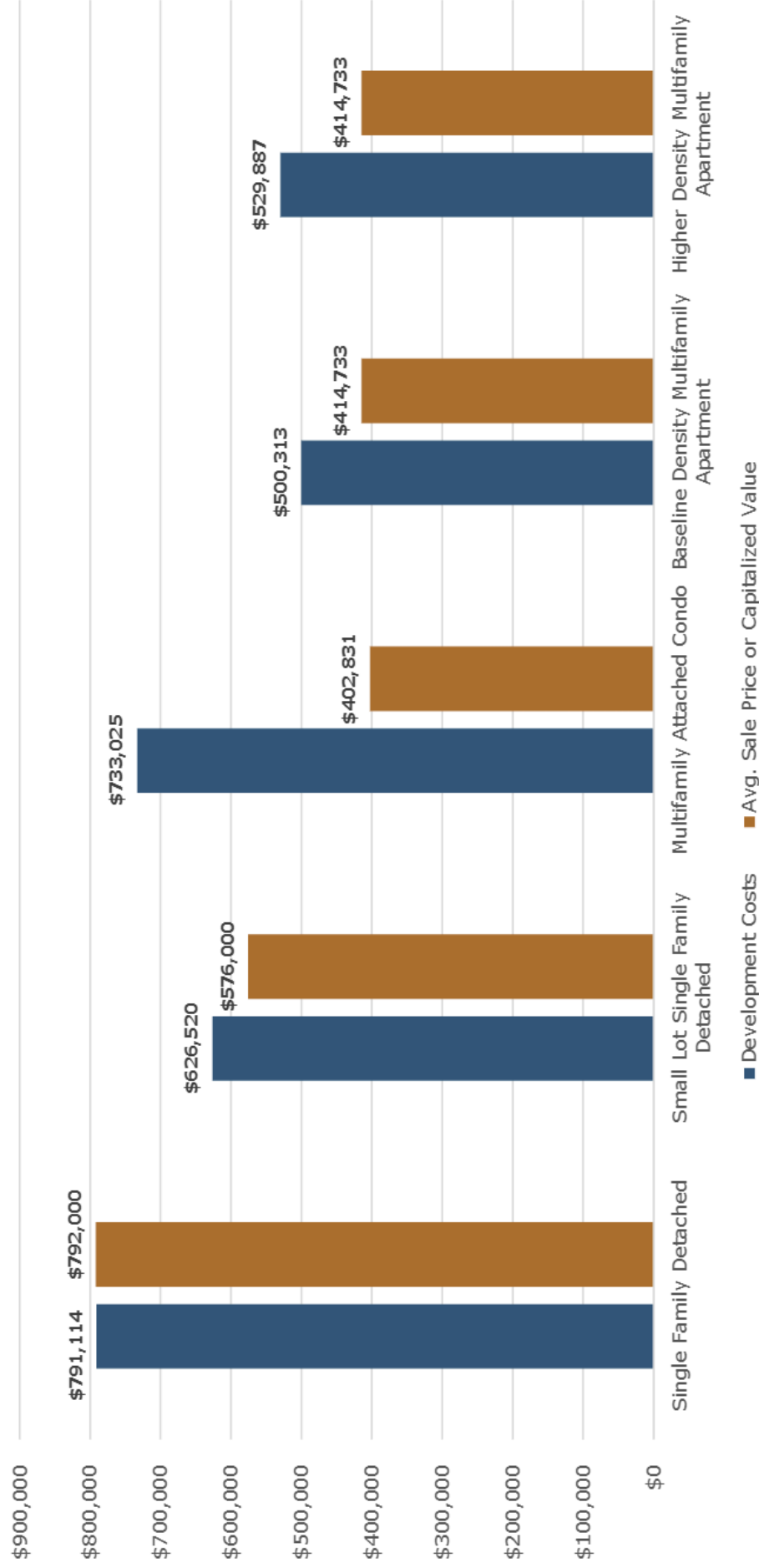
Subsidy for High Density Multi-family Rental (65 units/acre)



MARKET RATE FEASIBILITY

AS OF JUNE 2025

- A comparison of the total development cost (blue) to the yield-on-cost or estimated sale price (brown) of prototype projects without any affordability requirements, based on current assumptions.



