



HOUSING DEPARTMENT

January 27, 2026
City Council Meeting
Item: 8.2

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Director

Downtown Residential Incentive Program

Item 8.2

Community Engagement

Presented and discussed the Inclusionary Housing Ordinance and announced the Multifamily Housing and Downtown Office-To-Residential [OTR] Conversion Incentive Programs on the following dates:

- At virtual community meetings on October 9 and December 10, 2026
- An in-person meeting on January 14, 2026
- Additional virtual community meetings on January 8 and January 22, 2026
- Recordings of the virtual community meetings were published on the City's website
- Recommendation memorandum was posted on the City's Council Agenda website for the January 27, 2026, City Council meeting

Current Downtown incentive program

Purpose: Stimulate high-rise new construction residential development in Downtown San José to complement job growth, catalyze transit use, support retail, and create a vibrant city center.

Eligibility Requirements:

- Located in Downtown Planned Growth Area
- 10+ floors/stories (excluding nonresidential uses)
- Highest occupied floor at least 150 feet above street level
- Must pass first inspection within 12 months of obtaining building permit

Phase I: Up to 1,000 units

- Inclusionary Housing Fee: \$0
- Construction Taxes: 100% Waived
- Parkland In-Lieu Fee: 50% Reduced

Phase II: Up to 3,078 units

- Inclusionary Housing Fee: \$0
- Construction Taxes: 50% Waived
- Parkland In-Lieu Fee: 30% Reduced

Downtown Residential Development

The Problem:

- New tower residential construction is facing significant headwinds, as noted in the Cost of Residential Development Study in December 2025
- Downtown has significant office vacancy post-COVID, and the costs for Type I and Type II podium builds are not financially feasible without substantial subsidies
- Comparable cities are successfully creating new housing through Office-To-Residential [OTR] conversion programs increasing market competition

The Opportunity:

- Up to 500 units are immediately convertible based on developer interest [*with the majority at affordable rental rates*].
- Tap existing unit allocations from the current Downtown Residential Highrise program
- 1,500+ total units possible based on the current office space vacancy level

Office-To-Residential [OTR] Conversion Incentive Program

OTR ADVANTAGES

1. 30% cheaper than new construction
2. Up to 18 months faster to market
3. Primary structure and building systems retained

MARKET OPPORTUNITY

1. Office values at historic lows
2. Higher financing rates call for shorter loan terms
3. Remote work patterns are settling

POLICY IMPACTS

1. Expanding middle-income housing units at affordable rents in downtown,
2. Gaining annual tax revenue and downtown activation
3. Demonstrating strong policy leadership for fostering abundant housing stock
4. Aligning land use policy and capital markets to catalyze financially feasible projects

OTR Incentive Program

The Goal: Catalyze residential construction in downtown San José

Program Benefits

Benefit	Phase I	Phase II
IHO In-Lieu Fee	\$0 per sq. ft.	\$0 per sq. ft.
Construction Taxes	100% Waiver (First 1,000 units)	50% Waiver
Parkland Impact Fee	50% Waiver (First 1,000 units)	30% Waiver

Proposed OTR Incentive Program



Phase 1 - First 500 units (Maximum Incentive)

- **Construction taxes:** 100% waived
- **Inclusionary housing fees:** \$0 and 0% of deed-restricted units
- **Park Fees:** 50% reduction



Phase 2 - Next 1,000 units (Sustained Support)

- **Construction taxes:** 50% reduction
- **Inclusionary housing fees:** \$0 and 0% of deed-restricted units
- **Park Fees:** 30% reduction

Eligibility Requirements

- **Permit Deadline:** Pull Building Permit by December 2026
- **Location:** Downtown
- **Project Size:** Minimum 20 units created through conversion

