

Creating Places and Building Communities

An Interview with Scott Rechler, Chief Executive Officer and Chairman, RXR

EDITORS' NOTE Scott Rechler is the Chief Executive Officer and Chairman of RXR, an innovative investor, developer and place-maker committed to applying a customer and community-centered approach to building properties, services, and products that create enduring value for all stakeholders. From 2011 to 2016, Rechler served on the Board of Commissioners as Vice Chairman for the Port Authority of New York and New Jersey. He later served on the Board of the New York Metropolitan



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Transportation Authority (MTA) from 2017 to 2019. In November 2021, he was elected to the Board of Directors of the Federal Reserve Bank of New York. In addition to his role at RXR, Rechler currently serves as chair of the Regional Plan Association, trustee and Vice Chair of the National September 11 Memorial and Museum at the World Trade Center, member of the Real Estate Board of New York (REBNY), Chair of The Feinstein Institutes for Medical Research and member of the Board of Trustees at Northwell Health, and a Board member of the Hospital for Special Surgery. He is also on the Board of the Drum Major Institute, Convene, Kitchen United, and a member of the NYU Real Estate Institute Advisory Committee. Rechler is a graduate of Clark University and the New York University Schack Institute.

COMPANY BRIEF Headquartered in New York with a national platform strategy, RXR (rxr.com) is a 500+ person, vertically integrated operator, developer, and investment manager with expertise in a wide array of value creation activities, including ground-up real estate, infrastructure, and industrial development, uncovering value in underperforming properties, repurposing well-located iconic properties, and value-added lending. RXR is also considered a leader in the digital transformation of the built environment with an ecosystem that includes its own proprietary digital lab, a digital ventures fund, and investments in leading PropTech companies such as View (NASDAQ).

The RXR platform manages 91 commercial real estate properties and investments with an aggregate gross asset value of approximately \$21.2 billion, comprising approximately 30.4 million square feet of commercial properties, a multi-family residential portfolio of

approximately 8,000 units under operation or development, and control of development rights for an additional approximately 3,800 multi-family and for sale units as of September 30, 2022.

Will you highlight the history and heritage of RXR?

Prior to forming RXR, we ran a public company called Reckson, which was grounded in understanding our customers, embracing innovation, and driving growth in office and industrial in the New York market. As a public company, we began to recognize other compelling trends outside of the office and industrial sectors, such as student housing. We looked around the country and saw the aging campus housing stock, and we knew that schools were challenged to make the investments necessary to

improve these facilities. So, we helped build a company called American Campus Communities (ACC) to address the lack of high-quality student housing on and off campus in a manner that kept the projects off a school's balance sheet. We were able to expand this model throughout the country because we understood that our customer wasn't just the student, the parent, or the university – we had to make all three of these stakeholders happy.

However, as we grew this student housing business, our Reckson shareholders made it clear that they wanted us to remain focused just on New York office and industrial space, and not student housing. With this pressure, we took the student housing company public in 2004, and it grew to become the largest student housing company in the world. But we were frustrated that we were forced to divest Reckson's interest right as ACC's growth began to accelerate. We faced a similar challenge



Rendering of One and Two Clinton Park in New Rochelle, New York



Rendering of 175 Park

with a “big box” logistics platform that we were building and also had to sell. We recognized that the world was changing, and our customers’ needs were changing, and we felt that to be successful in this environment we needed to be more agile. Unfortunately, the public markets were just too restrictive for this kind of approach.

In 2004, we began to think about the best capital structure for us to build a company that would give us the flexibility to adapt to a constantly changing world. And in 2006, with such unprecedented liquidity in the market, executing large M&A deals was increasingly attractive. So, in January 2007, we sold Reckson for \$6.5 billion.

With the sale of Reckson, my partners and I had an opportunity to sit down with a blank piece of paper and decide what would be the right organizational and capital structure to best position us for the future and that’s how we created RXR. Clearly, the timing was challenging heading into the 2008 financial crisis. We spent a lot of time early on traveling the

world and meeting with investors at a time when no one was really investing. Ultimately, we found institutional investors who sat out the financial crisis, and they recognized that RXR was a great vessel to capitalize on the extraordinary dislocation that was taking place in the New York office market. We formed funds and partnerships around this dislocation and made our first investment in August 2009, when there was still tremendous economic uncertainty. We quickly acquired over \$4 billion in office buildings from 2009 to 2011, centered around the changing nature of the office user, particularly on where and how the knowledge worker wanted to work, including the type of buildings and the type of communities.