CONCLUSION & KEY FINDINGS



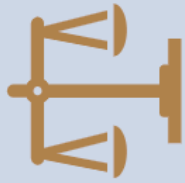
Residential development in Vallejo has been slow in the last twenty years.



Current development costs are high, such that market values are insufficient to generate profit for most projects and feasibility becomes challenging.



Developers active in the Vallejo market express concern over increasing costs affecting their projects' profits in Vallejo.



Under present market conditions, new market-rate construction is unlikely to feasibly accommodate any inclusionary requirement.

POTENTIAL NEXT STEPS

Options for the Inclusionary Housing Ordinance

Continue developing a policy and suspend its enforcement until market conditions shift favorably

Create and adopt ordinance now with the understanding that it may further impact market production

Choose not to pursue now and consider revisiting at a future time

DISCUSSION/Q&A ON INCLUSIONARY HOUSING

UP NEXT: COMMERCIAL LINKAGE FEE ANALYSIS

COMMERCIAL LINKAGE FEE

COMMERCIAL LINKAGE FEE RESEARCH QUESTIONS

Question

1. What is happening in Vallejo's local non-residential market?



Conduct analysis of local market and economic conditions.

2. What are other cities doing for their commercial linkage fees?



Survey of policies in comparable jurisdictions

3. What might Vallejo be able to achieve with a commercial linkage fee?



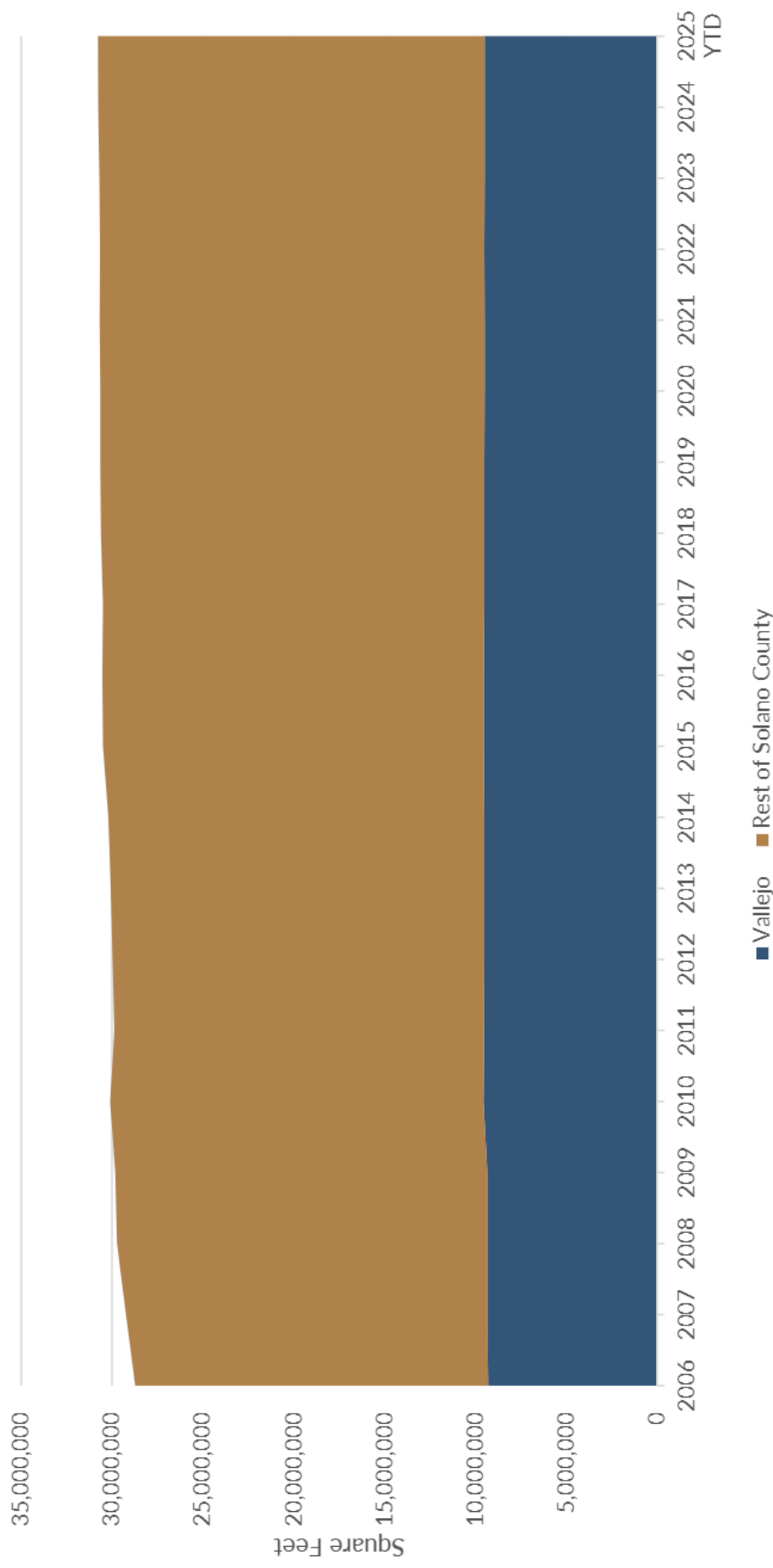
Complete commercial linkage fee nexus study

