The Weekly Take

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Spencer Levy
As a *Fortune* headline put it last month, our upcoming guest recently issued a white paper in which he equated the state of commercial real estate with the depths of the psychological cycle of grief. We are entering the acceptance stage, it said. But rather than his outlook being all doom and gloom, it's a perspective about finding opportunities. On this episode, we have the subject of that news story, and he explains exactly what he meant in his letter and what he sees on the horizon.

Scott Rechler
It's these moments. It's these once in a generation or multi-decade periods where these shifts, where the new winners come out, right, the new leaders come out of.

Spencer Levy
That's Scott Rechler, Chairman and CEO of RXR, a New York based investor and developer that currently holds gross assets valued at more than $20 billion and a leader with a career of more than three decades. Scott founded RXR in 2007, after he led the public offering and sale of the former Reckson Associates, a business founded by his grandfather in 1958. He's also held positions as the Vice Chairman of the New York Port Authority, overseeing redevelopment of LaGuardia Airport and the World Trade Center, as well as on the board of the New York Metropolitan Transit Authority, and currently on the Federal Reserve Bank of New York's Board of Directors. Coming up, digging deep with an innovative, highly experienced leader for strategic and tactical insights, including a snapshot of the vividly named “Project Kodak” and other notable initiatives: Scott Rechler of RXR. I'm Spencer Levy, and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take, and I'm delighted to be here with Scott Rechler. Scott, so great to see you.

Scott Rechler
Great to be with you, Spencer, too. I look forward to the conversation.

Spencer Levy
So, Scott, for the benefit of our listeners, what type of vehicles do you use? You were a REIT. Now you have private investors, you have institutional ventures. Tell us a little bit about that.

Scott Rechler
Yeah, so our public company was a company that we grew from, took public in 1995. And I would say being a public company became more and more restrictive between Reg FD after 2000 and then investors wanting shorter term results and not necessarily thinking long term. And really what was driving our growth was a view that as you saw the change in demographics, change in the way that people use real estate, new innovations, we

wanted that flexibility. And the public market said we're not comfortable with that. So our stock price wasn't great. So in 2004, we actually said, you know, we want to try to think about changing our capital structure so that we could have long term institutional capital that buys into the research that we do. In ‘06, the markets cooperated and we were able to sell the company in January ‘07, generated a 700% return for our shareholders, sold it to SL Green for $6.5 billion. Great time to sell a company. Not a great time to start a business, right? So we started RXR at a time where a lot of people were dealing with a lot of problems. So that part was good. But raising private institutional capital was also a challenge, and in particular in the US. So we began to fly around the world and meet different investors and found investors that had not been exposed to real estate during the great financial crisis and saw investing in the RXR funds, and then co-investing with us as a way to actually take advantage of some of the dislocation that was in the market at that time. And so our first fund I think was like $260 million or something. But through co-investment and our investment, we did about $4.5 billion of investing out of that first fund starting in August of ‘09. So sold in ‘07, didn't make our first investment until August of ‘09. Subsequent to that, we've now raised $11 billion of equity, still about 90% international investors, global investors, non-U.S. investors: the sovereigns, pensions, Asia, the Middle East, Canada, Northern European investors. So that's been the process that we've gone through. Now, as the landscape is changing, we're now going to start also spending a little more time on the US domestic investor.

Spencer Levy
So, Scott, Project Kodak. We’ve been hearing some news about it. What is it?

Scott Rechler
When we began to recognize last year that the world was changing and that all office buildings weren't going to be the same, we said, okay, we need to set up a program to better evaluate this. And we thought about Kodak. Here was this company that had this great film product that was becoming obsolete. And, you know, did they focus on film or focus on digital. And so we decided to take our own portfolio and say, okay, which are the assets that are digital, that will be competitive in the post-Covid world and which are the assets that are film, that are going to be more likely less competitive or competitively obsolete. And let's then make sure that we're focusing our resources and energy on what's digital. And we've now taken that same concept and looked at all of the properties in Manhattan and said, okay, where's the digital and where's the film? And the ones that are digital, which are good properties with broken capital structures, are the ones we're trying to find ways to play in through either the debt or the equity.

