The Weekly Take

Come Together: The critical intersection between government policymaking and real estate

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Spencer Levy
When it comes to the rules and regulations affecting complex areas of the economy, such as real estate, even well-intentioned legislation can be counterproductive. Which is why it's important for the industry itself to have a seat at the policymaking table. On this episode, we talk about important real estate issues and all of the work that goes into shaping policy and influencing the legislative process, including high level meetings that, as you'll hear, sometimes go all the way to The White House.

Duane Desiderio
We've been encouraging the federal government and states to more cooperate on guidelines, as opposed to a top-down, heavy regulatory approach.

Spencer Levy
That's Duane Desiderio, Senior Vice President and Counsel with the Real Estate Roundtable, the most influential voice for the industry in Washington, D.C.. The Roundtable represents over 3 million people working in real estate, advocating on their behalf with key policymakers. In the interest of full disclosure, I'm also a member of the Real Estate Roundtable, serving as chair of its research committee.

Darin Mellott
What we would love to see are things that allow the American economy to do its thing, because at the end of the day, commercial real estate fundamentals and investment markets are going to reflect the health of the broader economy.

Spencer Levy
And that's Darin Mellott, CBRE's Head of U.S. Capital Markets Research. Darin's work has provided behind the scenes insights and analysis for many of our previous interviews here on the show, and we're happy to have him step out of the shadows for the first time to share his perspectives on the air. Coming up, we offer you a seat at the Real Estate Roundtable. I'm Spencer Levy, and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take, and this week we are going to talk about legislative policy and the commercial real estate industry, led by Duane Desiderio of the Real Estate Roundtable. Duane, welcome back to the show.

Duane Desiderio
Hello, Spencer. Thanks for having me back.

Spencer Levy
Great to have you, and Darin Mellott. Darin, I think this is your first appearance on the show.

Darin Mellott
Spence, it's the first time. Good to be with you.

Spencer Levy
And so let's begin very big picture, and let's start perhaps with you, Darin. Big picture, what's going on from a capital markets perspective?

Darin Mellott
Well big picture, what's going on, I would say commercial real estate investment markets have been stabilizing over the last few months. We think values have largely stabilized. Volumes are stabilizing, as well. We've certainly seen some weakness in the first half of the year, but we're also starting to see some things that are a bit more encouraging: more confidentiality agreements, BOVs, different things that are always precursors, more activity. And in fact, we expect that activity will improve in the second half of the year. And I don't want to overstate things. We're expecting things to be flat or possibly up as much as 5% with the ten year under 4%, provided we don't see some major economic deterioration. I think this is actually a recipe for us to see things turn out closer to the higher end of our forecast.

Spencer Levy
Duane, how would you describe the top priorities of the roundtable, dealing with the immediate issues that we're facing in the real estate capital markets?

Duane Desiderio
Our main goal here is for the policymakers to do two things. One, get out of the way and let us do our thing. And two, don't overregulate us to the extent where we're unable to do our thing. So housing and rent control and anti-eviction, which are just not the right policies to help our housing markets. There's a shortage. We're short, I don't know, estimates as much as 7 million units. And to the Biden-Harris administration's credit, they have a housing supply plan where they have said they have a goal to increase housing units, housing supply, by 2 million. We need that kind of large thinking. However, on the other hand, they don't seem to be too much to be actually increasing that supply when they talk about things like rent control or anti-eviction. Last I checked, controlling rent on a unit does not add a single unit of new supply to the market, so we need them to take a more focused and targeted approach on other things that they are saying that they want to do to increase the housing supplies: improve the low income housing tax credit, create a middle income housing tax credit that's patterned after the low income, that's patterned after LIHTC. Those are all the kinds of ideas we really want to see from the federal policymakers. Do what they can to help us increase supply and avoid putting too much regulatory pressure on the market that prevents us from creating that new supply.

