

Memorandum


TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván
Jim Shannon

SUBJECT: See Below

DATE: May 12, 2025

Approved



Date:

5/16/25

COUNCIL DISTRICT: 3

**SUBJECT: Actions Related to a Loan Commitment for Predevelopment
Activities for Gateway Tower Affordable Housing Development
Located at 445, 465, and 493 South First Street and 460, 470, and 480
South Market Street**

RECOMMENDATION

- (a) Adopt a resolution:
- (1) Approving a total predevelopment loan commitment of up to \$5,000,000 from the Low- and Moderate-Income Housing Asset Fund and the Inclusionary Fee Fund to Core Affordable Housing, or an affiliated development entity; and
 - (2) Authorizing the Housing Director, or his designee, to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City financing for the Gateway Tower development located at 445, 465, and 493 South First Street and 460, 470, and 480 South Market Street.
- (b) Adopt the following 2024-2025 Appropriation Ordinance amendments in the Low-Moderate-Income Housing Asset Fund:
- (1) Decrease the Housing Project Reserve by \$587,163; and,
 - (2) Increase the Housing Predevelopment Activity appropriation to the Housing Department by \$587,163.
- (c) Adopt the following 2024-2025 Appropriation Ordinance amendments in the Inclusionary Fee Fund:
- (1) Decrease the Housing Project Reserve by \$2,000,000; and,
 - (2) Increase the Housing Loans and Grants appropriation to the Housing Department by \$2,000,000.

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SUMMARY AND OUTCOME

Approval of the recommendations in the memorandum will enable Core Affordable Housing (Core) to complete predevelopment activities necessary to progress towards receiving building permits. The Gateway Tower new construction project located at 445, 465, and 493 South First Street and 460, 470, and 480 South Market Street (Development) qualifies for the City's Downtown High-Rise Incentive Program. The Development will provide critically needed affordable housing units in the Downtown area. Core submitted an application for state funding on March 17, 2025, and if awarded, anticipates beginning construction of the Development in the first quarter of 2026.

BACKGROUND

Core proposes to develop, own, and manage the Development, which is expected to include a new 15-story mixed-use building with two commercial spaces. The Development plans to include on-site resident services, a community room, a fitness center, laundry facilities, a community garden, and an outdoor courtyard with seating. The County of Santa Clara's Office of Supportive Housing is contributing \$25,414,490 to support site acquisition and construction. A rendering of the Development can be viewed in the Attachment - Gateway Tower Development Rendering.

Proposed Affordability Unit Mix/Area Median Income Levels

The Development targets large families and will consist of 218 affordable units and two managers' units. The affordable unit mix is comprised of 33 studios (15%), 100 one-bedrooms (46%), 77 two-bedrooms (35%), and eight three-bedrooms (4%).

Of the 218 affordable units:

- 110 units will be reserved for extremely low-income households earning up to 30% of the area median income;
- 30 units will be reserved for very low-income households earning up to 50% of the area median income; and
- The remaining 78 units will be reserved for low-income households, of which 54 will be reserved for households earning up to 60% of the area median income and 24 units reserved for households earning up to 70% of the area median income.

Downtown High-Rise Incentive Program

The Development will benefit from the City's Downtown High-Rise Incentive Program, which was approved by City Council on June 18, 2024¹. The Downtown High-Rise Incentive Program applies to high-rise residential construction projects located in the Downtown Growth Area with 10 or more residential floors, where the highest occupied floor is 150 feet or more above street level.

The Downtown High-Rise Incentive Program applies to the next 10,000 residential units that receive building permits and pass first inspection within 12 months of obtaining a building permit under the following framework:

- Phase 1: Provide a 100% reduction in construction taxes and a 50% reduction in park fees for the first 2,000 units that receive building permits by December 31, 2025.

ANALYSIS

Core has demonstrated experience partnering with the City to build affordable housing. Notable examples include the Tamien Station affordable development, which began construction in 2023, and Buena Vista Midtown, completed in 2014. The Development builds on this experience and would similarly benefit from Core's demonstrated capacity to manage complex, multi-year housing projects.

Predevelopment Loan

Staff recommends approving a \$5,000,000 predevelopment loan to Core to support finalizing building plans, advancing progress toward receiving building permits, and maintaining site control until construction begins. The predevelopment loan will be funded through a combination of Low- and Moderate-Income Housing Asset Funds, which are generated from repayments of former Redevelopment Agency loans, and Inclusionary Fee Funds, which are collected from in-lieu fees paid by market-rate housing developments.