Spencer Levy
I read your letter that you wrote for your investors. And you talked about what this time period is like. And clearly, we all know the challenges we have in office, but I think many of our listeners may not be as aware that the capital markets are tough all over, and maybe even tougher in multifamily in certain ways because of the timing of buying it. So in your big picture point of view, how similar is this to ‘09 or maybe even the early 90s, which is what you referenced in your letter?

Scott Rechler
Our view has been, and we've been pretty outspoken about this for a while, that this is going to be more of a paradigm regime change that existed, like in the early 90s. In the early 90s, if you recall, real estate valuations were artificially inflated because of tax policy. And then in ‘8 that tax policy changed and then eventually burned off. So all the deals that were done that had valuations that were based on those inflated tax driven drivers

ultimately had to be reset and re-priced and re-capitalized and re-equitized for the new regime of not having those tax policies. And I think we're going through a parallel situation as we live through 15 years near zero or low interest rates, that all these capital structures and prices and valuations were based on. And now we're shifting into what we believe is a more permanent, normalized interest rate environment. And that's going to require this whole re-equitization process. And the difference between that and the ‘08/’09 period, ‘08/’09 was sort of like a V-shape, right? We went through this crisis. It was heavily concentrated. Interest rates were driven down, liquidity poured into the market and value shot back up. This is, I think, going to be much more prolonged as loans go through the maturing process. The restructuring, the recapitalizations are much more complex in terms of navigating asset by asset, and it's going to be more broadly felt. And there's, to your point, everyone thinks of office. You know, the reality is, this is every asset class is going to be hit. I mean, office is clear because it's not only dealing with the regime change of where interest rates are, but also the hybrid work change and people's nature of thinking about office. But when you think about multifamily, particularly in the Sun Belt region and the amount of transactions that took place in 2021 and ‘22 at low rates, with an assumption that interest rates were going to stay low, rents were going to continue to go high. And you've had the inverse happen where interest rates have gone up, rents have gone down because of supply, and then NOIs got hit with insurance and other costs that people didn't predict. So I think there's going to be a significant amount of dislocation and recapitalizations that are needed as we go forward in that mix.

Spencer Levy
And each time is different. So I would say I completely agree with your analogy of the early 90s may be a better model than the GFC, but the early 90s also had a very different point of view of the federal authorities. And we'll get to your Fed role in just a moment, where in the RTC days, they liquidated the banks, sold off assets at $0.10 to $0.30 on the dollar, and we moved on. Today, it seems like it's a very different posture from the federal authorities on letting people, so-called, kick the can down the road, not take the assets back. And so it may be tougher to get to the real estate. What do you think?

Scott Rechler
Well, a couple things. I do agree. Mark Twain says, it rhymes, right, it's not necessarily repeat itself. And you know, my partner Mike Maturo in the early 90s he worked for Kenneth Leventhal and he was doing all these workouts. And he always reminds me that one of the big differences, there was not nearly as much transparency in the real estate world as there is today, right? So the flow of information, the access to information, the efficiency of the markets are much better today. So that should enable us to navigate this more effectively without some of the deep challenges we faced in the early ‘90s. To your point, from a regulator standpoint, I think this is a little bit of the calm before the storm. There was a period in the beginning of ‘23 that people paused, sort of the surge inflation, was there going to be a recession? Would rates come down in that situation? You had the financial shock in the spring with Silicon Valley and Signature, etc. That took place and the Fed and Treasury put this term loan facility in place that was a little bit of a stabilizer and created a little bit more liquidity into the market that maybe prevented it from getting worse at that moment of time. But then you see New York community Bank just recently, right. They keep saying this is unique. This is unique. Well, each one of them can't be unique in its own right. The bigger issue is that when you have the issue of duration issue and interest rate issues, somewhere in these banks, there's challenges. And the other thing that happens when circumstances like NYCB happen, the regulators become more focused on commercial real estate exposure. And so it becomes procyclical. So if they were standing back, they say wait a second, we can't have another thing like this happen

