



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván
Jim Shannon

SUBJECT: See Below

DATE: September 2, 2025

Approved

Date:

9/10/2025

COUNCIL DISTRICT: 3

SUBJECT: Actions Related to the Loan Commitment and Land Purchase for the Gateway Tower Affordable Housing Development Located at 470 South Market Street

RECOMMENDATION

(a) Adopt a resolution:

- (1) Approving a Construction-Permanent Loan commitment of up to \$20,270,000, consisting of \$17,970,000 in Low- and Moderate-Income Housing Asset Funds and \$2,300,000 in Inclusionary Fee Funds, to Core Affordable Housing, LLC or an affiliated development entity for the Gateway Tower affordable housing development;
- (2) Approving the land acquisition loan or acquisition funding commitment of up to \$18,170,000 consisting of \$2,000,000 in Inclusionary Fee Funds, \$2,170,000 in Low- and Moderate-Income Housing Asset Funds, and \$14,000,000 in Real Property Transfer Tax Funds;
- (3) Authorizing the Director of Housing or his designee to acquire 445, 465, and 493 South First street and 460, 470, 480 South Market Street, from Core Affordable Housing, LLC for a price not to exceed \$18,170,000 at the time of transfer, to accept the grant deed, and to enter into a long-term ground lease of the site to the developer for the development;
- (4) Authorizing the Director of Housing or his designee to negotiate and execute documents and document amendments related to the acquisition and development of the site, the ground leasing of the site, and any rider to the ground lease required by government entities;
- (5) Authorizing the Director of Housing or his designee to negotiate and execute loan documents and all other documents, including any amendments thereto, related to City of San José financing for the developments; and
- (6) Making a determination that, consistent with Government Code Section 37364, after acquisition, the site is to be leased by the City of San José to the respective

developers without first offering the site to the public for any other use, since the site will be restricted so as to provide housing affordable to persons and families of low or moderate income, as defined by Section 50093 of the Health and Safety Code or as defined by the United States Department of Housing and Urban Development or its successors, and that this use is in the City's best interests.

- (b) Adopt the following 2025-2026 Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
 - (1) Decrease the Housing Project Reserve by \$20,140,000; and
 - (2) Increase the Housing Loans and Grants appropriation to the Housing Department by \$20,140,000.
- (c) Adopt the following 2025-2026 Appropriation Ordinance amendments in the Real Property Transfer Tax Fund:
 - (1) Decrease the Measure E – 40% Extremely Low-Income Households Reserve by \$5,000,000;
 - (2) Decrease the Measure E – 30% Low-Income Households Reserve by \$9,000,000;
 - (3) Increase the Measure E – 40% Extremely Low-Income Households appropriation to the Housing Department by \$5,000,000; and
 - (4) Increase the Measure E – 30% Low-Income Households appropriation to the Housing Department by \$9,000,000.
- (d) Adopt the following 2025-2026 Appropriation Ordinance amendments in the Inclusionary Fee Fund:
 - (1) Decrease the Housing Project Reserve by \$4,300,000; and
 - (2) Increase the Housing Loans and Grants appropriation to the Housing Department by \$4,300,000.

SUMMARY AND OUTCOME

City Council approval of the staff recommendations would enable Core Affordable Housing, LLC, (Core) or an affiliated development entity, to develop the Gateway Tower affordable housing development (Development) located at 445, 465, and 493 South First Street and 460, 470, 480 South Market Street, which would provide 218 affordable rent-restricted apartments, and two unrestricted manager's units.

BACKGROUND

The Development is a downtown high-rise affordable housing development located in the SoFA District, within walking distance of Santa Clara Valley Transportation Authority bus routes and light rail stations. Table 1 provides a detailed summary of the City of San José's (City) proposed funding commitment to the Development and its overall cost.

Table 1 – Summary of City Funding and Cost for Gateway Tower

Development Name	City Funding Request	City Funding Per Unit	Total Units	Project Based Vouchers	Total Development Cost	Cost/Unit
Gateway Tower	\$38,440,000	\$174,727*	220	65	\$197,223,000	\$896,468

*The CalHFA Mixed-Income Program award received by the Development significantly lowers the City's per-unit subsidy funding.

Mixed-Income Program

The California Housing Financing Agency Mixed-Income Program (MIP) provides long-term subordinate financing for new construction multifamily developments in California providing affordable housing restricted to income levels between 30% and 120% of the Area Median Income (AMI). The MIP benefits the project by providing the awardees a \$4 million subordinate permanent loan, and access to the California Debt Limit Allocation Committee's \$200 million state tax credit set-aside specific to MIP awardees.

