



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván
Jim Shannon

SUBJECT: Lower Income Voucher and
Equity Program

DATE: February 2, 2026

Approved

Date:

2/11/26

COUNCIL DISTRICT: 3

RECOMMENDATION

(a) Adopt a resolution:

- (1) Authorizing the Housing Director, or his designee, to negotiate and execute one or more master-lease agreements, occupancy agreements, or similar instruments with ASJ Development, LLC, or a related or affiliated entity, for the lease of approximately 197 units located at the corner of Reed Street and Market Street for an initial term of five years, with two five-year options, in an aggregate amount up to and not to exceed \$11,209,804, for the purpose of implementing the Lower Income Voucher and Equity Program; and
- (2) Authorizing the Housing Director, or his designee, to negotiate and execute all agreements, amendments, modifications, instruments, and all other documents necessary to effectuate the master leasing or similar arrangement, Lower Income Voucher and Equity Program, and any related equity participation, financing, or operational structure for ASJ Development, LLC.

(b) Adopt the following 2025-2026 Appropriation Ordinance and Funding Sources Resolution amendments in the Real Property Transfer Tax Fund:

- (1) Decrease the Measure E - 5% Moderate-Income Households Reserve by \$890,000;
- (2) Decrease the Measure E - 30% Low-Income Households Reserve by \$10,319,804;
- (3) Establish the Lower Income Voucher and Equity Program (Moderate-Income) appropriation to the Housing Department in the amount of \$890,000;
- (4) Establish the Lower Income Voucher and Equity Program (Lower-Income) appropriation to the Housing Department in the amount of \$10,319,804;

- (5) Establish a revenue estimate for Transfers and Reimbursements from the Low and Moderate Income Housing Asset Fund in the amount of \$10,319,804; and
 - (6) Establish the Future Affordable Housing Development - 60% AMI Reserve in the amount of \$10,319,804.
- (c) Adopt the following 2025-2026 Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
- (1) Decrease the Housing Project Reserve by \$10,319,804; and
 - (2) Re-establish a Transfer to the Real Property Transfer Tax Fund in the amount of \$10,319,804.

SUMMARY AND OUTCOME

As heard by the Community and Economic Development City Council Committee on December 15, 2025, Item 3.4,¹ the City Council Focus Area on Building More Housing calls for providing alternative financing programs to preserve housing at all income levels. This work is focused on preserving housing stock in distressed residential assets through Public-Private-Partnerships, including assets owned by a defunct non-profit organization serving extremely low-income and up to market-rate assets where there exists an opportunity to restrict units to affordable rents as part of the City Council adopted moderate-income housing strategy. The recommendation in this memorandum is to pursue an opportunity to add nearly 200 units at affordable rents from a distressed market-rate building through an innovative Public-Private-Partnerships engagement.

The Housing Department recommends entering into a master-leasing of units, or similar instrument, and associated equity participation in the ownership structure for the acquisition of the property located at the corner of Reed Street and Market Street, San José, CA 95112. The program agreement will be with ASJ Development, LLC (the asset), a subsidiary holding company of WestBank. The pilot Lower Income Voucher and Equity San José Program (L.I.V.E. San José Program) will help stabilize the asset by buying down rents to provide affordable units to middle-income households from 80% Area Median Income (AMI) to 110% AMI and a preference for public employees.

Under the pilot L.I.V.E. San José Program, the City would master-lease approximately one- and two-bedroom units of the total 336 units at the asset, at negotiated contract rents and then provide a voucher subsidy to tenants who earn between 80% and 110% AMI. In addition, at the time of acquisition, the City will take an ownership position in the asset and will receive a full return of master-leasing investment, plus interest, upon exiting the ownership structure. City Council authorization will position the City to stabilize this crucial downtown asset, preserve housing inventory, and test an innovative

¹ <https://sanjose.legistar.com/View.ashx?M=F&ID=15030741&GUID=4219A0F3-FF70-49FA-9B1F-1C238468F97D>

pilot program to foster affordable middle-income housing that is consistent with the Middle-Income Housing Strategy.