Spencer Levy
Duane, let me point to a recent policy suggestion from Fannie Mae and Freddie Mac. For our listeners, those are the two major federal agencies that finance single and multifamily housing. Now, they may impose certain restrictions on landlord’s ability to raise rents if they want to take Fannie and Freddie financing. In short, some form of rent control. It has gotten some significant concern in our industry. And, I would like to hear your point of view

as part of the real estate roundtable about what's happening. What do you think will happen?

Duane Desiderio
The issue about housing and the housing crisis is all about supply. It's about supply. It's increasing supply. The National Multifamily Housing Council has, and the National Apartment Association, have incredible research on this front. They just came out with a survey from top economists showing rent control does not achieve its intended objectives in the long run. It does not lower housing costs. And last I checked, you put rent control on a building, it doesn't add new housing. It's not how it's geared. It's not an answer to the housing problem.

Spencer Levy
The average household is rent burdened today in the United States, and their rent burdened because if somebody pays more than one third of their take home pay in rent, they're considered rent burdened. And I understand that in California, the average person is paying over 50%. So it's a massive problem. But if we're going to actually tackle this problem over any length of time, we have to increase supply. Is that a fair way to put it?

Duane Desiderio
Real estate is heavily regulated. I think housing is such a hyper regulated industry now. There's this iterative impact of laws at all levels of government that impact the supply and availability of housing, and hence rent and home prices, right? Land use and zoning, that limits supply. There are restrictions, a growing sense of restrictions on landlords to investigate the ability of their renters to pay rent and do credit checks. That hurts. Section eight voucher process. Great that the vouchers exist. The amount of time that it gets a unit approved through the process to get a section eight approval, it just takes too long. Landlords have to float the rent before the actual voucher money is received from the federal government, or from the state and local housing authority through the federal government, to pay for the cost of the housing voucher. Construction costs. Materials. Labor. All through the roof. You take this swirling, perfect storm, you add it all up, and then you throw a rent control on top of it. It has a major impact to depress the ability to increase housing supplies. Rent control does not help that scenario.

Spencer Levy
Before we get into the weeds on specific policies, what's your point of view on geopolitics and commercial real estate? And has our house view changed?

Darin Mellott
We say elections don't matter over the short term, but they do matter over a longer period of time. And so over a longer period of time are there going to be market dynamics and some areas and some property types that are different because of policies enacted after an election? Absolutely. So I do think that it's probably somewhere in the middle, Spence. But geopolitics probably matter a lot more than they used to because the reality is we are living in a completely different landscape geopolitically now.

Spencer Levy
So Duane let's get down to federal policy, now. Duane, what is The Roundtable doing on foreign capital flows into the U.S.?

Duane Desiderio
It goes back to this theme of, you know, let our industry do what it can do best. There are robust systems in place at the federal level, through CFIUS, for example, the Committee on Foreign Investment in the U.S., to ensure that foreign capital should still be coming into this country. It's one thing about having foreign entities control companies, right? That's what things like CFIUS are there to prevent. But we don't want policies to swing so far in the other direction that they inhibit investments from overseas, from our allies, where we need to boost the real estate market, where we need to thrive and continue to grow. So issues that we're seeing at the state level that would inhibit passive investment in real estate. Those are matters that we need to check, especially as we're dealing with a heightened situation where for many asset classes in real estate, we're dealing with illiquidity. We want markets to become more liquid as we have well over 2.5 trillion loans that are coming due and that are maturing that were originated before the pandemic. We need to make sure that the lending and the financing and the equity is there as they're coming due in a more challenging interest rate environment after the pandemic. And attracting foreign capital to U.S. real estate is one of the ways where we can improve liquidity in the capital markets. We're going to need it. If we don't get it, that means real estate can't perform. We can't be the job engine that we are. U.S real estate supports 15 million jobs. We support almost $1 trillion in pension fund investments. Pensions and retirement nest eggs are invested in real estate. Commercial property tax is the primary contributor to local property taxes to provide essential services for communities. We need all of the above. We need liquid markets. We need markets that function. So while there are geopolitical concerns, at the same point in time, we need to recognize that policymakers should not overreact and swing so far in the other direction, where it's preventing legitimate sources of capital from overseas to come into the United States.