EPS Task

NO SIGNIFICANT COMMERCIAL GROWTH IN VALLEJO IN LAST 20 YEARS

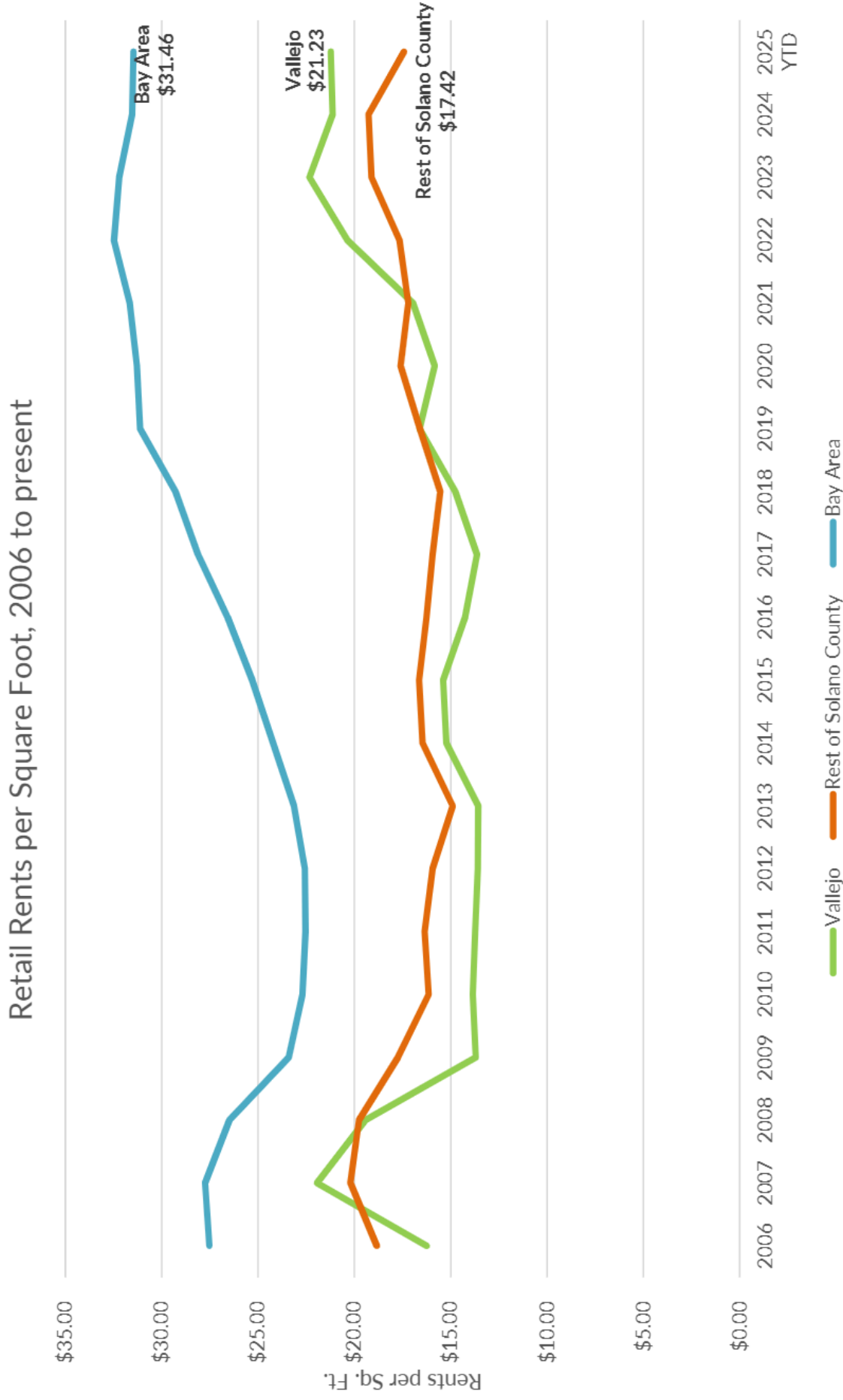
- Since 2006, commercial land use in Vallejo grew around 2 percent while in the rest of the county, it grew by nearly 10 percent.

