

Memorandum

TO: CITY COUNCIL

FROM: Mayor Matt Mahan
Vice Mayor Pam Foley
Councilmember Anthony Tordillos

SUBJECT: SEE BELOW

DATE: January 23, 2026

Approved



SUBJECT: Downtown Residential Incentive Program Expansion to Include Commercial-to-Residential Conversion Projects.

RECOMMENDATIONS:

Approve staff recommendation with the following modifications:

1. Remove the timeframe by which building permits must be pulled for all downtown residential incentive programs, aligning the phasing to unit count.
2. Increase the phase 1 unit count for new construction projects within the downtown residential incentive program to 7,000.
3. Establish a High Road incentive tier for both Phase 1 and Phase 2 of new construction and commercial to residential conversion projects to incentivize implementation of prevailing wage requirements and skilled apprenticeship programs:
 - a. In Phase 1, projects that implement the above labor standards will receive a 75% Parkland In-Lieu fee reduction instead of the baseline 50%.
 - b. In Phase 2, projects that implement the above labor standards will receive a 50% Parkland In-Lieu fee reduction instead of the baseline 30%.

BACKGROUND:

The City Council first approved the Downtown Residential Incentive Program in 2007 and has reaffirmed its commitment to downtown housing by extending the program four times – in 2012, 2016, 2019, and most recently in 2024. These extensions have produced results: in recent years, the program has supported the creation of 1,226 new residential units downtown. Yet despite this progress, we still haven't achieved the residential density that will drive the economic flywheel

for a thriving twenty-four hour downtown envisioned in our General Plan that supports small businesses, transit, and public life.

The City's own Cost of Development analysis reinforces the need to continue to expand the Downtown Residential Incentive program. During the cost of development study session in December 2025, staff presented data showing that the economics of downtown residential towers remain particularly challenging. Average rents in tower developments are approximately \$4.30 per square foot, while significantly higher construction and financing costs drive a residual land value of roughly negative \$285,000 per unit. To achieve financial feasibility under current conditions, rents would need to increase by an estimated 30–35%, to approximately \$5.70 per square foot

These realities are reflected on the ground. Only one new residential tower has broken ground downtown in the past eight years. This policy update presents an opportunity to respond by extending the Downtown Residential Incentive Program to office-to-residential conversions. Doing so would directly address persistent downtown office vacancies while accelerating housing production and restoring street-level vibrancy.

The changes we are recommending are modest. When we last extended the program in June of 2024, we created a unit cap of 10,000 units that could qualify for the downtown residential incentive with 2,000 of those in phase 1 of the program. However, no project has taken advantage of the program since that extension. Rather than relying on speculative timelines projects for when projects may break ground, the focus should be on achieving a unit count that achieves the city's housing and development goals. That is why we are proposing a higher unit count of 7,000 units for the phase 1 of new construction program while maintaining the 1,500-unit count cap for commercial to residential conversions. This gives the development community the certainty they need to attract capital investment without the regulatory uncertainty of arbitrary timelines.

Finally, the renewal of the program offers an opportunity to leverage its incentives to support workers in San José. By introducing a deeper incentive category for projects that pay prevailing wages and support skilled apprenticeship programs, we can meet our development goals while also attracting and retaining well-paid union construction jobs.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.