Spencer Levy
Darin, let's put a finer point in that for a moment. How much foreign money are we seeing in the U.S? Where is the money coming from? Are we seeing a slowdown in foreign capital or an increase? What are you seeing right now, and how much of an impact might some of these local laws have on our industry?

Darin Mellott
Well, look, we've seen a slowdown in foreign capital, but that doesn't really have much to do with anything other than the exact same reason we're seeing lower volumes across the board, right? It's an interest rate issue. It's a strong dollar. It's hedging costs that are inhibiting flows of foreign capital. But building off of what Duane said, Spence, it's absolutely critical. One of the things that we see is in times like this, foreign capital often leads the recovery. It can form the basis of a recovery in various markets. You and I have looked at markets across the U.S. over the years, and there is a clear distinction between markets with a lot of foreign capital coming into them. They are much more dynamic. And frankly, this isn't just a coastal issue. A lot of times people think, oh, well, foreign capital, that's New York, that's LA, that's San Francisco. That's not the case. Over the last ten years, foreign capital is becoming increasingly more comfortable going into a lot of secondary markets. That's good not only for asset values, but for housing supply. And there are a whole list of benefits that come from foreign capital. So, yeah, it's down, but investment volumes are down. And we need it to lead the way, just like it has in prior recoveries. And some of these policies could inhibit that. We don't want to see those kinds of things coming out of Washington. And frankly, some of the state governments that are putting in place some policies that, while well-intended, and with legitimate concern, are probably counterproductive.

Duane Desiderio
There are two headwinds that we're dealing with that I think in the coming years, no matter what happens in November, there is just going to be this continued rise in state level laws and regulations that impact real estate, in a manner that I don't think we've quite seen before. It's really going to come to a head. The reasons for that, I think, are twofold. And they deal with federal policy developments in Congress and also, frankly, by the Supreme Court. We'll see what happens in November, of course. If there is divided government where there's different control in House of Congress versus The White House, there will not be as robust, perhaps, legislative activity because it's just harder to get things through Congress when one chamber is controlled by one party and the other chamber is controlled by the other party. And that's not necessarily the worst thing. It just means more tempered, more centrist policies that take hold. But the lack of or the slowdown in federal policymaking in Congress opens the door for states to act. And also, number two, at the judicial level, getting nerdy and wonky here, the Supreme Court decided a pretty significant case, as one of its final cases in the term called Loper Bright. And Loper Bright is a decision that shifts regulatory control and regulatory oversight from the federal agencies back to the courts. So Loper Bright reversed a decades old doctrine known as Chevron deference. Been around since 1984, affects all federal rulemaking. So name the policy area. It could be tax, capital markets, climate. Name the policy area. We're dealing now, after this new Supreme Court decision and the removal of Chevron deference in an entirely new regime when it comes to federal agency rulemaking. Under the new decision, courts, federal courts, do not have to simply just rubber stamp a regulation that an agency comes up with to defer to it. Courts can take a closer look and use its own judgment to determine whether or not the agency's interpretation is a correct reflection of the statute. So it's not like it erases agency rulemaking from the landscape, but the federal courts will not defer to agency rulemakings to the extent that they have.

Spencer Levy
I've always said in our industry, local matters more than federal in most cases, because that's where zoning takes place. That's where so many of the rules that directly impact rent control, so directly impact all these other rules on construction, that aren't federally related. Is that a fair statement?

Duane Desiderio
I think that's very well said, Spencer. One of the trends that we've seen taking off at the state and local level are climate-related standards. So there is not a federal level mandate on buildings, on private sector buildings anyway, to control emissions or to control their energy use. There's not a federal level law that does that. So in that vacuum, more states and localities are embarking on this trend where they are imposing limits on commercial buildings in terms of their emissions and how much energy they can use. And it's this crazy patchwork. This trend is not going away. We have to deal with it no matter what Congress is going to do in this arena. We have been advocating hardly for federal guidelines, voluntary federal guidelines, that might help tame this state and local patchwork. But a federal mandate is not coming any time soon. Whether that's a good thing or a bad thing, I don't know. But we do answer this question a lot with our members. The rise in state and local laws in a patchwork, whether it's dealing with foreign investment, climate issues, tax issues, it's here to stay. We have to be wary about asking for some of these federal laws, because we could wind up with the worst of both worlds. We could wind up with a federal law, but then state laws that we also have to deal with. So instead, our approach has been to do what we can to encourage federal policymakers to come up with guidelines that we can then encourage our members to take to statehouses, to city councils, to say, look, the federal government has the resources here. They've