We also recognized a growing talent pool that could no longer afford to live directly in New York City. So, we began to think about how we could create high-quality housing in terms of the amenities, the finishes, and services in walkable and diverse communities with close access to public

transportation. These areas offered residents the opportunity to rent high-quality space at a big discount compared to what someone would have to pay to live in New York City, and they were only 30 minutes or so away from the City. Similar to our student housing business, when we worked directly with schools and universities, we formed public/private partnerships with local municipalities to build on government-owned land. These municipalities were long on surface parking lots but short on tax revenue and economic activity. We’ve partnered with cities such as New Rochelle, Yonkers, Glen Cove, and the Village of Hempstead, where we served as the city’s master developer and built projects that provided not only sorely needed high-quality housing alternatives, but also ignited economic growth and activity for aging downtowns. We take a holistic approach when it comes to development in that it is not just about the project itself, but also the potential impact to local small businesses, the local schools, local residents, and so on. So, in our role as a master developer, we always seek to create win-win-win situations for all stakeholders.

Will you elaborate on RXR’s focus on creating places and building communities?

We believe that we are only as strong as the communities where we operate, which is why the concept of “doing good and doing well means doing better” is one of our company’s foundational values. We view philanthropy and civic engagement as integral to our business – no different than construction, development, and architecture. This is all part of the ingredients for our success.

I would also include placemaking in our buildings and in the communities where we operate as a part of our “doing good and doing well” approach. In the old days, it was about building four walls and collecting rent – but today, we want to activate what happens within those four walls, and we want to have a relationship with the user who lives or works within those four walls because those are our customers. In our view, real estate is ultimately a service business, so we’re constantly seeking ways to create unique and engaging experiences for our customers.

RXR has expanded outside of the New York market. Will you discuss this expansion and where you see additional opportunities for growth?

RXR is a New York-based company, but my partners and I had talked about for some time how we could transfer our experience and expertise in New York to other markets around the country. We asked ourselves, what was the formula that made our New York investments so successful, and how could we replicate this formula in other parts of the country? And we found that the common denominator was our understanding of the talent pool – specifically, where does the knowledge worker want to live, work, and play. New York is the epicenter for this



Rendering of Terminal 6 at JFK Airport

knowledge worker, but there are other parts of the country where this talent has migrated, so we decided to target those specific markets. We focused on places that had good education systems, good healthcare systems, and leadership invested in improving infrastructure and quality of life – or what we commonly refer to as Eds, Meds, and Well-Led cities. We believed that we could take the model that had been so successful for us in New York by targeting the outer ring of other cities that had the necessary transportation hubs that allowed people to get back and forth quickly from the city's center to create high-quality housing at an affordable price. So, we're investing in those growing Superstar Cities that now have the added potential to become Superstar Regions.

We have two buildings and two development projects outside Phoenix. We also have properties and pending projects in Tampa, Denver, Raleigh, and Dallas. Again, these are areas where the knowledge worker can rent a high-quality space at a 30 percent discount in areas just outside the city center where there are restaurants, art galleries, and other appealing amenities.

Do you see RXR as being in the hospitality and service business?

For far too long, I think that people in the real estate industry have thought of real estate as just building a product to rent when to really be successful, you really

have to approach real estate as a service business. And a successful service business requires hospitality, responsiveness, and knowing your customer. So, we built RXR on a philosophy of continually providing our customers with what they need to thrive.

What is your outlook for the New York real estate market?

New York City has repeatedly proven that it is far more resilient than anyone thinks. In the heat of the pandemic, when people were leaving New York and residential occupancy rates were down to 80 percent, we bought \$2 billion of multi-family product and people questioned what we were doing at the time. But we always knew that people would come back to New York City, and today, occupancies are back to over 95 percent, rents are up, our streets are filled, restaurants are booming, and tourists are back.

New York is a unique place, and it will continue to be a unique place. New York has always been great at reinventing itself, which it did after 9/11, after the 2008 financial crisis, after Superstorm Sandy, and now, it is reinventing itself again for a post-COVID new normal. And the way people think about work, public transportation, and our central business districts is also changing. So, for New York to continue to be successful, it's critical that we have public policies that reflect these changing dynamics to ensure that New York's future is just as bright as its past.

What are your views on the future of work?

The pandemic certainly changed how we think about the office. But there is no doubt in my mind, and in conversations that I have had with other business leaders, a successful business is built on collaboration, culture building, and mentorship. These are critical factors that can be emulated virtually, but they cannot be directly replicated in a virtual realm. It requires physically being together, which means you need to create an office environment that is much more conducive to engagement, but that is a different type of office than before the pandemic. It may not be an office that's occupied five days a week. After all, hybrid work is here to stay, and striking that work-life balance is key. I do think that with the uncertainty in the economy and a potential downturn, employees will need to be physically present working together, and companies need to maintain culture during potentially turbulent times.

But this is not just an office building issue – this is a fundamental civic issue that is directly tied to the future of cities. The workers that fill office buildings are a critically important component of our city's ecosystems, supporting other businesses, restaurants, transit systems, museums, and so on. So, when workers that used to work in the office choose to work remotely, this ecosystem is thrown off balance. This is a civic issue that must be thought of on a much larger scale – as opposed to a specific industry issue.