on our watch. We gotta redouble our efforts to go see where the exposure in these banks and try to flush them out. Now, when you hear Chairman Powell say, or the Treasury Secretary Yellen said this isn't systemic, I would agree in the sense that it's not systemic in that the big banks are so well capitalized, and their concentration of commercial real estate relative to the rest of their assets isn't as big. But when you look at the banking system, overall number of banks, I mean, there could be 500 to 1000 fewer banks in the next two years. And the question is, does that create some contagion that we can't predict right now. And so I would argue there's going to be more financial shocks. How will we contain them will be determined. And I think as it starts to happen and we're already starting to see it, banks are looking to shed their commercial real estate exposure because they're going to have to sit in front of a regulator at the beginning of every quarter, and their CFO is going to have to stand in front of their shareholders or the rating agency. And everyone's looking at what is your percentage of commercial real estate. And they’re not even looking at what type, right? Look, what is it? It’s at 10%? Bring it down to 8%. And so that's starting to be something that happens. And I would say the loosening of the financial markets because of some of the communications by the Fed in December, they sort of gave us a little extra wind in the economy as we enter 24 and the whole AI phase in this thing, but it's not even throughout the economy. These interest rates are eventually going to weigh some of that down, and I think that's where the opportunities are.

Spencer Levy
I walk in here wearing two hats. I walk in here as the guy who goes out there, talks about the economy. I'm actually glad to see the economy outperforming. But as the real estate person in me, I know that that's keeping interest rates high. So Scott, one of the roles that you play, one of the many roles you play outside of the four walls of RXR is, I see you at the Roundtable meetings. You have a role with the New York Fed. Why don't you tell us what those roles are and how they inform your point of view on where we're going?

Scott Rechler
Yeah. So I've always believed that for our business to work and for me to be good at what I do, being involved from a civic standpoint is important. So I was Vice Chair of the Port Authority, of the MTA board, and now I'm on the New York Fed Board. And with the New York Fed Board, which is interesting, is you really get–every two weeks, you have another board meeting and you get a pulse as to what's happening in the economy. And you get to hear directly from the President of the New York Fed, from their economists, their take. But equally important, if not more important, is the other board members. We have these go around. So I get to hear from the CEOs of these other companies that are in different industries, what they're seeing. And it's very rare in life where every two weeks you're reconvening and you sort of get into this cadence. It's the sound of the voice, it's the sound of the strength. You really get a different perspective to it. But it also has led me to be more acutely aware when there’s these communications, what they're really saying and listening. If you listen to what the Fed has been saying, was that they're not going to rush to reduce interest rates. So in the beginning of the year when people were talking about six cuts, it's totally inconsistent. Not only do we hear in the room because they only say what they say publicly, but they say it may be more nuanced than either publicly or privately that you get that perspective. And so it helps put some context around that. And also, what I would say to your point you made about the macro economy showing strong and yet real estate, I would argue that we have these averages throughout the economy that are pulsing strong, but that when you look below the surface at specific segments and sectors of the economy, there's a lot that are already suffering. And that's whether it's small businesses that weren't able to lock in long duration bonds and live off credit lines that are floating rate or credit cards that they have that are now 20 something percent, or

individuals that weren't able to buy a home, who now can't afford to buy a home where mortgage rates are or there's not the inventory on the market and rents that haven't collapsed as much. So there's a lot of strange dynamics here that we haven't seen in typical cycles, right? Our view, my view, is that it's just a matter of time where everyone says this time is different. But I remember hearing that in ‘07 and the S&P shot up 40%. And then we had the recession a few months later. And then we had Bear Stearns collapse, no issue. And then Lehman Brothers happens, right? It's different until it's not different. You know, at some point this is not going to be different.

Spencer Levy
Let's turn back to real estate now. And you talked about your roots here in the New York metropolitan area in office. But you've largely expanded. You still have it, but you were expanded into multifamily, a lot of it in the southeast, into Preferred and Mezz. Where do you see a negative? This is probably too broad of a question, but the best opportunities in the next couple of years, is it across the board? Is it multifamily preferred? Is it buying office at a hundred bucks a foot?

