

November 22, 2017

Laura Slutsky  
Executive Director  
ULI Philadelphia  
1818 Market Street, Suite 3300  
Philadelphia, PA 19103

Dear Laura:

Per your request, this letter summarizes the extensive empirical research, policy analysis, and technical assistance to local governments the ULI Terwilliger Center for Housing has provided over the past several years on the subject of housing policy. We understand that this experience may be useful to policymakers in Philadelphia as they consider actions intended to create more affordable housing in the city.

In our experience, the most important first step cities can take to make progress on their housing needs is to define those needs holistically and establish a set of specific goals for addressing them. The next step is to assess how all the current policies and programs can support achievement of those goals. From there a city is well positioned to consider additional or enhanced tools that may be needed and the optimal ways to use them.

While every city has specific housing challenges and opportunities, we have found that the following core elements of a holistic approach are applicable almost everywhere:

- **Encourage Development.** While there is often understandable community concern that market rate development can put upward pressure on rents and fuel displacement, the answer is not to stop such development. In general, adding supply, at all price points, can help ease affordability concerns. Cities should look for opportunities to remove regulatory impediments to more affordable development, such as unnecessary parking requirements.
- **Dedicate Revenues.** Understanding the fiscal needs most cities face, it is critical to create a sustainable local funding source to support housing development and rehabilitation, especially to subsidize development for low-income households. Housing trust funds are widely popular example.
- **Incentivize Inclusion.** Inclusionary zoning can be an effective tool in certain circumstances. Its effectiveness depends on sustained levels of market rate development (per the first point above) and, in most cases, the availability of incentives, such as tax abatements and exemptions, as well as direct development funding. Please see more below.
- **Preserve the Existing Stock.** The stock of subsidized and unsubsidized “naturally occurring affordable” properties represents critical infrastructure in most cities that will be extremely difficult to replace if lost. Databases, preservation equity funds, and tenant protections can help address this challenge.

- **Leverage Land.** Most cities have untapped opportunity to spur affordable housing development on the land and developed property they own or otherwise control. Cities that get a good handle on their assets and develop a smart real estate development strategy can open opportunities to partner with the private sector and nonprofits.

Inclusionary zoning, as stated, can be one such tool in certain markets and development environments. The research literature and our own analysis and experience strongly suggest the following best practices with respect to inclusionary zoning and similar approaches:

- Inclusionary zoning can be an effective tool in certain circumstances, but it is only one tool and on its own unlikely to make a material impact on any city's housing affordability challenges. Even in optimal market environments, this policy approach will rarely if ever create new housing for the lowest income families.
- Inclusionary zoning depends on sustained levels of market rate development to deliver the desired below-market (i.e. affordable) housing units. Elements of inclusionary policies that impair or impede market rate development will render the inclusionary policy ineffective.
- Inclusionary zoning approaches generally reduce land values and may put upward pressure on rents/prices and depress the development of new housing – all of which may exacerbate housing affordability needs – unless they are accompanied by appropriate incentives that mitigate the adverse effects on development feasibility.
- Inclusionary zoning has had its most significant impact when local jurisdictions have offered a menu of incentives, such as tax abatements and exemptions, reduced parking and other development requirements, and direct development funding. Areas that have failed to effectively incentivize inclusionary development have generated relatively little of it.
- Inclusionary zoning programs that provide developers the option of paying a fee in lieu of producing some or all the desired below-market rate units should base the payment amount on a transparent analytic methodology. The methodology should reflect the economic differential between a market-rate and below-market rate unit, with the payment amount based on the delta, with appropriate adjustments for time value of money, operating costs, availability of incentives, and conditions of the local development environment that bear on the cost of construction. An opaque or arbitrary method of determining the payment amount may result in adverse market effects and deter developers from participating, undermining the efficacy of the policy.

In summary, inclusionary zoning policies are complicated to design and administer. Jurisdictions that have been successful implementing them have typically worked with the development community to ensure the programmatic details are workable.

To the extent that we can continue to be a resource to you and Philadelphia members in your efforts to be a resource to the city, we would be glad to do so.

Regards,

A handwritten signature in black ink that reads "Stockton Williams". The signature is written in a cursive, flowing style with a horizontal line at the end.

Stockton Williams  
Executive Director