Commercial (Retail & Office) Square Footage, 2006 to present



Source: CoStar (2025)

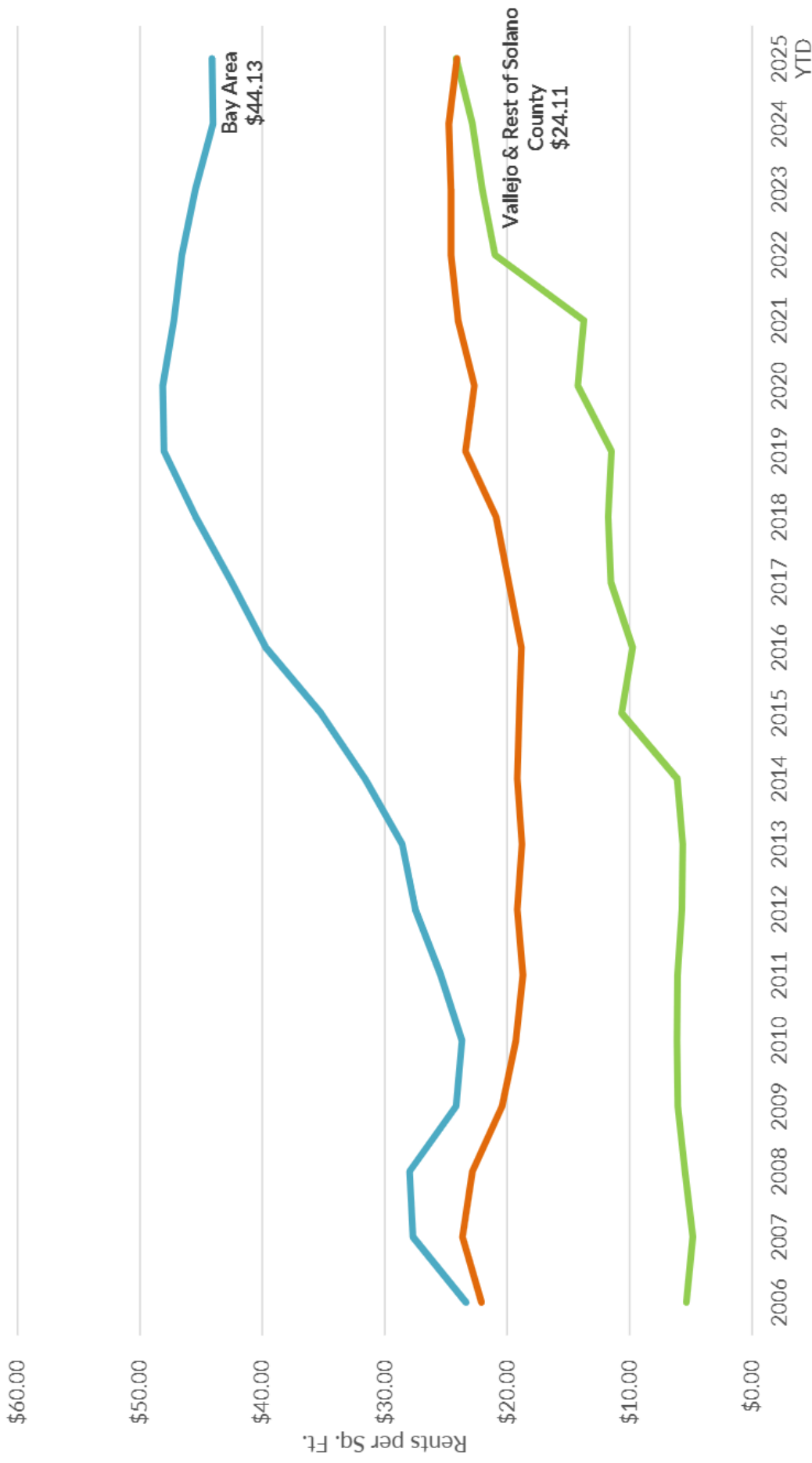
UNTIL RECENTLY, RETAIL RATES IN VALLEJO WERE LOWER



