



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmember Domingo Candelas
Councilmember Rosemary Kamei

SUBJECT: SEE BELOW

DATE: January 23, 2026

Approved

Date: 01/23/2026

SUBJECT: Downtown Residential Incentive Program

RECOMMENDATION

1. Approve the staff recommendation with the following changes:
 - a. Establish a highroad incentive that allows Phase 1 incentives to be extended for Phase 2 applications, dependent upon standards of excellence.
 - b. Establish a minimum of 5% inclusionary units on-site for Phase 2 projects.
2. Direct the City Manager to explore workforce benefits as discussed in the background and return to Council.

PHASE 1 (First 500 Units)

Developers participating in Phase 1 of the Downtown Residential Incentive Program will receive a **100% reduction of construction taxes (Commercial Residential, Mobile-home Park Taxes and Building and Structure Construction Taxes), 100% reduction of Inclusionary Housing requirements, and 50% reduction of Parkland In-Lieu Fees.**

PHASE 2 (Next 1,000 Units)

Developers who participate in Phase 2 of the Downtown Residential Incentive Program will receive a **50% reduction of construction taxes (Commercial Residential, Mobile-**

home Park Taxes and Building and Structure Construction Taxes) and a 30% reduction of Parkland In-Lieu Fees.

Highroad Incentive

Developers participating in Phase 2 of the Downtown Residential Incentive Program who seek a **100% reduction of construction taxes (Commercial Residential, Mobile-home Park Taxes and Building and Structure Construction Taxes) and 50% reduction of Parkland In-Lieu Fees** will implement the following standards of excellence:

- Skilled Apprenticeship Programs¹
- Prevailing Wages²

BACKGROUND

After extending the program in June 2024, we have yet to see projects break ground utilizing these incentives. At that time, the Council did not place any standards of excellence for the program, and we have an opportunity to do more. The goal of this policy is to spur development in our Downtown core, while preserving longer-term affordability, create sorely needed housing, and strengthen our local economy by creating pathways for San Jose residents into good-paying residential construction jobs.

We have carefully crafted these recommendations, consistent with the results of the Cost of Residential Development Study Session, to create an incentive structure that awards developers the benefits of Downtown Highrise Incentives based on the standards of excellence they choose for their projects. Nothing is mandated. Rather, we aim to incentivize high-road development.

San Jose already hosts residential projects where developers meet these standards, with workers earning prevailing wages, receiving strong healthcare benefits, and more through joint labor-

¹ Require the use of workers for at least 80% of the construction who are enrolled in state-approved apprenticeship programs to ensure the highest standards of skill, safety, and job quality. Utilize pre-apprenticeship and workforce-readiness programs that expand access for disadvantaged residents, for any contractors or sub-contractors with construction contracts over a \$500,000 threshold.

² Union construction workers for at least 80% of the construction employed in the execution of the development shall be paid at least the general prevailing rate of per diem wages as determined by the Director of Industrial Relations pursuant to Sections 1773 and 1773.9 of the Labor Code, except those apprentices registered in programs approved by the Chief of the Division of Apprenticeship Standards may be paid at least the applicable apprentice prevailing rate. In addition, contractors and subcontractors at every applicable tier must maintain and verify payroll records pursuant to Section 1776 of the Labor Code and make those records available for inspection and copying as provided in that section.

management partnerships. We seek to encourage more of these partnerships through these incentives.

San Jose's Housing Element contains aggressive goals. This policy helps promote and improve our jobs-housing balance. To further our city's housing and economic growth goals, we urge the adoption of these recommendations.

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.