thought about all of this. Don't create something new. Follow the guidelines that the federal government is offering here. It's good for all of us. It's good to have a more coherent regulatory regime from jurisdiction to jurisdiction. So we've been encouraging the federal government and states to more cooperate on guidelines, as opposed to a top-down, heavy regulatory approach.

Spencer Levy
Well, I think it might be fair to say it's not black and white, whether state and local is better or worse than federal. I think what is black and white is what's happening in many cities today, where many of these older office buildings not only are not occupied office, but are too expensive to convert into multifamily, among other things. But right now we're trying to figure out what that right policy should be federally, if not locally, to encourage the conversion or the more productive use of these buildings from just becoming vacant. So, Darin, from your perspective, how big of a problem is this and what do you think should be done?

Darin Mellott
Duane and I, last year, went to The White House to talk about conversions and policies that would be welcome. And one of the things that I pointed out there is we actually have an example, a case study if you will, of what works. And if you look at our friends to the north in Calgary, we all know the impact that advances in fracking had on the price of oil. And being an energy town, the office market in Calgary suffered. Before the pandemic, they had a 20% vacancy rate. And then you have the pandemic and all the changes and remote work that we've seen. And it was very clear to policymakers there that there wasn't any coming back from this. This wasn't something that was just going to be solved from a cyclical perspective. And so what did they do? They put together a very interesting program of some pretty hefty incentives, some tax credits, but also did a lot of work on streamlining the process. And they had a goal of originally converting six million square feet of office into residential. They've done two million. And they've also broadened the program up to not just include residential, but they're saying, look, you can convert and qualify for these tax credits and expedited permitting processes as long as there's a market need. So if you have a building and you want to turn part of it into a theater or a school or anything of that sort, you can do it in Calgary. And I think those are the kinds of things where we sort of imagine policies and aren't afraid to be bold in this area. Those are the kinds of things that can really turn around a lot of our urban areas across the country, Spence. I really, really hope that there are some policymakers out there who are willing to be bold like they have been in Calgary.

Duane Desiderio
And I have to give a shout out to Darin. He mentioned the fact that we've had a number of discussions with this administration, and Darin was among our key members who went to The White House last year as part of this series of listening sessions we've had with the administration, to better engage them on housing policy. One of the areas where we are aligned is certainly on getting whatever help we can at the federal level to assist these conversion projects. We know that property conversions are not a panacea, right? I don't think there is a single silver bullet policy that is going to help the housing crisis, but everything helps, and this is one of them. We know we have lots of our members looking where they can, if they're in the right market, if the building has the right footprint, if it's of the right age, if they have the right local permitting regimes in place to convert these underutilized assets. Not just office, but also hotel and retail, to housing. We've been very active on this front. My colleague Ryan McCormick, who handles our tax policy, has been in charge of our legislative strategy to encourage the creation of something patterned after

