



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jen Baker
Erik L. Soliván
Jim Shannon

SUBJECT: See Below

DATE: May 18, 2026

Approved

Date:

6/2/26

COUNCIL DISTRICT: 3

SUBJECT: Actions Related to the Acquisition of Real Property Located at 26-36 South First Street

RECOMMENDATION

- (a) Adopt a resolution authorizing the City Manager or her designee to:
 - (1) Negotiate and execute a purchase and sale agreement with UC Fountain Alley Owner LLC, for approximately 0.35 acre (15,042 square feet) of land across two contiguous parcels containing a combined 11,150 square feet of building space, now vacant, including the historic Knox-Goodrich building, known as 26-36 South First Street, identified as Assessor's Parcel Numbers 467-22-167 and 467-22-004, for a price of \$3,600,000, subject to an escrow holdback in the amount of \$975,000 contingent on the satisfaction of a performance metric related to the vertical construction of 276 residential units at 470 West San Carlos Street, known as Gifford Apartments by December 31, 2026; and
 - (2) Negotiate and execute all other documents and agreements necessary to effectuate the transfer to the City.
- (b) Adopt the following 2026-2027 Appropriation Ordinance amendments in the Low and Moderate Income Housing Asset Fund:
 - (1) Decrease the Housing Project Reserve appropriation by \$3,600,000; and
 - (2) Establish the Property Acquisition appropriation to the Office of Economic Development and Cultural Affairs in the amount of \$3,600,000.

SUMMARY AND OUTCOME

Approval of the resolution will authorize the City Manager, or her designee, to negotiate and execute a purchase and sale agreement to acquire the 26-36 South First Street (Property), for a purchase price of \$3,600,000. Once acquired, staff will activate the ground-floor storefront in the historic Knox-Goodrich building with a cultural-serving or commercial use. The Property may be utilized in the future to redevelop as a mixed-use project with housing above commercial uses on the ground floor. An escrow holdback of \$975,000 will require Urban Catalyst (UC) to submit a complete application for a vertical building permit in the calendar year 2026, or the held-back funds would revert to the City.

BACKGROUND

The 26-36 South First Street Property is comprised of two parcels, APNs 467-22-167 and -004, totaling approximately 0.35 acres in size. The site is situated along Fountain Alley, to the south of East Santa Clara Street and the Bank of Italy building. The Property has a general plan designation of Downtown and is zoned DC Downtown Primary Commercial.

The Knox-Goodrich Building at 36 South First Street is a designated historic City Landmark, and is eligible for the National Register of Historic Places and California Register of Historical Resources. Constructed in 1889, the stone-and-brick building is a rare and significant example of Romanesque Revival commercial architecture in Downtown San Jose and reflects the city's late-19th-century commercial development style. The building is also historically significant for its association with Sarah Knox-Goodrich, who commissioned the building and was an advocate for women's rights and suffrage. The Property also includes a connected building located at 26 South First Street that was the site of the former Lido's Nightclub. This building is not designated as historic.

UC acquired the Property in 2019 for \$9.1 million, as one of the first Opportunity Zone investments in Downtown San Jose. Following the acquisition, UC secured entitlements for a six-story commercial project known as the Fountain Alley Building, or FAB, consisting of approximately 67,000 square feet of office space and 19,500 square feet of retail space with a rooftop restaurant. This redevelopment included the adaptive reuse of the Knox-Goodrich historic building. Construction began in 2020, and UC has invested over \$7.5 million in predevelopment and construction costs. In early 2020, the onset of the COVID-19 pandemic led to the suspension of development activities due to the decline in demand for office space and financing challenges.

The Gifford Apartments, located at 470 West San Carlos Street, is currently going through the entitlement process, with a Planning Director's hearing planned for summer 2026. The project is a 175,000 square foot, eight-story multifamily residential building

with 276 residential units consisting of studios, one-bedroom, and two-bedroom apartments.

The Gifford Apartments will be recommended for admission to the Downtown Incentive Program in early fall 2026 and aims submit for a building permit by year-end, and to begin construction in 2027. The Gifford, along with UC's Icon-Echo Apartments, Gateway Residential Tower by CORE Developers, and the Bank of Italy conversion to residential units by West Bank, will spur a revitalization in Downtown, supporting the future redevelopment path for 26-36 South First Street as a residential-led mixed-use development along the South First Street corridor.

ANALYSIS

Staff recommends the acquisition of 26-36 South First Street due to the Property's strategic location in the Downtown core, its historic significance, and its long-term redevelopment potential to advance the City's housing, economic development, and placemaking goals. The acquisition also supports broader housing and revitalization efforts by incentivizing the advancement of the Gifford Apartment residential project through the escrow holdback structure.