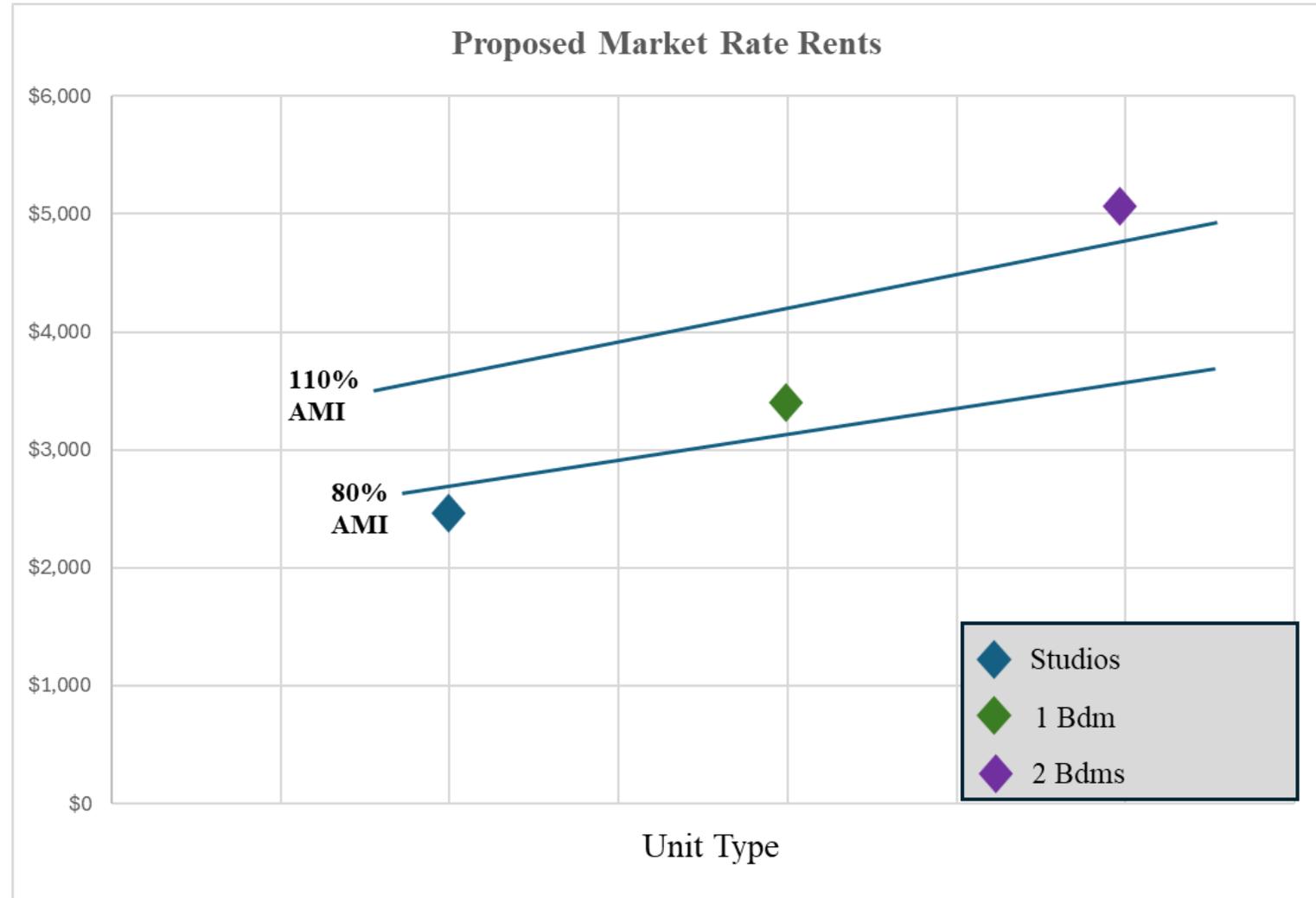
Underwritten OTR Incentive Program Projects

Underwritten Projects AMI Band

- Market-rate housing is serving the middle-income bracket of households
- Rent for underwritten projects fall on the affordability scale

Area Median Income Thresholds

AMI Level	4 Person
80%	\$159,550
100%	\$195,200
110%	\$214,720



OTR Incentive Program – Projected Subsidy

\$16.43 million in development subsidies through fee reductions will:

- Promote construction of 611 middle-income housing units (at or below 110% AMI)
- Include 0 deed-restricted units
- Improve property tax values and stimulate economic activity in the Downtown area

Incentive Type	Amount
IHO In-Lieu Fee	\$8.82 million
Parkland Impact In-Lieu Fee	\$5.32 million
Building and Structure Tax	\$0.89 million
Commercial Residential Mobile Home Park Tax	\$1.40 million
Total	\$16.43 million
<i>Per unit</i>	<i>\$26,890 per unit</i>