Scott Rechler
It's playing where there’s a couple of things, right. One is where there's dislocation in the marketplace and distress in the market. That's one area. But from a thematic standpoint, to us, it's really driven about where talent wants to be. And if you can go to the places where talent wants to be, and then in the sectors that help supply how they want to live or how they want to work, then that's sort of the macro theme that we want to play in, right? So like when we look around the country, we're invested in markets that we call eds, mids and well-leds: have good education systems, good health care systems, which tend to be a proxy for where talent wants to be. And then leadership. That's investing in infrastructure, quality of life, affordability, economic opportunity, job training, because that makes that sustainable. They then become magnets for talent, and then talent attracts companies. And then you get this self-reinforcing, positive economic cycle of the talent and companies coming together. Areas that we're very focused on right now are Phoenix and Raleigh, North Carolina, and Denver and Dallas, Tampa. That's the overlay from a standpoint of where we want. But then I think what's most compelling and we're playing in on credit on equity is housing, right. Because I think housing is going to face, as we just talked about, a headwind over the next two years, as we have to deal with all these recapitalizations, plus a surge of supply, particularly in the Sun Belt marketplaces. But once you get through that, you can actually be in a market that's very undersupplied, because we went into this undersupplied by 6 or 7 million units of housing, and the higher rates is going to continue to reduce the amount of new supply on the market. So on the other side of this, a headwind becomes a tailwind. And so if you can buy high quality or invest in high quality housing, again getting rental housing where we're focused on in those types of markets, at these types of bases, you're going to do very well on the other side. On dislocation, you know the thing with office for us is this is a contrarian play, right? This is not a macro, we're betting on office broad recovery. It's a very specific, that office is being painted all with the same brush. And if you have the market intelligence to understand which buildings really have strong tenant demand, so they're good buildings with broken capital structures, you could be buying into them at the right basis. Usually within the debt to get there. And then when the world starts to recover, those buildings will start to normalize on value. And it's very much, in that instance, like the mall space after e-commerce, right? When e-commerce happened, people said, oh, we're not going to go to malls, they aren't going to survive. And what really happened is, if there was five malls, those five malls maybe became 2 or 3 malls, but the 2 or 3 malls that survived were the ones that were easiest to get to, were a great experience, were well managed and activated. So the people came

there, then the tenants came there. And then eventually the capital markets began to make the distinction between the malls that had that type of demand and are doing well versus the ones that are competitively obsolete. And I think the office market eventually is going to do the same thing. It's not happening now. Right now, everything's sort of being valued the same way. And so our concept is buy right, buy those buildings where we see those demand drivers, and then it's a 3 to 5 year period probably before the capital markets catches up.

Spencer Levy
So I just got back from Los Angeles and I was in Century City, and I actually am going to be posting this on LinkedIn for anybody who wants to see it. They're building a brand new office building. And I was talking to my brokers in the market. I'm like, well, why? They said, well, they've got incredible anchor tenants. It's public knowledge CAA is going to be their anchor tenant, the talent agency. There's going to be some law firms. There’s going to be some others. And they’re setting record rents in that building, because Century City is a place where you're seeing some people who are moving from downtown to Century City, you're seeing that live, work, play type of environment. But I'm just going to go back to the very first thing you said in the prior segment of the conversation. We're in the labor business. We're in the demographics business more than we're in the real estate. Real estate is really a derivative of that.

Scott Rechler
That's correct.

Spencer Levy
Do you agree with that?