BACKGROUND

The development at the corner of Reed Street and Market Street completed construction in early 2024 and is a 336-unit market-rate residential project located in the downtown core. The property currently sits approximately 60% vacant; studios are fully occupied, but a significant number of one- and two-bedroom units remain vacant. As a result of the ongoing vacancy issues, the original equity investor has exited, leaving the asset in distress. ASJ Development, LLC or subsidiary entity, seeks a partnership with the City to deploy an innovative pilot program to collaboratively stabilize the property revenues, provide affordable units, repay the City's investment, and transition a distressed asset to stability while activating the critical section of downtown through the L.I.V.E. San José Program. This program is initiated as a pilot to develop a new tool for funding affordable housing, stabilizing and preserving downtown assets, and taking strategic market intervention. Outcomes will be tracked to evaluate performance in order refine the tool for future use.

ANALYSIS

Public-Private-Partnerships Proposed Business Terms

Under the proposed framework, the City would enter into one or more master-lease agreements, or similar instrument or instruments, with ASJ Development, LLC for approximately 197 units at the asset. The master-lease structure is intended to provide a predictable revenue source to stabilize operations at the distressed downtown asset while enabling the City to deliver affordable middle-income housing with a preference for public employees. The agreement term will be an initial five-years, with two additional five-year renewal options at the City's discretion and as determined by asset valuations that ensure a full return of the City's investment plus interest. Monthly per unit contract rent would be calculated on a per-square-foot basis vouchered to buy-down to affordable rent levels for 80% AMI households up to 110% AMI households. Annual rent escalations would be limited to the lesser of 3% or Consumer Price Index after an initial flat period and will gradually scale up to market rate rents over 10 years to eventually return the asset to a market-rate building and exit the asset ownership structure. ASJ Development, LLC or its subsidiary entity would be responsible for property management, tenant eligibility, leasing, and building operations, subject to compliance with program administration. The City will be responsible for program compliance and administrative oversight of the L.I.V.E. San José Program.

Proposed Financial Terms

As currently underwritten, the City's anticipated subsidy requirement is estimated at \$11.2 million over an initial five-year period, representing the difference between rent paid by the City to the owner and the income-restricted rents collected from participating tenants. This funding would pay out monthly based on actual leased units and household subsidy levels, limiting exposure to the City while ensuring revenue stability for the property during this pilot program. In return for providing the operating subsidy, the program anticipates that the City would receive an equity payout equaling the return of the \$11.2 million, plus interest, as consideration for piloting the program. While final percentages and valuation methodology remain subject to negotiation, the expectation is that over the term of the agreement the City will receive 100% return of its investment. This combined operating subsidy and equity participation approach as proposed under the L.I.V.E. San José Program will allow the City to support near-term stabilization positioning the City to recapture value when the project successfully recovers and returns to a market-rate asset.

As part two of the Building More Housing City Council Focus Area Item 3.4 work, as heard by the Community and Economic Development City Council Committee on December 15, 2025, staff will be recommending an intervention to preserve extremely low-income units in two distressed assets operated by a defunct non-profit organization, through an alternative form of a Public-Private-Partnerships engagement prior to the end of the fiscal year.

Public Employees Preference

The Public Employee Preference is an opportunity for public employees from city, county, state, or authorities to receive first preference in application for the pilot L.I.V.E. San José Program at the participating asset. The preference for public employees is not a set aside of units. The preference merely allows public employees to be voluntarily first in-line to apply for units at the asset that are participating in the pilot L.I.V.E. San José Program. The units will not be held or set aside nor guaranteed for public employees, this is merely a preference similar to the preference for artists at the Gateway Development.

