



# HOUSING DEPARTMENT

## DOWNTOWN RESIDENTIAL INCENTIVE PROGRAM TAX AND FEE WAIVER FOR THE GATEWAY TOWER AND BANK OF ITALY DEVELOPMENTS

March 24, 2026  
City Council

Item 8.2

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# Housing Development Feasibility

- In December 2025, the City released a Cost of Residential Development Study evaluating housing development feasibility under current market conditions.
- Higher-density rental housing generally not financially viable today due to elevated construction costs, high interest rates, and insufficient rents to cover development costs.
- San José's targeted incentives, including the Downtown Residential Incentive Program, which covers both new construction and commercial-to-residential conversion, offer an efficient mechanism for closing the financial feasibility gap.
- City Council originally approved the Downtown Residential Incentive Program in 2007, with the most recent amendment on January 27, 2026.

# Downtown Residential Incentive Program

## **New Construction (Phase I: First 7,000 Units):**

- IHO in-lieu fee reduced to \$0 for eligible residential high-rise developments located in the Downtown Planned Growth Area
- Parkland In-Lieu Fees: 50% reduction
- Building & Structure Construction Tax (B&S) and Commercial, Residential, Mobile Home Park Construction Tax (CRMP): 100% waiver of B&S and CRMP Taxes
- High Road Incentive Option: Projects meeting skilled apprenticeship and prevailing wage requirements receive an increased Parkland In-Lieu Fee reduction from 50% to 75%

# Gateway Tower at 470 South Market Street



- Developed by Core Affordable Housing
- 100% affordable (up to 70% AMI) 15-story mixed-income residential community
- 220 dwelling units and approximately 3,320 square feet of ground floor commercial space on an approximately 0.50-gross-acre site
- Construction expected to start in May 2026

# Proposed Tax and Fee Waiver: Gateway Tower



<b>B&amp;S and CRMP Construction Taxes</b>	N/A*
<b>IHO In-Lieu Fee</b>	N/A**
<b>Parkland In-Lieu Fee (Standard)</b>	\$1,606,000 <i>(50% waived)</i>
<b>Parkland In-Lieu Fee (High Road)</b>	\$2,409,000*** <i>(75% waived)</i>
<b>Total Fee Waiver and Reduction</b>	<i>Up to</i> <b>\$2,409,000</b>

\* Gateway Tower is exempt from B&S and CRMP construction taxes due to receiving HUD Section 8 project-based vouchers (SJMC Section 4.46.032)

\*\* As a 100% affordable project, Gateway Tower is not subject to the Inclusionary Housing Ordinance

\*\*\* If the project qualifies for the High Road Incentive option.

# Office-to-Residential Incentive Program

## Office-to-Residential Conversion (Phase I: First 500 Units):

- IHO in-lieu fee reduced to \$0 for eligible residential high-rise and commercial-to-residential conversion projects located in the Downtown Planned Growth Area
- Parkland In-Lieu Fees: 50% reduction
- Building & Structure Construction Tax (B&S) and Commercial, Residential, Mobile Home Park Construction Tax (CRMP): 100% waiver of B&S and CRMP Taxes

# Bank of Italy at 12 South First Street



- Developed by Westbank
- Adaptive reuse of the historic Bank of Italy building (1925), preserving a Downtown landmark while activating an anchor asset.
- Construction start: April 2026

# Proposed Tax and Fee Waiver: Bank of Italy

<b>B&amp;S and CRMP Construction Taxes</b>	N/A*
<b>IHO In-Lieu Fee</b>	\$2,887,422 <i>(100% waived)</i>
<b>Parkland In-Lieu Fee</b>	\$795,700 <i>(50% waived)</i>
<b>Total Fee Waiver and Reduction</b>	<b>\$3,683,122</b>

\* Bank of Italy is exempt from B&S and CRMP construction taxes as a historic landmark subject to a historic preservation permit (SJMC Section 4.46.030(F))

# 2026 Year-to-Date Downtown Residential Development Applications

<b>Development</b>	<b>Developer</b>	<b>Project Type</b>	<b>Over 120% AMI</b>	<b>Below 120% AMI</b>	<b>Total Units</b>
<b>Gateway Tower</b>	<b>Core Affordable</b>	<b>New Construction</b>	<b>0</b>	<b>220*</b>	<b>220</b>
<b>Bank of Italy</b>	<b>Westbank</b>	<b>Conversion</b>	<b>0</b>	<b>109**</b>	<b>109</b>
<b>Total</b>			<b>0</b>	<b>329</b>	<b>329</b>

\* Gateway Tower affordability mix breakdown:

- 120 units (55%) at 30% AMI
- 26 units (12%) at 50% AMI
- 48 units (22%) at 60% AMI
- 24 units (11%) at 70% AMI
- 2 market-rate manager units

\*\* Bank of Italy Rent Projections (average):

- Studio: \$2,775 (under 100% AMI)
- 1 Bedroom: \$3,361 (under 100% AMI)
- 2 Bedroom: \$4,499 (under 110% AMI)



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