Scott Rechler
I completely agree with that. And I think to your point about the office buildings and we're seeing here obviously as well, there's sort of a stock picking strategy. The buildings that are in demand are in very much demand. And I would say at least in New York, after Labor Day of last year, you saw a psychological change where people began to recognize we're going to be coming back to the office. Maybe it's hybrid work, but that's 3 to 4 days a week. We still need the office space for that. And so the amount of demand that we began to see has been dramatic, and it's kept itself up as we go into the ‘24. That white paper you referenced said, okay, ‘23 is going to be a nadir in the post-Covid world in terms of leasing volume. We think it's only going to get higher from this point forward. We did over 2 million square feet of office leasing in Manhattan last year, and in the first quarter alone, we have a million square feet of leases out already. And in certain spaces there's, in the good buildings for the good spaces, you actually have pricing power because the companies want those spaces. And there's only a handful in these certain submarkets that can get there, right? So I think that this concept of this flight to quality that you're referencing is going to be something that continues. The challenge is going to be the assets that don't fit in that category. And how do we ultimately address that excess inventory that really is competitively obsolete. And you saw in the mall space, you know, we bought some malls that we’re converting to multifamily, but they could be, you know, ten years later, right? And the longer that goes for the urban ecosystem, for the transit systems, for local restaurants, for the energy on the streets of having empty buildings is not a good thing, right?

Spencer Levy

I'm so glad you mentioned it in exactly that way, Scott, because most of the times when I'm at the roundtable, I'm meeting with politicians. And I love your point of view. Every politician I see after we address the problem with class B and below office buildings, I tell them, I say, I don't want your money, I want my time. And what we're seeing now are some places getting the message where permitting time is the issue. It's not the money. It's the ability to get it done not in 5 to 10 years, but in six months. I'm not trying to go political here. I'm just giving an example. So the Live Local Act in Florida right now allows you to materially expedite your permitting time from four years to six months, if you're going have 20% affordable, and you're even seeing places like Bal Harbor, which may be the fanciest mall in America, putting it right on site because they can't get workers. First of all, do you agree that permitting is the fundamental gating issue? What do we do about it?

Scott Rechler
Well, I think permitting is one of the gating issues. I think there's a few of them, but permating clearly is one, because people aren't gonna even take on these projects if there's an uncertainty about when they're going to be approved. Right? New York is an example. The city and the state have been looking at just a rezoning and providing flexibility that any office buildings in certain districts that were built before a certain age can automatically have the right to be converted to multifamily. Right? So that's a good concept. The second issue, though, is to really make these work. You need the basis to come down. You've really got to be buying these buildings on a per foot basis that's almost equivalent of land value. Because the inefficiency of what you use, you're not really, your office rental square footage isn't necessarily your rentable square footage for an apartment. Right? So it's got to be lower on that number. And that's a period of time that people have to capitulate to get there. We're doing a deal now downtown where we have been working with a lender, and it's a 50% discount to get to that point. But now we're at a point where we can convert it to multifamily in that mix. And the third thing, at least in cities like New York, is the taxes are so high for multifamily that if you're going to be building rental housing versus for-sale housing, you need tax incentive. I mean, that's why we have this program 421-a that expired. But since it's expired, we pretty much have had no new projects going into the ground because it's very hard to make economic sense on a rental basis.

Spencer Levy
The other material increased cost we've seen recently as an impediment to new rental units is property and casualty insurance. It's something that quite keenly I never talked about that much in public before last year and now comes up in almost every conversation. How much of an impediment is that?

Scott Rechler
Listen, we've seen insurance premiums spike, particularly again on our rental housing, multifamily, probably 30% across the board. We have the advantage of having a diverse portfolio and a pool for our insurance. So that gets us some ability to mitigate some of that expense. But when you go back and talk about the distressed thinking about the Sun Belt region, some of the extreme weather conditions that they face in those regions, and the challenge of having oversupply, rents being subdued and being in a situation where now your insurance costs are up. So your NOI, even if everything held, is going down. Right? And so it's almost a triple whammy of challenges they're facing.

Spencer Levy

Let's talk about underwriting for a moment. Data. Okay. This concept of data, AI, it's in every conversation we have. How data driven are you versus being more old school real estate driven of, if you're going to get a deal done, it's a lot more than just data.