Source: CoStar (2025)

OFFICE RATES WERE ALSO LOWER BUT HAVE CAUGHT UP

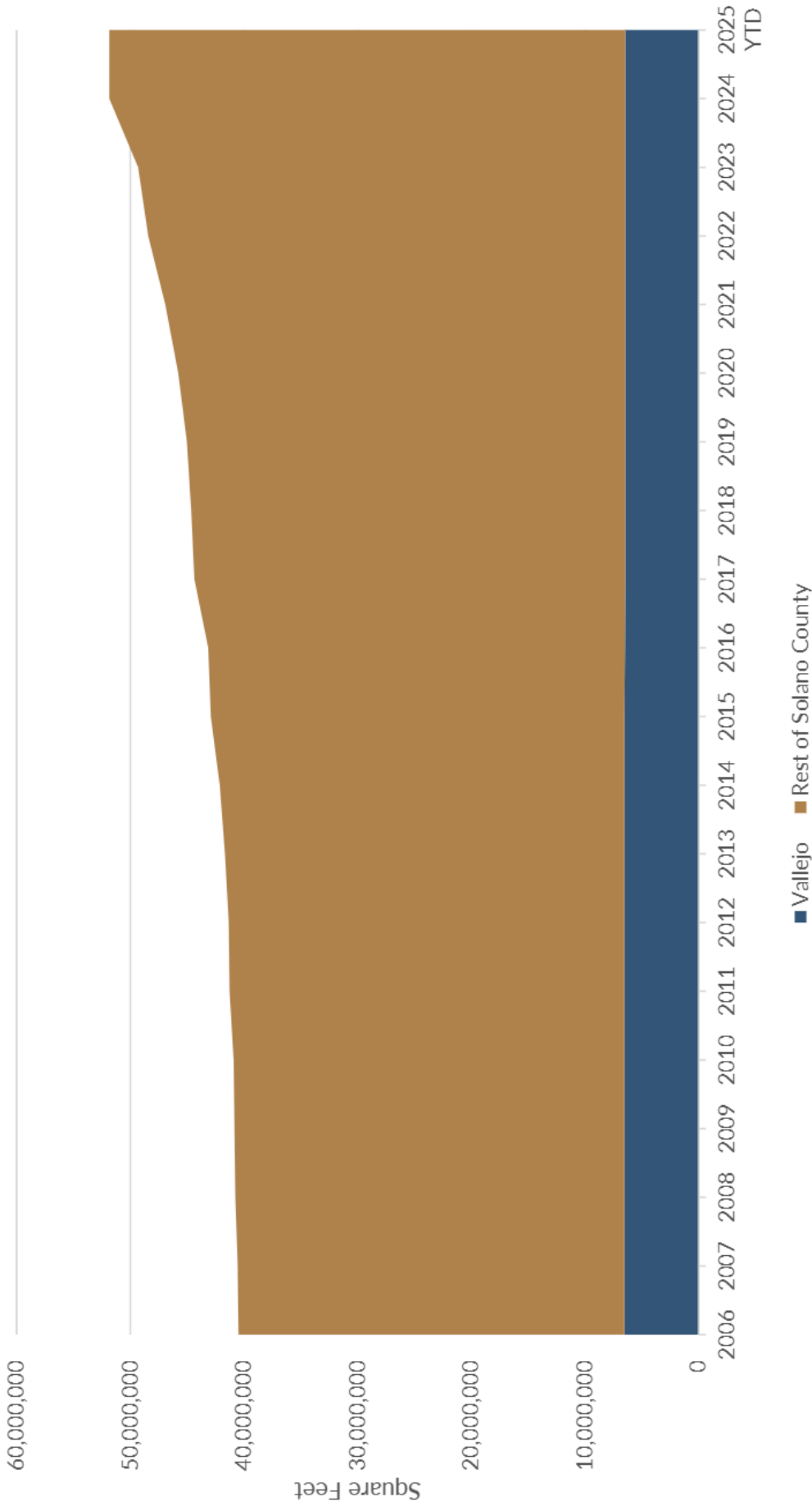
Office Rents per Square Foot, 2006 to present



