



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván
Jim Shannon

SUBJECT: See Below

DATE: May 19, 2025

Approved

Date:

5/29/25

COUNCIL DISTRICT: 3

SUBJECT: Actions Related to the Approval of a Grant Award to Habitat for Humanity East Bay/Silicon Valley for the Sale of Four Affordable Units

RECOMMENDATION

(a) Adopt a resolution:

- (1) Approving a grant award to Habitat for Humanity East Bay/Silicon Valley Inc. in an amount of \$250,000 in Measure E Funds for downpayment assistance to decrease the sale price of four very-low to low-income for-sale affordable units located at the corner of East Reed Street and South 4th Street; and
- (2) Authorizing the Housing Director, or his designee, to negotiate and execute grant documents, any amendments thereto, and all other documents related to the sale of the four affordable units and any underlying documents required for the closing of the construction financing.

(b) Adopt the following 2024-2025 Appropriation Ordinance amendments in the Real Property Transfer Tax Fund:

- (1) Increase the Measure E – 5% Moderate-Income Households appropriation to the Housing Department by \$250,000; and
- (2) Decrease the Measure E – 5% Moderate-Income Households Reserve by \$250,000.

(c) Adopt the following 2024-2025 Appropriation Ordinance amendments in the Affordable Housing Impact Fee Fund:

- (1) Decrease the Housing Loans and Grants appropriation to the Housing Department by \$250,000; and
- (2) Increase the Unrestricted Ending Fund Balance appropriation by \$250,000.

SUMMARY AND OUTCOME

Approval of the recommendations in this memorandum allows the City to enter into a grant agreement with Habitat for Humanity East Bay/Silicon Valley (Developer). Under this agreement, the City would reimburse the Developer up to \$250,000 (equivalent to \$62,500 per unit) after receiving documentation showing that the final sales price of each home has been reduced accordingly, thereby offsetting the cost to the homebuyers and supporting long-term affordability. Approval of the recommendations in this memorandum will also allow the Housing Director, or his designee, to execute documents in relation to the grant agreement and any underlying documents required for the closing of the construction financing.

BACKGROUND

In 2019, the historic Pallesen Apartments were scheduled for demolition; however, the Preservation Action Council of San José and the City identified a relocation site for the development to preserve its architectural heritage and provide an opportunity to develop affordable, owner-occupied units for very low- to low-income families earning below 50% to 80% of the area median household income. The Developer led the building relocation efforts and is currently renovating it into four owner-occupied, for-sale affordable units.

On March 23, 2021,¹ City Council approved a \$250,000 loan commitment from the City's Affordable Housing Impact Fee Fund to support the rehabilitation of the development and provide a second mortgage of \$62,500 to each of the eventual homebuyers. On April 13, 2021, the City transferred land ownership to the Developer and recorded a Surplus Land Act Affordability Restriction. The City will not record any additional affordability restrictions; however, the County of Santa Clara's Office of Supportive Housing will record an affordability restriction during the construction phase and upon the sale of individual units to homebuyers. The County of Santa Clara's Office of Supportive Housing will also monitor the development's ongoing affordability. Although the slow closing process experienced unacceptable delays, the bottleneck has since been resolved, allowing the project to move forward.

¹ File: 21-506, Item #: 8.1, Meeting Date: March 23, 2021, Item Title: Approval of a Loan Commitment of up to \$250,000 to Habitat for Humanity East Bay/Silicon Valley for Construction and Rehabilitation Cost of Four Affordable Units For Sale at the Property Located at East Reed Street and South Fourth Street, Web Link: <https://sanjose.legistar.com/View.ashx?M=F&ID=9241688&GUID=CA941980-AD0D-44FB-B052-59502A453A39>

Restoration and Development Scope

The development provides four two-bedroom, one-bath units—two on the ground floor and two upstairs—each approximately 1,100 square feet. The scope of work involves extensive rehabilitation and upgrades throughout the development. Construction is currently underway and is anticipated to be completed in June 2025. Upon completion, the units will be sold to income-qualified homebuyers, with eligibility verified by the County of Santa Clara's Office of Supportive Housing. The County of Santa Clara, Office of Supportive Housing, is providing construction financing of the development, recording an affordability restriction, as well as providing homebuyer loans to individual homebuyers.

ANALYSIS

The proposed grant agreement would replace a previously approved loan with a grant agreement that reimburses the Developer once the sales prices are reduced. This change ensures the development continues to meet its goal of providing affordable homeownership opportunities for very low- and low-income households. Under the proposed grant agreement structure, the Developer will reduce the sale price of each unit by \$62,500. The proposed affordable sales price will bring the final sales price to approximately \$425,361 for the very low-income units and \$583,479 for the low-income units. This approach would maintain support for first-time homeownership and promote opportunities for long-term housing stability while helping first-time homebuyers build equity and generational wealth.

EVALUATION AND FOLLOW-UP

City staff will execute a grant agreement with the Developer that requires the Developer to provide documentation indicating that the sale price has been reduced, making the units affordable to very-low and low income households.

COST SUMMARY/IMPLICATIONS

The recommendations in the memorandum will provide a grant of \$250,000 to Habitat for Humanity East Bay/Silicon Valley Inc. for downpayment assistance to decrease the sale price of four very-low to low-income for-sale affordable units located at the corner of East Reed Street and South 4th Street. The funding will be allocated from the Measure E – 5% Moderate-Income Households Reserve to the Measure E – 5% Moderate-Income Households appropriation within the Real Property Transfer Tax Fund to encumber and draw upon when the grant terms have been met.

May 19, 2025

Subject: Actions Related to the Approval of a Grant Award to Habitat for Humanity East Bay/Silicon Valley for Sale of Four Affordable Units

Page 4

Originally, in 2021, City Council approved a \$250,000 loan from the Affordable Housing Impact Fee Fund to support this project. That loan was appropriated from the Unrestricted Ending Fund Balance into the Housing Loans and Grants appropriation. However, because the funding model is now being changed from a loan to a grant, and the source is shifting to the Real Property Transfer Tax Fund, the \$250,000 previously allocated in the Affordable Housing Impact Fee Fund is no longer needed in the Housing Loans and Grants appropriation. Therefore, that amount will be returned to the Unrestricted Ending Fund Balance of the Affordable Housing Impact Fee Fund.

BUDGET REFERENCE

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

Fund #	Appn. #	Appn. Name	Total Appn.	Rec. Budget Action	Amount for Contract	2024-2025 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
404	8748	Measure E - 5% Moderate-Income Households Reserve	\$746,577	(\$250,000)	\$0	1007	12/03/2024 31153
404	225V	Measure E - 5% Moderate-Income Households	\$6,207,937	\$250,000	\$250,000	1006	12/03/2024 31153
452	0070	Housing Loans and Grants	\$2,958,000	(\$250,000)	\$0	919	10/22/2024 31133
452	8999	Unrestricted Ending Fund Balance	\$168,774	\$250,000	\$0	919	2/11/2025 31176

COORDINATION

The preparation of this memorandum was coordinated with the City Attorney's Office.

HONORABLE MAYOR AND CITY COUNCIL

May 19, 2025

Subject: Actions Related to the Approval of a Grant Award to Habitat for Humanity East Bay/Silicon Valley for Sale of Four Affordable Units

Page 5

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 10, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

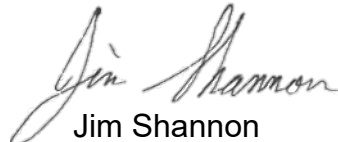
CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

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

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