the rehabilitation tax credit, to give a 20% tax credit to convert underutilized commercial buildings to housing to help add to that supply. I've taken the lead at RER to work with the agencies on executive strategies in the Inflation Reduction Act and the Infrastructure and Jobs Act, so two of the Biden administration's key marquee legislative achievements. They gave a lot of money to agencies to work on things like low interest loans, to streamline approvals at the federal level. We've been doing what we can. And this was part of the conversations that Darin was involved with to make sure those existing authorities that came out of legislation that's already in place, that doesn't need new legislation. We just need smart rules, and we need smart guidelines from federal agencies to better enable our members to tap into these low interest roads that are pegged to a Treasury rate. This administration talks about two crises: the housing crisis and the climate crisis. And they're on the same path in terms of policy. They get it. And we have said we need your help in terms of encouraging housing conversions because of the beneficial low carbon impacts that are attendant to those projects. They have less embodied carbon. You're not building from the ground up. They get it. But part of the issue that we've also have been running into is that sometimes policymakers want to bite off more than they can chew. So while there are federal low interest loans that can be geared to help transit oriented development that comes from the Department of Transportation's Build America Bureau, that come from HUD, that come from DOE, they might be able to be geared toward these property conversion projects, they also want to achieve a lot of other policies. And they can drive up the cost of capital and the cost of getting these projects through. But the point here is we have a federal legislative policy to try to help conversions. We have a federal regulatory policy to help conversions. And part of it is also for the federal government to use the bully pulpit to make sure that states and localities are giving zoning and land use and permitting relief that can allow these projects to move ahead more quickly.

Darin Mellott
What developers and investors really need is, number one, predictability, but also simplicity. Time is money. And so going through these lengthy processes and things of that sort, those are the kinds of things that kill the kind of progress that we need to see in our cities. So worth underscoring what Duane said. He's 100% correct.

Duane Desiderio
Yeah. And to drive home the point, too. I mean, this is an issue that is necessary to revitalize our downtowns, many of which are still continuing to recover from the pandemic. I mean, it's improving in some markets, right? It seems that, you know, foot traffic is back Tuesday through Thursday, but a lot of the downtown areas there are like ghost towns on Friday, right? Maybe slowly coming back a little bit on Monday. It is necessary for the vibrancy of our communities to ensure their livability, their walkability, to make other smaller businesses that are busy during lunch hour and provide other services. The dry cleaners, whatever it is in these districts. It has a ripple effect. And this is why we see more and more states and localities try to enact complementary federal policies, because it will impact their local tax bases. There's nothing that a real estate developer likes better than a low interest loan or a tax incentive. And there's nothing that frustrates them more when they can't use it. So we're trying to make sure that we're gearing these policies in ways that are accessible and meaningful and usable without all of that regulatory ballast.

Spencer Levy
Let's just talk about the process. Is there anything that you see coming up in the next year that is in jeopardy that could be impacted by the nature of split versus unified Congress?

Duane Desiderio
Next year has been called the Olympics, the World Series, the Super Bowl of tax because so many provisions of the Tax Cut and Jobs Act that were passed in 2017 expire next year. I am ever, and maybe people think I'm drinking the Kool-Aid a little bit too much here, I am ever an optimist and perhaps it's silly for me to be this way, but I'm going to still hold out the fact that immigration policy is something that whatever happens next year needs to be addressed. There was a bipartisan measure to deal with border security issues that was proposed several months ago. It had a lot of bipartisan support, but election year politics just got in the way of that. It's certainly a humanitarian issue. It's a security issue. But like for our industry, it's an economics issue. How do we grow GDP, right? How do we make the economy more productive? You make the economy more productive by bringing more workers into it or having them work longer hours. How can we help shore up some of our entitlement programs? How do you deal with Social Security and Medicare? You get more people paying into it, or you increase the age for qualification and then all hell breaks loose. There is, I still think, some master plan that is still at work. We heard this from our last meeting. Current majority leader Schumer talks about this all the time. Immigration is such an important issue in terms of the security of our country, the economics of our country. And I think that will be on the mind in January when the new Congress convenes.

Spencer Levy
Another issue is the restrictions that have been proposed locally on the ability of institutional investors to own single family homes. And once again, it comes from a place of single family homes are too expensive. And I think that's where BTR comes in. Build to Rent versus buying existing single family homes. But if you want to reduce the increase in prices over the long term, you need new supply.

Darin Mellott
If we look at what's really driving housing affordability issues, particularly in the single family market right now, it's high interest rates. Our colleague Matt Vance has done a lot of work on this and the reality is, we don't have control over interest rates. And right now that's serving a very important purpose in terms of the need for housing supply. If we were to crack down on that, well, people are going to be able to afford single family homes regardless of whether or not there's BTR in the market. But if we take out the BTR, that means that people actually aren't going to be physically housed. So again, these things are well intentioned but often misguided.

