TIAA-CREF Asset Management

Recently, ***Geoffrey Dobrmann,*** *publisher and editor-in-chief of* The Institutional Real Estate Letter – North America, *spoke with* ***Philip J. McAndrews*** *and* ***Jose Minaya*** *of TIAA-CREF. The following is an excerpt of their conversation.*

TIAA-CREF Asset Management has an active real assets platform. How you define real assets?

Minaya: We look at real assets as real estate, infrastructure and natural resources.

What sectors within those asset classes attract you?

Minaya: On the infrastructure and natural resources side, we make direct equity ownership investments in assets that support or provide services that feed, clothe, shelter or transport people globally. These assets are negatively correlated to other assets in our overall investment portfolio, while being positively correlated to inflation. We like that these asset classes typically provide strong income returns.

McAndrews: Our real estate platform invests in all four quadrants. We have more than $17 billion in direct equity investments net of debt, as well as in excess of $13 billion in private debt exposure. In addition, we have over $2 billion in publicly-traded real estate securities, and close to $15 billion of publicly traded debt in the commercial-backed mortgage securities market. From a style perspective, while core is more than half of what we do, we are also quite active in value-add and opportunistic investments, including ground-up development.

How do you decide when to be active in the market?

McAndrews: We are always active. TIAA-CREF is a more than $460 billion organization that invests both its own capital and third-party capital, so we are serving multiple internal and external investment needs.

How long has TIAA-CREF been investing in real assets?

McAndrews: TIAA started as a single-family home mortgage lender in the 1930s. In 1947, we moved from being a lender to being an owner when we did our first equity investment. So we have been on both the debt and equity side of real estate for more than 60 years, and we now have more than 100 in-house professionals focused just on this space.

Minaya: We have been investing in the energy and infrastructure space for a considerable amount of time. We started a dedicated timber portfolio in the late 1990s. Those investments were predominantly on the debt side. In 2007, however, we began to make equity investments in farmland. Today, our global farmland portfolio is more than $2 billion in size, which is the largest institutional holding of farmland.

What is the hardest part about investing in infrastructure and natural resources?

Minaya: Our biggest hurdle is the fact that there's not a lot of institutional penetration. We have had to develop the expertise internally to source and underwrite these global — yet extremely local — illiquid assets. Today we have over 60 people who are dedicated to sourcing and buying farmland. We also have teams around timber, energy and infrastructure.

Will your real asset strategies be affected if interest rates rise?

McAndrews: Our underwriting already takes into account the possibility that interest rates might rise, so we're prepared for that. The positive side of rising interest rates, however, is that they tend to be part of an inflationary environment where rents also rise, so our income stream would improve. That's not to say that there is a one-for-one offset to a rising interest rate, but it's also something that people need to think about when they're concerned about interest rates.

Minaya: Our natural resources and infrastructure investments aren't as affected by interest rates as other investments might be because we rarely use leverage. Farmland and timber are lower-return strategies, so we believe it's not very prudent to leverage those assets. Energy and infrastructure are long-term investments with inflation linked-contracts, so it sometimes makes sense to employ some level of debt, but not often. We're not saying that there will never be some short-term hits on returns caused by rising interest rates or inflation, but in the long term, over the 20 to 30 years of the investment, we expect the return trend to remain steady.

Are there any near-term opportunities? Is now still a good time to invest in real assets?

McAndrews: There are always opportunities to invest in real estate. Today, we are focusing on core assets that are selling at a discount to replacement cost with an income stream that is below where it should be. We are looking at assets that have been overleveraged and are now under financial duress. We also are purchasing properties in a challenged leasing state — up to 60 percent vacant — in markets where absorption is starting to accelerate. So we are running the risk spectrum — core, value-add and opportunistic — in long-term and enduring markets.

Minaya: Infrastructure and farmland are highly undercapitalized, yet demand is constant or growing. We're investing in established areas globally because they will be big part of the solution, whether it's feeding, clothing or transporting people around the planet.

Infrastructure and real estate have similar characteristics. Is there room for both in a portfolio?

Minaya: There are a lot of similarities, but there are also nuanced differences. Real estate is more closely tied to the economy and tends to go up and down cyclically. Infrastructure and natural resources tend to stay on an even keel because they are providing some very basic needs with inelastic demand.

McAndrews: We've got a massive program that we're investing, and diversification is key. Investing in different asset classes is an important way to manage risk, but it also allows us to be highly selective in deploying capital. Being in multiple asset classes allows us to choose the best assets in each. If we were in fewer classes, we'd need to look to less attractive assets to deploy our capital.

How do you find the best opportunities when property is in limited supply with high demand?

McAndrews: Beyond the flow that comes from the traditional brokerage community, we have longstanding relationships with most major operators in every asset class, as well as with other investors. We're one of the most prominent lenders in the United States, so we have relationships with many of the operators as their primary source of lending capital. Because of these varied relationships, we end up sourcing about 25 percent of our transactions off market.

What are your competitive advantages in these markets?

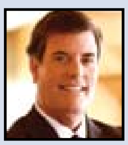
Minaya: TIAA-CREF has several unique characteristics that give us an advantage. Because of our size and profile, we often see deals before others do. We also can assure buyers and sellers that we have the capital and ability to close a deal when we say we will. That execution ability is the gold stamp in today's market, and we're fortunate to have that be our reputation. For example, on the farmland side, our long-term, lower-return expectation profile fits the asset class better than that of those investors looking for more liquidity or higher returns.

McAndrews: We are fully engaged in the real estate investment space, meaning we are buying, selling and financing all the time. We are a major source of real estate transactional flow, and that's meaningful to multiple constituencies. We have a very strong sense of commitment to the asset class — within and without cycles, we've been enduring. We don't operate on a shoestring; we operate at an appropriate staffing level. We, therefore, have a very strong advantage versus someone who may have considerable capital, but not the considerable transactional base that we have.

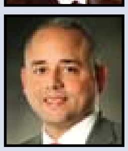
What role do environmental, social and governance investment practices play in your portfolios?

Minaya: They play an extremely important role. Good ESG practices promote good returns. We have some very stringent guidelines that come into play for protecting the environment, as well as for encouraging transparency and being aware of social impacts. We are encouraging others to do the same.

McAndrews: We're proud to be recognized as a leader in the ranks of socially and environmentally responsible investors. We are also a recognized leader in corporate governance and accountability. These are all areas that TIAA-CREF has not only been a participant, but a leader — just as we are a recognized global leader in real estate, infrastructure and natural resources investing. ❖



Philip J. McAndrews is a managing director and head of Global Real Estate Transactions & Joint Ventures for the TIAA-CREF organization. McAndrews is responsible for overseeing the organization's direct equity and debt real estate transactional activities as well as joint venture relationships.



Jose Minaya is a managing director and head of Natural Resources & Infrastructure Investments for the TIAA-CREF organization. Minaya's responsibilities include building and managing the agriculture, timber, energy, and infrastructure investment origination programs, and overseeing TIAA-CREF's relationships with various investor and strategic partners.

FIRM OVERVIEW

TIAA-CREF Asset Management®, a division of Teachers Advisors, Inc., provides institutional investors with access to the TIAA-CREF® organization's sophisticated investment management, research and analytical capabilities. Its investment strategies cover a wide spectrum of asset classes, from traditional equity and fixed income to real estate and other alternatives.

With $469 billion in combined assets under management as of June 30, 2011, TIAA-CREF is best known as the leading provider of retirement services in the academic, research, medical and cultural fields and one of the largest institutional real estate and agriculture investors in the U.S. with approximately $19 billion in private equity investments.

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