Will you highlight RXR's portfolio and current development projects?

On the office side of the business, there is clearly a demarcation of which buildings are going to be competitive post-COVID and which will not. I call this commercial real estate's Kodak moment – you have digital, and you have film – you want to invest in the digital. For example, we are now investing in a project called 175 Park with our partner, TF Cornerstone, where we own the air rights over Grand Central Terminal, and we are going to build a state-of-the-art, fully electric 2.8 million-square-foot office building with a hotel at the top. Even in this period of economic uncertainty, it is so interesting to see company after company approaching us about space in this new office building, even though it will not be available until 2029/2030. This will certainly be a special building that will have a major impact on New York City.

We recently began the development of a \$4.8 billion airport terminal at JFK International Airport. We put this deal together during the uncertainty of COVID, but we always believed that air travel to and from New York City would continue to do extraordinarily well, so building a world-class airport terminal that we will own for 40 years is something that we are very excited about.

We are also focused on opportunities where we are repurposing competitively obsolete product. Whether it's office buildings, hotels, malls, or surface parking lots – we're buying these properties at a price that allows us to transform them to much better use, such as housing. We just bought an old mall in White Plains at a price where we will be able to tear down the mall and build over 800 residential units a block away from the train station. This is a good example of where we had an opportunity to transform a mall that had been vacant for almost

two decades into something that will be a great asset for the city's downtown. We were able to capitalize on this project because the price was right, and the municipality and the state offered the right incentives to help make the economics work.

Will you discuss RXR's commitment to building a diverse and inclusive workforce?

I have always been a big believer that you need to have diverse perspectives, which only comes with a diverse workforce. You need to be intentional about seeking and creating that diversity in the workplace, and we have focused on this a lot at RXR. One area where we have had success is in our construction business, with women holding several key leadership positions. Joanne Minieri is the COO of that business, and her leadership has attracted a number of other women leaders in what has historically been an industry that has not typically had women in leadership roles. This demonstrates that whether it is racial or gender diversity, if you have role models and mentors, it attracts more diverse candidates to the organization.

We are also committed to having diverse talent work on our development projects. A good example is our master development in Downtown New Rochelle, where we are attracting a diverse group of workers, particularly from the local community. For each project, we begin job training a year before we start construction, and we hold a series of job fairs with the different building trades performing work on the project. We are constantly seeking ways to leverage our developments to benefit the communities where we operate. At our JFK project in Southeast Queens, we have committed to 30 percent MWBE (Minority- and Women-owned Business Enterprise) participation across the over \$4 billion project and we're also hiring talent from the local community.

Building a diverse and inclusive workforce is integral to RXR's business planning, and we are intentional at incorporating it into our daily operations.

What has made philanthropy so important to you?

My parents were always very involved and engaged in their community, so it has always been a part of who I am. In connection with our business, I consider it to be consistent with RXR's operational ethos, which is to build stronger communities. I have also been influenced by my interactions and friendship with Mike Bloomberg over the years and the model that he has set up for Bloomberg and Bloomberg Philanthropies, where they have their own separate operational and organizational silos, but they are aligned in their mission. This is how I approach RXR's corporate philanthropy and my own personal philanthropy – it really comes down to doing good, and doing well, means doing better.

What has made the relationship between the partners at RXR work so well?

We started working together when we were very young. I was in my mid-20s when we took our company public, and two of my partners are younger than me, and one is not much older than me, so starting young forced us to rely on each other to navigate different challenges. And when you live through the different battles that we have gone through together – whether it was buying companies, selling companies, or starting new businesses – you have those moments of stress that either break the team or make the team stronger, and for us, we always come out stronger and we have always put the value of the partnership above any one issue.

We also had to be humble and hungry to succeed against people who were much more experienced than us. We had to be humble because we did not know as much as our competitors, and we had to be hungry and willing to outwork them if we were ever going to succeed.

Are you able to enjoy the process and take moments to celebrate the wins?

That is a very good question with a very sad answer! My partners and I always joke that we never really celebrate – we are always onto the next opportunity before we even finish the one we are working on. The best example is when we sold our company, Reckson, and we opened our new company, RXR, on the exact same day. We always say that was one of our biggest mistakes, and maybe if we had taken a year off to regroup, it would not have made a difference. But the reality is that big celebrations are not really in our personalities – we just keep driving forward. I have this saying that “standing still is moving backward,” and I am always afraid of being complacent. We are always thinking about how we can reinvent ourselves and the need to adjust to the changing times. Or, as my team constantly hears me say, we need to regularly recalibrate for a new reality! ●



The Beacon at Garvies Point in Glen Cove, New York