On April 15, 2025, the California Housing Financing Agency awarded the Development funding under MIP and co-applied with Core to the California Debt Limit Allocation Committee on May 20, 2025, under the MIP set-aside. The Development was awarded at the August 5, 2025 California Debt Limit Allocation Committee meeting and is projected to receive \$10,791,079 in state tax credit equity. In addition, approximately \$4.0 million in subordinate permanent financing is anticipated from the California Housing Financing Agency. The state tax credit equity along with the subordinate permanent loan from the California Housing Financing Agency will help reduce the need for additional City subordinate financing and the Development's debt burden.

ANALYSIS***Development Description***

Core proposes to manage and develop the approximately 0.50-acre site. The Development is a new 15-story mixed-use affordable housing development. If the recommendations in this memorandum are approved, the City will place an affordability

covenant on the site for a term of no shorter than 55 years, as part of the City's funding requirements. The affordability restriction would not be subordinate to any deeds of trust or instruments with a power of sale. Table 2 provides information on the maximum income and rent unit mix for the Development.

Table 2 – Gateway Tower Development's Maximum Income and Rent Limit Unit Mix

Extremely Low Income 30% AMI			
UNIT SIZE	Max Income*	Rent Limits*	Units
Studio	\$42,210	\$1,055	25
1-BD	\$48,240	\$1,130	30
2-BD	\$54,270	\$1,356	59
3-BD	\$60,270	\$1,567	6
Total			120

*Maximum rent and income limits are based on California Tax Credit Allocation Committee occupancy guidelines of 1.5 persons per bedroom

Workforce Housing											
UNIT SIZE	50% AMI			60% AMI			70% AMI			MGR Unit	Work force Total
	Units	Max Income*	Rent Limits	Units	Max Income*	Rent limits	Units	Max Income*	Rent Limits		
Studio	4	\$70,350	\$1,758	0	\$84,420	\$2,110	4	\$98,490	\$2,462	0	8
1-BD	11	\$80,400	\$1,884	48	\$96,480	\$2,261	11	\$112,560	\$2,638	1	71
2-BD	10	\$90,450	\$2,261	0	\$108,540	\$2,713	8	\$126,630	\$3,165	1	19
3-BD	1	\$100,450	\$2,611	0	\$120,540	\$3,134	1	\$140,630	\$3,656	0	2
Total	26			48			24			2	100

*Maximum rent and income limits are based on California Tax Credit Allocation Committee occupancy guidelines of 1.5 persons per bedroom.

Core received a commitment letter from the Santa Clara County Housing Authority for 65 Project Based Vouchers to support residents in the extremely low-income units earning less than 30% AMI. However, none of the units with rental subsidies will be set aside as permanent supportive housing. Core will enter a Housing Assistance Payment Contract with the Santa Clara County Housing Authority that has an initial term of 20 years with a potential option to extend the term up to 20 additional years. Refer to Table 3 to view the details of the Development's Project Based Voucher proposed supported unit mix, and Table 4 to view the details of the Development's funding sources.

Table 3 – Gateway Tower Development's Project Based Voucher Supported Unit Mix

Unit Size	Project Based Vouchers
	30% AMI
2-BD	59
3-BD	6
Total	65

Table 4 – Gateway Tower Development's Funding Sources

Construction Period Sources	Funding Type	Percentage of Funding	Construction Amounts
Construction Loan	Private	58%	\$107,316,000
City of San José	Public	21%	\$38,440,000*
County of Santa Clara	Public	14%	\$25,560,000
Tax Credit Equity	Public	7%	\$14,070,000
Total			\$185,386,000

Permanent Sources	Funding Type	Percentage of Funding	Permanent Amounts
Permanent Loan	Private	16%	\$30,866,000
City of San José	Public	19%	\$38,440,000*
County of Santa Clara	Public	13%	\$25,560,000
California Department of Housing and Community Development - MIP	Public	2%	\$4,000,000
Deferred Developer Fee	Private	2%	\$4,556,000
Tax Credit Equity	Public	48%	\$93,801,000
Total			\$197,223,000

*City construction-permanent \$38,440,000 amount includes acquisition funding.