VALLEJO'S INDUSTRIAL MARKET HAS BEEN STAGNANT

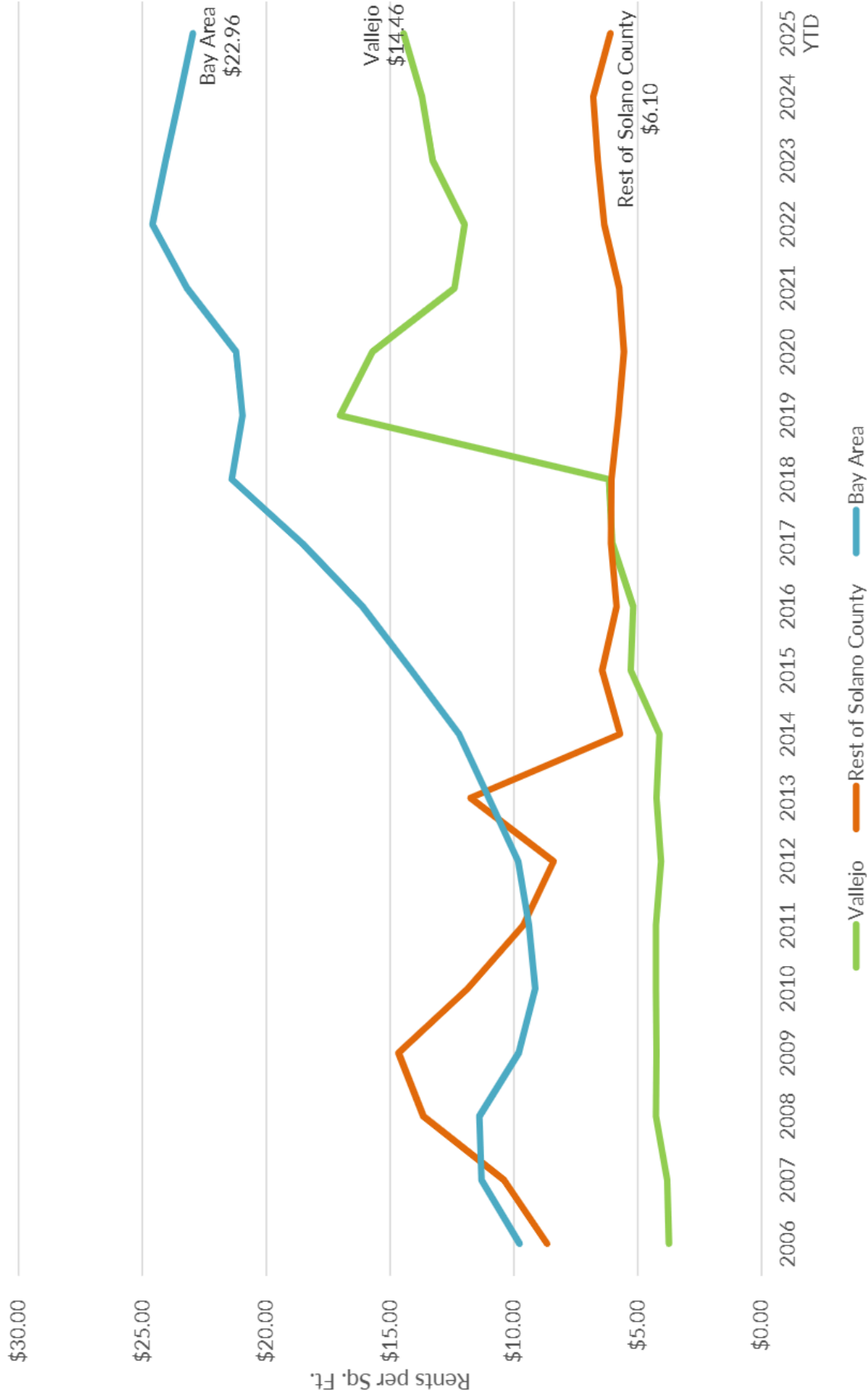
- Since 2006, industrial land use in Vallejo declined by 1 percent while in the rest of the county, it grew by 34 percent.