Scott Rechler
I think data is a tool in the toolbox. That's a great tool to have that we didn't have in the past, but you still need to have your on the ground real estate instincts and expertise. You're not going to just let the ChatGPT tell you, you know, this is where you should be buying something or building something. But we use data, for example, on the office side to monitor the level of tenant showings in all the buildings that are around the buildings, that are in the competitive set of buildings that we're looking about buying or debt we're looking to buy, right. So that we can see how much demand there is for similar spaces of the vacant space in the buildings that we're looking at. And we never would have had that transparency historically. And BTS is a great tool for us in that regard, because you can see, again, anonymized, but you can see the level of showings that you can vet different types of cuts of space. So you have a comparable set that's forward looking, not backwards looking. Right. We also look at cell phone records to see activity in the areas that we're looking of buy buildings to monitor where they were and the trends as to how that's playing itself through. On the multifamily side, obviously, we're using that a lot for seeing in-migration, the diversity of demand drivers, supply in the pipeline. So there's a lot of things that you can use that for there. And then I think operationally, it's been a big, big game changer where we're able to use AI to monitor sentiment analysis of our residents in our multifamily as they communicate with our concierge and have positive or negative things to say. We don't just get an occupancy report, we get a sentiment report that takes those conversations and puts it through natural language processing and tells us there's more positive or negative. And then so we see positive. We say, what are they doing differently and how do we translate that to our other properties? If they see negative, is there something that we could be doing to address it earlier? Was a fire alarm going off? Is there an issue with the manager in that building? Right. So it gives you a leading indicator. And then the same thing we're doing on predictive analytics now is that we're collecting the data to predict whether or not a residents is more likely to renew their lease or not renew the lease and we have an algorithm that we've been working on for a couple of years now that's 83% accurate. So if we believe someone's going to renew their lease, we can revenue manage other vacant units more aggressively knowing that we're not going to have a pool of vacancy.

Spencer Levy
One of the things that you mentioned earlier on was infrastructure and infrastructure as an asset class traditionally wasn't real estate, but now the line seems to be blurring. In fact, I just came back from an event last week where data centers were like, the biggest thing is data center really real estate? Is hotels really real estate? You know is any industrial that’s in a port really real estate? So to what extent are you playing in that segment? And do you see the merger of the two?

Scott Rechler
It's a good question. I guess to start the first, the terminology of infrastructure has been spread pretty wide, right. Digital infrastructure. We get health care infrastructure, student housing infrastructure. So there's a lot that can fall under the umbrella. We play traditional infrastructure. Like as an example, we're building a terminal six at JFK right next to JetBlue, and we bid with an airport manager to do that. We have an infrastructure team.

Why do we win that mandate was because when JetBlue, who was running the process, looked at RXR they said, okay, but what do we need to do to get this done? We need to navigate a regulatory process. We need to build community support. We need someone to make sure that we can put a budget together that meets our needs to build this, we need someone that can put the financing together for $4.5 billion project. And then we need someone to make sure it gets delivered on time and on budget. Sounds like real estate, right? Whereas if you look at the traditional infrastructure fund, it's mostly about financing streams of income. So that's where I think the connection plays, is that real estate in the basic function does well when it comes to public-private partnerships on infrastructure, because it plays right to, foundationally, the disciplines that we have.

Spencer Levy
Let's go back to fundraising for a moment, and I'm going to tie fundraising to green, to sustainability. And first a big picture question: How is fundraising going right now? Because I'm hearing very mixed signals from my clients. If you can get a 7% corporate bond, real estate may not look as good as a comparable, but also how much is fundraising driven by or requiring green in your buildings that you do?