Duane Desiderio
We convened some of our members in the SFR and BTR space for another listening session with The White House. And The White House requested it so that we could help educate them on the issues and the benefits of that market. The Government Accountability Office came out with a really great report a couple of months ago on SFR, how it came to be. That market helped stabilize communities in the wake of the great financial crisis because you had larger investors purchasing homes that otherwise would have led to rampant foreclosures in certain markets. It helped stabilize those markets. These are the investors that help improve and rehabilitate homes. They invest more in these homes, make them more energy efficient, make them more livable than just single family owners might otherwise have. We are not seeing evidence that is driving up home prices. In fact, the evidence is also showing that it is giving families opportunities for upward economic and educational mobility. It might be that a family might not be able to afford to buy a home in a certain high priced market, but they can afford to rent there. It's then giving those children the opportunity to go to better schools, and increase the opportunities that they have in the future. So it's like property conversions. It's like the low

income housing tax credit. It's all of these issues. Single family rental. There's no single issue that can help solve the housing crisis. It's both and, it's all of the above. And SFR and BTR we think is an important part of that.

Spencer Levy
Let's just talk about the one issue that I think is going to be directly impacting a lot of the listeners to this show, which is EB-5, and for people that don't know what EB-5 is, that is basically your ability to pay your way into the United States through a $500,000 or more investment in the U.S., and that investment could be in commercial real estate. Any thoughts on that front, Duane?

Duane Desiderio
I'm happy to chime in. We were central to an overhaul of the EB-5 law two years ago, it was in 2018. So, again, the wheels of policy grind slowly in D.C. That was a seven year effort. We were able to get in place a pretty significant overhaul of the program. It had not been really touched legislatively in any significant way since it was first enacted back in the 90’s. To refresh your listeners recollection, EB-5 stands for Employment Based Visa number five. It is the way that if FIRPTA is the tax laws way to get foreign investment into the country, EB-5 is the way to use the immigration laws that get foreign investment into the country. These are the investors that we want to attract. The market for global capital is highly competitive. If we don't get investments coming into the United States, the investment markets will go elsewhere. The EB-5 market is not raging as it did kind of coming out of the last financial crisis. Some of the overhauls that were made back in the 2018 reform bill kind of slowed that pace. One of the big problems with EB-5, again, it just gets to there aren't enough Visas to bring the capital into the country. We need to raise those Visa caps. We need to attract more of that investment capital. But it requires a lot of education. This is not buying citizenship. You do not buy citizenship through an EB-5 Visa. I have to correct that over and over again. It allows capital to come into the country as an investment. You go through a long and prolonged process before you could ever be on a path for citizenship. But you're right. In some markets, they relied very heavily on EB-5. It is not as gangbusters as it was, but it's still an important arrow in the quiver of liquidity and investment. In the current program, I think we have five years left to go, four years left to go. But it will continue to come up. We're not quite at the crisis point yet where that will need reauthorization, but when it does come up for reauthorization, we know we will continue to have that on our radar.

Spencer Levy
So let me ask a very tactical question if I could. We have a lot of listeners on this call who know the issues but don't know quite what to do. What should people do that you think would help influence federal policy for growth for our industry? Darin, what do you think?

Darin Mellott
Well, I'll just give the Real Estate Roundtable a shameless plug. They’re as effective at representing the interests of the industry, and I would say the health of communities, as any organization in Washington. And so I think it's important for us to stay involved both on a personal level, get out vote, and also getting involved with folks who have effective vehicles of influence, like The Roundtable. I don't think it's much more complicated than that. Just stay involved, be informed, stay involved. If you don't know what's going on, reach out to a reputable shop.