Industrial/Flex Square Footage, 2006 to present



VALLEJO'S INDUSTRIAL PROPERTIES ARE COMPARATIVELY STRONG

Industrial Rents per Square Foot, 2006 to present



NON-RESIDENTIAL DEVELOPMENT PIPELINE IS MORE PROMISING

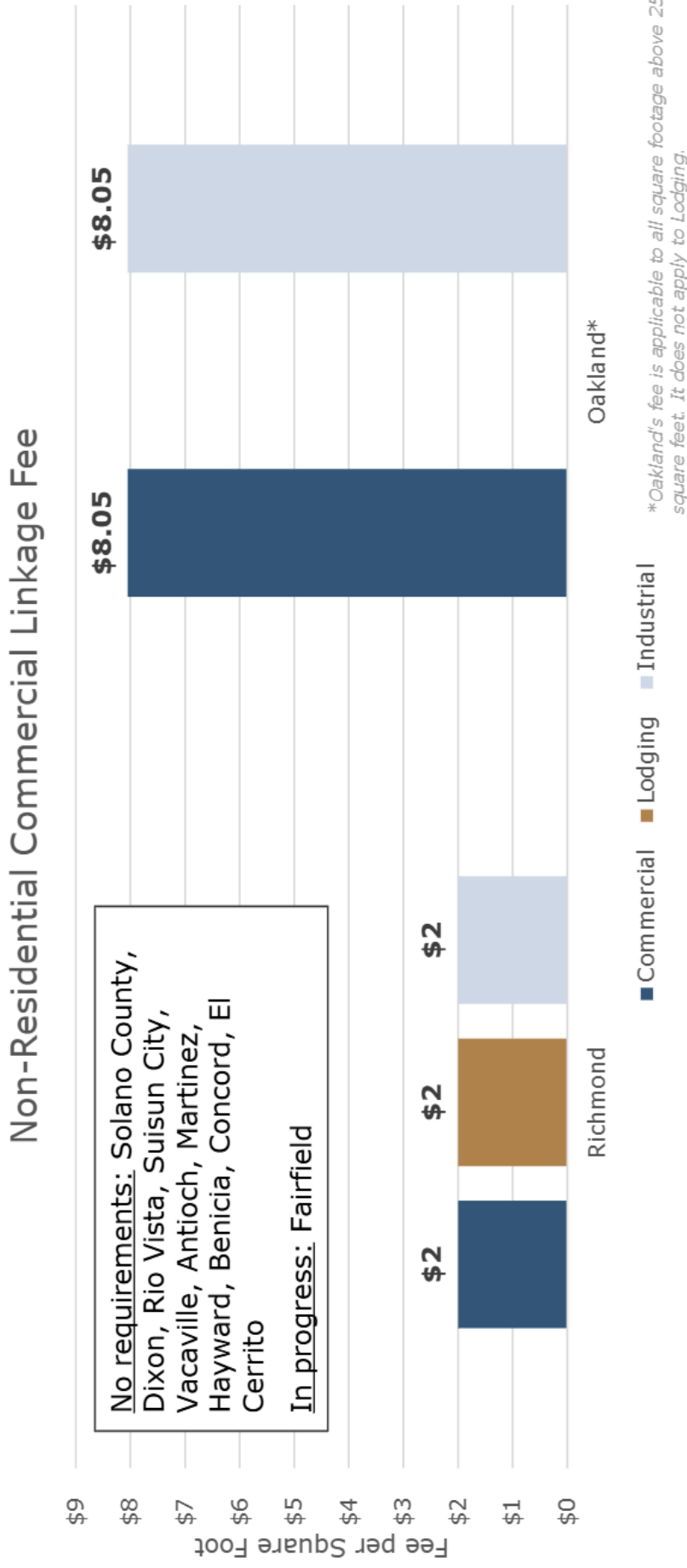
City staff have identified 453,000 square feet of non-residential development in the pipeline and likely to proceed in the next few years.