EVALUATION AND FOLLOW-UP

Staff will execute agreements with ASJ Development, LLC and oversee program implementation and outcome management. The Housing Department will ensure ongoing financial, physical, operations and program compliance standards of the pilot L.I.V.E San José Program. The program will be evaluated every quarter to track compliance, unit leasing, household AMI served, longevity, market-to-market performance in rents, overall asset performance with valuations, and the outcomes achieved through the public employee preference. These components are similar to the

general asset management assessments the Housing Department administers for all investments.

COST SUMMARY/IMPLICATIONS

The recommendations in this memorandum will authorize a total City funding commitment of \$11,209,804 towards the development of a L.I.V.E. San José Program to be piloted at the asset. The City's investment will be funded by the Real Property Transfer Tax Fund from the Measure E - 30% Low-Income Households Reserve of \$10,319,804 and Measure E - 5% Moderate-Income Households Reserve of \$890,000 for a total of \$11,209,804. Use of Measure E funding for this program is consistent with City Council Policy 1-18, Section 22, which authorizes Real Property Transfer Tax revenues to be used for the development and preservation of affordable housing, homelessness prevention, and homelessness support programs. The pilot L.I.V.E. San José Program would increase the supply of income-restricted housing serving low and moderate-income households. The City's subsidy investment of up to \$11,209,804, plus interest, is anticipated to be repaid to the City upon exit from the ownership structure at the end of the term of the agreement.

To preserve resources for future affordable housing projects eligible for Measure E funding, recommendations included in this memorandum will establish a Future Affordable Housing Development – 60% AMI Reserve to replenish funding of \$10,319,804 to the Real Property Transfer Tax Fund from the Low and Moderate Income Housing Asset Fund. As the Low and Moderate Income Housing Asset Fund is restricted to funding for households who earn up to 60% AMI, the transfer of funds will ensure the preservation of future resources for lower income households. The transfer from the Low and Moderate Income Housing Asset Fund will be offset by a corresponding reduction to the Housing Project Reserve.

BUDGET REFERENCE

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

HONORABLE MAYOR AND CITY COUNCIL

February 2, 2026

Subject: The Lower Income Voucher and Equity Program

Page 6

Fund #	Appn. #	Appropriation Name	Total Appropriation	Recommended Budget Action	Amt. for Agreement	2025-2026 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No)
404	8748	Measure E - 5% Moderate-Income Households Reserve	\$896,166	(\$890,000)	\$0	1029	31252 10/21/2025
404	8745	Measure E - 30% Low-Income Households Reserve	\$15,061,558	(\$10,319,804)	\$0	1029	31252 10/21/2025
404	New	Lower Income Voucher Equity Program (Moderate-Income)	\$0	\$890,000	\$890,000	N/A	N/A
404	New	Lower Income Voucher Equity Program (Low-Income)	\$0	\$10,319,804	\$10,319,804	N/A	N/A
404	R003	Transfers and Reimbursements	\$2,138,780	\$10,319,804	N/A	1027	25-356 10/21/2025
404	New	Future Affordable Housing Development - 60% AMI Reserve	\$0	\$10,319,804	\$0	N/A	N/A
346	8437	Housing Project Reserve	\$63,800,000	(\$10,319,804)	\$0	1001	31252 10/21/2025
346	A146	Transfer to the Real Property Transfer Tax Fund	\$0	\$10,319,804	\$0	N/A	N/A

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 February 24, 2026 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

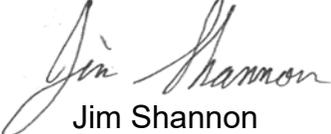
CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment; and File No. PP17-005, Adjustment to Fees, Rates, and Fares without changes to or expansion of services.

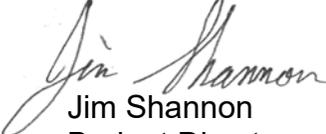
PUBLIC SUBSIDY REPORTING

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

I hereby certify that there will be available for appropriation in the Real Property Transfer Tax Fund in the Fiscal Year 2025-2026 moneys in excess of those heretofore appropriated wherefrom, said excess being at least \$10,319,804.


Jim Shannon
Budget Director

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