Core estimates a total predevelopment budget of approximately \$7,764,663. To date, the developer has expended \$1,492,116, which has been self-funded by Core. Core is seeking a \$5,000,000 loan commitment from the City to partially fund the remaining estimated \$6,272,547 in anticipated costs expected prior to the start of construction, as detailed in Table 1 below.

¹ Item 8.2: File #: 24-120632-01, Date: June 18, 2024, Title: Downtown Residential High-Rise Incentive Program Extension, Web Link:

<https://sanjoseca.primegov.com/Portal/viewer?id=0&type=7&uid=6527fe63-a3f5-4d7b-b534-954d6964bfa9>

Table 1: Gateway Tower Remaining Predevelopment Budget

Remaining Predevelopment Budget	
Land	\$79,347
Architect	\$1,288,730
Engineering	\$2,765,994
Permits and Fees	\$1,323,351
Financing	\$582,976
Property Taxes	\$200,000
Other Soft Costs	\$32,149
Total	\$6,272,547

The City's predevelopment loan will be further secured by a repayment guaranty, ensuring the City's ability to receive payment even if the Development does not proceed, executed by Core. In addition, Core will assign to the City all rights, title, and interest in the architectural plans, engineering drawings, and project specifications. This assignment of the plans and specifications ensures that the City can retain and utilize the project materials to continue or transfer the Development, if necessary. Staff intends to structure the loan so that it is repaid at the time of construction financing close by outside sources secured for the construction of the Development. The timeline of this Development is shown below in Table 2.

Table 2 - Development Timeline

Milestone	Date
Cal HFA Senior Loan Approval	May 14, 2025
CDLAC Application Deadline	May 20, 2025
Predevelopment Loan City Council	June 3, 2025
CDLAC Meeting & Award	July 29, 2025
CDLAC Bond Issuance Deadline*	January 25, 2026
Construction Start	January 25, 2026
Construction Complete	January 6, 2028
Lease-up Complete	January 26, 2029

EVALUATION AND FOLLOW-UP

Upon disbursement of the predevelopment loan, staff will continue to monitor the Development timeline to make sure the project meets the Downtown High Rise Incentive program deadlines. The Housing Department produces periodic information memoranda regarding the use of the Housing Director's delegation of authority under the City's Municipal Code; therefore, final loan business terms will be summarized in those memoranda. In addition, the Housing Department posts periodic reports on the status of its affordable properties undergoing rehabilitation or construction on its website². If the recommended actions in this memorandum are approved and the Development successfully closes construction financing, it will be included in these periodic reports.

COST SUMMARY/IMPLICATIONS

The actions recommended in this memorandum will provide a loan commitment of \$5,000,000 for the Development, which will be funded by the Low- and Moderate-Income Housing Asset Fund (\$3,000,000) and Inclusionary Fee Fund (\$2,000,000). While the Development qualifies for the City's Downtown High-Rise Incentive Program, due to the still early phase of the project, an estimate as to the reduced taxes and fees is not yet available.

BUDGET REFERENCE

The table below identifies the funds and appropriations to fund the recommendations as part of this memorandum.

Fund #	Appn #	Appropriation Name	Total Appropriation	Rec. Budget Action	Amount for Loan	2024-2025 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$21,221,550	(\$587,163)	\$0	981	2/11/2025 31176
346	3089	Housing Predevelopment Activity	\$2,412,837	\$587,163	\$3,000,000	980	10/22/2024 31133
451	8437	Housing Project Reserve	\$7,499,999	(\$2,000,000)	\$0	976	10/22/2024 31133
451	0070	Housing Loans and Grants	\$36,769,616	\$2,000,000	\$2,000,000	976	2/11/2025 31176

² Housing Department affordable properties webpage, Web Link: <https://www.sanjoseca.gov/your-government/departments-offices/housing/homelessness-program-dashboard>

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COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

PUBLIC OUTREACH

This report will be posted to the City's Council Agenda website for the June 3, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

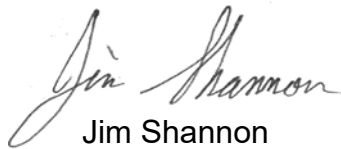
Addendum to the Gateway Tower Mixed-Use Development Project Supplemental Environmental Impact Report (Resolution No. 78005) to the Downtown Strategy 2000 Environmental Impact Report (Resolution No. 72767) and Addenda thereto, File Nos. H24-034 and ER24-165.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

Erik L. Soliván
Housing Director



Jim Shannon
Budget Director

The principal author of this memorandum is Bianca Álvarez, Interim Development Officer. For questions, please contact Banu San, Deputy Director, Housing at Banu.San@sanjoseca.gov.

ATTACHMENT: Gateway Tower Development Rendering

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Gateway Tower Development Rendering