Land Use	Sq. Ft. of Pipeline Development in Vallejo	Example Projects
Commercial	237,636	<ul style="list-style-type: none">• Raising Cane's restaurant• New Auto Dealerships• Costco
Lodging	49,741	<ul style="list-style-type: none">• La Quinta Inn and Suites
Industrial	138,161	<ul style="list-style-type: none">• DXD Self-Storage
Total	425,538	

COMMERCIAL LINKAGE FEE COMPARISON

COMMERCIAL LINKAGE FEE

- Fees per square foot are usually set much lower than the calculated maximum
- Of the cities surveyed, most do not currently have a commercial linkage fee



NEXUS STUDY METHODOLOGY

Estimate number of new workers per land use category

Uses employment density assumptions for Commercial, Industrial, and Lodging

Calculate number of lower-income workers

Data on wage distribution by industry from JobsEQ

Calculate number of lower-income households

Based on assumptions of household formation for each land use type

Calculate maximum allowable fee

Calculated as the number of lower-income households x subsidy per affordable unit



COMMERCIAL LINKAGE FEE NEXUS STUDY

- EPS calculated nexus–based maximum fees
- Jurisdictions with commercial linkage fee programs adopt fees well below the nexus–based maximum fees to support economic development objective

Land Use Category	Total HHs Up to 120% AMI per 100k sq. ft.	Adjusted Total Households ¹ per 100k sq. ft.	Total Subsidy ² per 100k sq. ft.	Estimated Subsidy per sq. ft.
Commercial (Retail & Office)	121	90	\$8,962,463	\$90
Lodging	26	19	\$1,925,818	\$19
Industrial (includes Flex)	33	25	\$2,444,308	\$24

[1] Adjusted to avoid potential double–counting of the 25.4% of people who work in Vallejo and also live in Vallejo (2023 LEHD data)

[2] Based on subsidy of \$99,300 per unit as estimated from Sacramento Street Apartments.

HYPOTHETICAL SCENARIO

- Assume fee is set at **\$5/sq. ft.** for the three types of land uses
- How much fee revenue might be generated from the City's development pipeline and how many units could that subsidize?

Land Use	Sq. Ft. of Pipeline Development in Vallejo	\$5/sq. ft. CLF revenue
Commercial	237,636	\$1,188,180
Lodging	49,741	\$248,705
Industrial	138,161	\$690,805
Total	425,538	\$2,127,690

- Assume **\$99,300** per unit of City subsidy

$$\frac{\$2,127,960}{\$99,300} = 21.4 \text{ units subsidized}$$

CONCLUSION & KEY FINDINGS



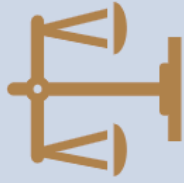
Vallejo has had very limited non-residential development activity in the last several years.



The calculated nexus-based maximum fees are much higher than what could reasonably be charged.



Most peer jurisdictions do not have this type of fee program. The ones that do charge only a modest fee amount.



A competitive commercial linkage fee in Vallejo could contribute modestly to affordable housing production.

POTENTIAL NEXT STEPS

Options for the Commercial Linkage Fee

Continue developing a policy and suspend its enforcement until market conditions shift favorably

Create and adopt ordinance now with the understanding that it may further impact market production

Choose not to pursue now and consider revisiting at a future time

THANK YOU

Q&A