Scott Rechler
So first of all, more macro fundraising. I think it's been sort of widely reported. This is probably one of the most challenging fundraising environments that we face, probably since ‘08, right? Well, right, that was the last time. We're fortunate in the sense that we have a number of large institutional investors that have been separate accounts for us as we've gone through the other rounds of investment that are backing our strategies today. And so it gives us the ability to not have to rely on getting the next fund raised right, to be able to be active. We have a credit vehicle. We have a rental housing vehicle. We have this office recovery vehicle. But you’ve got to think differently. Like in the office recovery vehicle, office is taboo to most institutional investors right now, particularly pensions in the US and in Canada because of their exposure to it. So we went and cut a joint venture with Ares, where we did $500 million together, and we can raise more on top of that, and we do co-investment off of that. And so in some cases, that's a better model. Right? And I remember in the past, having conversations with some of my peers with the concept of saying everything needs to be discretionary fund. I think it's overrated, in the sense that as long as you have capital allocated to you, even if it's discretion in the box, that money's allocated because people buy into the strategy and your client, your partner, wants to deploy that capital. As long as you're able to find the right investments that meet the strategy that you're setting forward on. So I think the good news, again, for us is we have the relationships where there's a lot of capital that happens to be immune to the circumstance right now. The goal, longer term, is as the market starts to normalize, is for us to start tapping the US market, some other areas that we haven't before, but we will have a good pipeline of activity, track record and funds that have been seeded already in these different strategies. So that's the first part of the question. And the second part, I will say we're always focused on sustainability. Our corporate values is doing good and doing well means doing better. So it's sort of built into our DNA. Because of that, we get maybe less feedback of, it's a requirement of things. Now, I think for us, when you think about at least environmental sustainability and you're trying to think about assets that are truly institutional class A assets, which is what we like to own, you need to be sensitized to that, because that's what's going to ensure that it sustains that value long term. If it's not something that does that, you're not going to be necessarily able to have in institutional quality assets that’s going to demand premium cap rates on the exit. So that's sort of built in. I will say, my own personal view is, and I've had this conversation with my European investors, is that it's a little bit too concentrated on the environmental sustainability of

things. When we think about sustainability, we think about sustainability more broadly. So there's environmental sustainability, there's economic sustainability, there's equality and opportunity sustainability. And when you pick one and say it's environmental, you can't pick that one without realizing this trade off. So okay, you can do that. But guess what? People are going to afford homes or people aren't going to have jobs. So when people look at ESG, you have to think about all those factors. You have to think about the implications. If you overweight one what it does to the other, and not ignore that in your policies and in your strategies around that.

Spencer Levy
Final thoughts. And when you frame your final thoughts, I'd like you to do it in the context of, you've been in the business your whole life, you're family business, REIT, now the fund vehicles. We've got a lot of professionals out there that listen to this show that are seeing their first real downturn and candidly are probably scared. What do you tell them?

Scott Rechler
Moments like this are both challenges and opportunities, right? And we've looked at that for our firm. You have to be eyes wide open and address the challenges that are out there. And that means developing strategies, communicating effectively about them, being committed to addressing them, but also not putting good money after bad, not chasing things that aren't going to work out when in the case of being disciplined in that mix. But don't get lost in that and miss the opportunities. And we've talked about it a couple times in this discussion. It's these moments. It's these once in a generation multi-decade periods where these shifts where the new winners come out, right? And the new leaders come out of. And so this is the moment where professionals in our business that think of this as an opportunity to differentiate themselves, to take new leadership positions, to take on the challenges to demonstrate their capabilities. This is a changing of the guard moment, there's no doubt. I mean, look at how many musical chairs of seats that we've seen over the last 3 or 4 months across real estate firms, investment firms. That's why this is happening, right? And so this is the chance to elevate and really capitalize on this moment.

Spencer Levy
And I think to sum it up, coming straight from your letter. I think you put into the letter a line about the definition of the word crisis in Chinese has two letters. One means challenge, one means opportunity. Is that a good way to sum it up?

Scott Rechler
That's exactly right.

Spencer Levy
So on behalf of The Weekly Take, what a delight to have Scott Rechler, Chairman and CEO of RXR. It's been a long time, but congratulations on all your great success.

Scott Rechler
Thanks for having me, I appreciate it.

Spencer Levy
For more and deeper insights on the industry, please visit our website CBRE.com/TheWeeklyTake. Share the show, send us your feedback, and of course, please subscribe, rate, and review us wherever you listen. Looking ahead we’ll expand

your thinking with important tactical insights and more in the weeks to come. Thanks for joining us. I'm Spencer Levy. Be smart. Be safe. Be well.