Site Acquisition

Staff recommends approval of land acquisition funding through a City purchase and sale agreement up to \$18,170,000, the amount paid by Core to purchase the site. If a City-engaged third-party appraisal yields a lower value in a future appraisal prior to City loan or purchase and sale agreement closing, the funding will be for the lesser amount. Acquisition funding facilitates long-term ground lease structures in accordance with the

City's Ground Lease Policy (Section 4 of the Housing Department's Affordable Housing Financing Funding Regulations).¹

This policy provides that when a development seeks acquisition funding from the City, the City will hold the fee interest in the site and enter a ground lease with the developer, ensuring long-term affordability of the site under the City's ownership.

Lease riders may be required by the California Tax Credit Allocation Committee, Department of Housing and Community Development, California Housing Finance Agency, or other governmental funders. Some riders may conflict with the Housing Department's underwriting guidelines and remain under negotiation. Staff therefore requests general authorization to approve lease riders required by governmental entities, subject to approval by the City Attorney's Office.

Next Steps

The City would facilitate a construction financing closing by February 2026. Construction on the development is estimated to begin in March 2026 and conclude approximately 24 months later.

If the recommendations in this memorandum are approved, the Housing Director, or his designee, will negotiate additional terms and execute documents for this Development's loan in accordance with the City Council's approval using the authority delegated under Section 5.06.335 of the San José Municipal Code.²

EVALUATION AND FOLLOW-UP

The Housing Department posts a dashboard on the status of its affordable properties undergoing rehabilitation or construction on its website.³ If the recommended actions in this memorandum are approved and the Development successfully closes construction financing, the Development will be included in the dashboard.

COST SUMMARY/IMPLICATIONS

The recommendations in this memorandum would provide a construction-permanent loan commitment of \$20,270,000 and an acquisition funding commitment of

¹ City of San José Housing Department Affordable Housing Financing Funding Regulations: <https://www.sanjoseca.gov/home/showdocument?id=120478&t=638799787059970924>

² [Section 5.06.335](#) of the San José Municipal Code is the authority to negotiate and execute council-approved loans, grants, and programs.

³ Housing Department affordable properties webpage, Web Link: <https://www.sanjoseca.gov/your-government/departments-offices/housing/homelessness-program-dashboard>

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\$18,170,000 to Core or an affiliated development entity for the Development. As facilitated by actions included in this memorandum, the loan will be funded by the Low- and Moderate-Income Housing Asset Fund, Real Property Transfer Tax Fund (Measure E funding), and Inclusionary Fee Fund.

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the contract recommended as part of this memorandum.

Fund #	Appn. #	Appropriation Name	Total Appropriation	Recommended Budget Action	Amount for Loan	2025-2026 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
346	8437	Housing Project Reserve	\$33,000,000	(\$20,140,000)	N/A	907	6/17/2025 31230
346	0070	Housing Loans and Grants	\$28,453,610	\$20,140,000	\$20,140,000	906	6/17/2025 31230
404	8744	Measure E – 40% Extremely Low-Income Households Reserve	\$31,436,761	(\$5,000,000)	N/A	933	6/17/2025 31230
404	8745	Measure E – 30% Low-Income Households Reserve	\$24,774,918	(\$9,000,000)	N/A	933	6/17/2025 31230
404	224L	Measure E – 40% Extremely Low-Income Households	\$31,969,800	\$5,000,000	\$5,000,000	933	6/17/2025 31230
404	224M	Measure E – 30% Low-Income Households	\$29,217,865	\$9,000,000	\$9,000,000	933	6/17/2025 31230
451	8437	Housing Project Reserve	\$5,500,000	(\$4,300,000)	N/A	902	6/17/2025 31230
451	0070	Housing Loans and Grants	\$20,569,616	\$4,300,000	\$4,300,000	902	6/17/2025 31230

* The 2025-2026 Adopted Operating Budget was approved on June 10, 2025 and adopted on June 17, 2025 by the City Council.

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COORDINATION

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

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the September 23, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

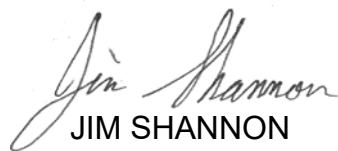
Supplemental Environmental Impact Report for the Gateway Tower Mixed-Use Development Project (Resolution No. 78005), and Addenda, thereto.

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.



ERIK L. SOLIVÁN
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JIM SHANNON
Budget Director

For questions, please contact Banu San, Deputy Director, Housing Department, at Banu.San@sanjoseca.gov.