Duane Desiderio
Thank you for the shout out, Darin. Yeah, there's no rocket science here. To the listeners, like, get involved in your trade associations. Hopefully it's the Real Estate Roundtable. Attend our meetings. All of our associations have policy committees that are open. At RER, I know our colleague organizations do the same, we are data driven and fact based, and the policies that we advocate are only as good as the input we get from our members. We need to make sure that what we're asking for makes sense and resonates in the real world. We rely on our members all of the time to help hone our message and improve our policies and ask for the data to support it and the case studies and the examples, the direct impact we're getting from our members. The CEOs to their executive staff, like all the way down, you know, their content experts. It's really important.

Spencer Levy
As Darin mentioned early on, things are getting better, slowly but getting better. And we may actually exceed our expectations if interest rates continue to tick downward. And I would note that, Duane, the Real Estate Roundtable puts out a quarterly sentiment index that indicates that things are getting more positive. So how are our members feeling right now? How do you see them feeling through the remainder of this year, past the election?

Duane Desiderio
We come out with a quarterly sentiment index, as you indicated. So the one that ended in the second quarter, we haven't done our third quarter yet. The one that ended in our second quarter came out in the Spring. It just said cautiously optimistic, things are trending in the right direction. Surveys as they are, right, they're just a snapshot in time. But it's hard to answer that question uniformly because our industry isn't uniform, right? We're not monolithic. Jeff, my boss, Jeff DeBoer, our CEO, drove home this point in congressional testimony that he recently received. Not all asset classes in commercial real estate are faring the same. Sometimes when we say commercial real estate to folks on the Hill or elsewhere, they think office. And it's like, yeah, office is weathering some pretty significant storms right now. But there are other unique issues that are affecting housing versus data centers versus warehouses versus life sciences. Not every asset class is reacting the same way. And even within market, right? There's a flight to quality. You know, the higher amenity buildings in the key markets are faring better than the class B offices, hurting a little bit more. But I think generally speaking, based on what we have been hearing, there is not an expected massive decline overall in asset values. I think folks are building in and hopefully expecting interest rates to drop. Of course, interest rates dropping can help improve asset values. Let's hope they do something positive in September in that regard. And we will see what our third quarter sentiment index says, but I get the sense that generally things are more optimistic than they were.

Spencer Levy
Darin, what's your sense looking at both the Real Estate Roundtable's Sentiment Index and all the other tea leaves that you look at on a daily basis.

Darin Mellott
When I'm talking to our clients, when I'm talking to folks in the field that are in the firm, it's clear that sentiment has been better. I would say there's a lot of cautious optimism, with an emphasis on caution. I think one of the reasons that sentiment has been better through the first half of the year is because a lot more people have bought into the soft landing narrative, and that's where our house view is. We think that a soft landing is possible. But if you look at our recent communications, I would say over the last 6 to 8 weeks, we started to emphasize a little bit more about risks because the reality is as inflation falls, real

interest rates are rising because the Fed's left them at the same level. And so that's effectively tightening. Again, we're at the soft landing camp, but we are not without risk right now, Spence.

Spencer Levy
Duane, what do you think can realistically get done in the next year?

Duane Desiderio
I think that there will be some movement in tax. Let's hope that is positive, again, because the Tax Cut and Jobs Act expiring and we have some massive support for incentives like the low income housing tax credit. So I think that that is going to be a heavy element of conversation depending on the outcome of the election. If Democrats continue to stay in power in The White House, I think we're going to continue to see a lot of effort and movement on the climate front. That has been a frenetic pace because it's been such a priority of this administration. There's still a lot that they need and want to do, and if that doesn't take off at the federal level, as we said earlier, the climate policies are not going away in some of the state and local markets that we're going to have to continue dealing with.

Spencer Levy
There certainly is. And, on behalf of The Weekly Take, today's episode was terrific with my good friends. Duane Desiderio from the Real Estate Roundtable. Duane, thank you for joining. Great to see you.

Duane Desiderio
Yeah. Thank you Spencer, it's a pleasure. And thank you Darin. Great conversation.

Spencer Levy
And my old friend and colleague Darin, Head of Capital Markets Research for CBRE. Thanks for coming out.

Darin Mellott
It's always great to be with you.

Spencer Levy
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