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Lafayette Town Council authorizes subcommittee to pursue purchasing property for public use

By M.D. Jones

For several years the Lafayette City Council has been searching for a potential property that could be developed for use as city offices and other civic purposes without success, according to a staff report presented by Administrative Services Director Tracy Robinson at the Feb. 14 council meeting. The city has been leasing their city offices and has held \$5.2 million in reserve as part of the City Offices Fund. During its Dec. 13, 2021 meeting, the council discussed the possibility of using the Fund to purchase a property - or several properties - in downtown that could be used for a public purpose and potentially appreciate in value. At the Feb. 14 meeting, staff recommended that the council authorize a subcommittee consisting of Mayor Teresa Gerringer and Vice Mayor Carl Anduri, who would work with the city manager, the administrative services director and a real estate consultant to identify potential properties and discuss options with owners before returning to the council to seek approval for an offer.

The purpose of the recommendation, according to the staff report, is for the city to not lose its purchasing power as the price of real estate increases and interest rates are low, currently between 1%-2%. The city would hold on to this property and convert it to public use while it waits to find property more suitable for city offices and a civic center.

Three considerations were key to this discussion. First, according to the staff report, by law the city is not allowed to invest in real estate if it is not actively being used for public purposes. In other words, it is not able to "land bank" property and keep it vacant. However, choosing a public purpose incorrectly could result in the city not being able to sell the property when it identifies a more suitable property.

According to the report, "selling the asset and eliminating a use to which residents have become accustomed in order to develop a civic center/city offices may prove to be unpopular . even if we try to make absolutely clear to the public that the property is being acquired with funds from the City Offices Fund. .This will need to be taken into consideration." An example of this type of a scenario would be turning the interim property into a public gathering space, public parking, or gallery. If, after several years of the public enjoying use of the space, the property is sold to a developer, it could be anticipated that there would be public outcry.

The second consideration involves legal constraints and timing issues the city might face when selling a property. According to the staff report, "there are legal constraints on the city when it disposes of property, particularly property that has been used for parks." In addition, according to city attorney Mala Subramanian, it could take some time to sell the property since under current law the city would be required to go through the process of offering it up to affordable housing groups and other public agencies and possibly spend some time going through negotiations. Furthermore "should the laws change and there be certain requirements imposed on the city we'd be stuck with that and so that's something to consider." Finally, the third consideration related to financing of the interim property. According to the staff report, in addition to the initial costs to acquire the property and make it "fit and ready" for the proposed public use(s), estimates of on-going costs for maintaining and staffing the property need to be considered as well. These costs, as well as the cost of potential financing for the property need to align with the current amount the city is spending to lease its office space.

Robinson noted that extensive financial analyses have been done, adding that there "are absolutely avenues for the city to borrow money, similar to a mortgage. Net present values definitely show that over a long period of time, it's much better to be able to own than to rent."

In her report, Robinson pointed out, however, that there is a chance that "we may now be in a real estate bubble, and there is a possibility that the value of any property acquired may decrease rather than increase."

Grace Dixon and David Clark, during the public comment portion of the meeting, were both excited about the concept.

Council Member Gina Dawson said her ask would be to explore financial instruments "to make the most of the money that we do have and maximizing it as much as possible." Council Member Wei-Tai Kwok was also supportive of the activity to set this up.

Anduri said that the first thing the subcommittee will be looking for are properties to to invest to hold the value of the City Offices Fund. "If in the course of doing this we locate a property, either an existing fully-built property or land that we can develop, I certainly see us looking at options to develop it and look at financing methods, and bring those to the council."

The council voted unanimously to adopt the recommendation to authorize the subcommittee, which will be coming back with a report.

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