Summary of Key Terms of the Purchase and Sale Agreement:

- Purchase price: \$3,600,000;
- \$975,000 of the purchase price will remain in escrow, subject to the seller's requirement to submit a complete application for a vertical building permit for the construction of 276 residential units at 470 West San Carlos Street, no later than December 31, 2026. Should a vertical permit for this property not be issued before the deadline, the funds held in escrow would be disbursed back to the City;
- As-is acquisition;
- Removal from title of all outstanding debts, including a Deed of Trust securing \$2,625,000 recorded March 5, 2024, as Instrument No. 25605694 of Official Records;
- Closing costs to be paid by the seller; and
- The anticipated close of escrow is 30 days after the execution of a purchase agreement.

The strategy for parcel development is a housing-focused mixed-use project with active ground-floor uses. The Housing Department will seek development proposals for the site and will make available a variety of financing tools, including housing production incentive programs and master-leasing of affordable units. The goal is to spur a public-private partnership project into construction within three years.

Staff has conducted pre-acquisition due diligence, including environmental investigation and title review. The Environmental Services Department performed a Phase II analysis of the property, testing for the presence of hazardous materials primarily due to concerns of potential off-site groundwater contamination and the long history of business on the site prior to hazardous materials storage regulations. Soil and groundwater testing results for the site indicate no hazardous materials were found, and the site is suitable for mixed-use residential construction. The City's due diligence investigations into environmental and title matters are complete.

The Property was appraised by Valbridge Property Advisors at a value of \$2,780,000; however, UC did not accept an offer at this price. Staff recommends the agreed purchase price in consideration of the Property's value historically, which sold for \$9.1 million seven years ago, reflecting a 60% decline in property value from 2019, and the value of incentivizing the construction of housing units in the Gifford development. The recommended acquisition allows the City to act opportunistically to acquire a very well-situated and historically prominent parcel of land Downtown, while supporting near-term housing production and ground-floor commercial activation to advance the area's revitalization.

EVALUATION AND FOLLOW-UP

Upon City Council's approval of the recommendations in this memorandum, staff will negotiate and execute a purchase and sale agreement with UC Fountain Alley Owner LLC for the acquisition of the Property. The acquisition is anticipated to be completed within 60 days from execution of the purchase and sale agreement.

FISCAL IMPACTS

The recommendation in this memorandum will provide funds to purchase land across two contiguous parcels containing a combined 11,150 square feet of building space, now vacant, including the historic Knox-Goodrich building, known as 26-36 South First Street. The recommended appropriation actions included in this memorandum will reallocate \$3.6 million from the Housing Project Reserve to establish a Property Acquisition appropriation in the Low and Moderate Income Housing Asset Fund. Purchase of this property will not have any impact on the General Fund.

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the actions recommended in this memorandum.

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Fund #	Appn. #	Appropriation Name	Total Appropriation	Recommended Budget Action	Amount For Contract	2026-2027 Proposed Budget Page*	Last Budget Action (Date, Ord. No)
346	8437	Housing Project Reserve	\$34,230,196	(\$3,600,000)	\$0	916	N/A
346	232Q	Property Acquisition	N/A	\$3,600,000	\$3,600,000	N/A	N/A

**The 2026-2027 Proposed Operating Budget was released on May 2, 2026, and is scheduled to be reviewed on June 9, 2026, and adopted on June 16, 2026, by the City Council.*

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the Environmental Services and Planning, Building, and Code Enforcement Departments.

PUBLIC OUTREACH

This memorandum will be posted on the City Council Agenda website for the June 9, 2026 City Council Meeting.

BOARD, COMMISSION, COMMITTEE RECOMMENDATION AND INPUT

No board, commission, or committee recommendation or input is associated with this action.

CEQA

Addendum to the Downtown Strategy 2040 Final Environmental Impact Report for the 26-36 S. First Street Fountain Alley Commercial Development Project, File Nos. H19-041, HP19-007, and T19-035 (Resolution No. RES2025-410).

HONORABLE MAYOR AND CITY COUNCIL

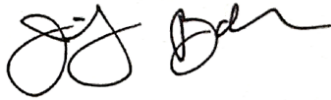
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PUBLIC SUBSIDY REPORTING

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.



JEN BAKER

Director of the City Manager's Office of
Economic Development and Cultural Affairs

/s/

ERIK L. SOLIVAN
Director of Housing



JIM SHANNON
Budget Direction

For questions, please contact Kevin Ice, Assistant to the City Manager, Director of Real Estate, City Manager's Office of Economic Development and Cultural Affairs, at kevin.ice@sanjoseca.gov, or Banu San, Deputy Director, Housing Department, at banu.san@sanjoseca.gov.

ATTACHMENT:

Assessor's Parcel Map

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