Henderson Global Investors TIAA-CREF

Henderson Global Property and TIAA-CREF Global Real Estate recently announced the formation of a new company, TIAA Henderson Global Real Estate. ***Geoffrey Dohrmann,*** *publisher of* The Institutional Real Estate Letter – Americas, *spoke with* ***James Darkins*** *and* ***Mike Sales*** *of Henderson's global team,* ***Jay Martha, A.J. Richard*** *and* ***Mike Schwaab*** *of Henderson's U.S. team, and* ***Tom Garbutt*** *and* ***Phil McAndrews*** *of TIAA-CREF about the new company. The following is an excerpt from their conversation.*

Tell us about the new company. What will it be focused on, and where will it invest?

James Darkins: TIAA Henderson Global Real Estate is an investment management company that will pursue core and value-add investments in all major sectors of real estate, and will focus on providing clients with increased global access to new opportunities, particularly in Europe and the growing Asia Pacific region.

What was the rationale for TIAA-CREF and Henderson Global Property to come together in this joint venture?

Tom Garbutt: We decided to form a new company with the goal of offering investors an expanded investment platform to access opportunities in the global real estate market while helping to accelerate the growth of each organization's real estate business. TIAA-CREF and Henderson both recognize that meeting the needs of today's institutional real estate investors requires the appropriate scale and expertise to successfully pursue opportunities around the globe. TIAA Henderson Global Real Estate will provide a platform with significant global scale and a deep pool of experienced regional and sector specialists, leading to improved access to opportunities and greater capacity to innovate and deliver new investment products and solutions for our clients. TIAA-CREF had been looking at ways it might expand and strengthen its presence in the global markets more significantly in the past few years. Henderson was identified as a firm that aligned with our global aspirations, offered a good cultural fit and had a similar approach to risk.

Mike Sales: A partnership between Henderson and TIAA-CREF provides the optimum opportunity to drive the growth of both businesses. Henderson wants to build on its expertise in providing institutional blue-chip quality real estate investment opportunities, and grow its key franchises from a predominantly European base, while TIAA-CREF has a large pool of real estate assets, skills and capabilities, primarily in North America, which it is seeking to diversify.

Jay Martha: And our North American platforms are complementary, each with distinct investment strategies. While the JV focuses on expanding its footprint in Asia Pacific and Europe, Henderson's U.S. business will be fully acquired by TIAA-CREF and managed as a separate operation within its overall North American real estate team, outside of — but fully aligned with — the JV structure. And TIAA-CREF's North American business, headed by Phil McAndrews, will provide domestic investment management on the JV's behalf, as required.

Phil McAndrews: Yes, Henderson's U.S. assets and team, which will continue to be led by Jay Martha, will become a complementary yet distinct part of TIAA-CREF's real estate platform upon acquisition. We value Henderson's deep investment experience and expertise and the strong client relationships they've built, and are excited about the joining of our teams, both globally and in North America.

Garbutt: Internationally, a major resource that Henderson is bringing to the deal is its local resident staff in markets where we see long-term potential and value for clients, but currently have limited exposure. TIAA-CREF is looking to regionally diversify its real estate portfolio and product offerings, which are currently centered in North America. We are particularly

CORPORATE OVERVIEW

Henderson Global Investors is a London-based multi-asset independent investment management company, currently 100 percent held by Henderson Group plc, a constituent of the FTSE 250 and S&P/ASX 100 indices. Henderson provides its institutional, retail and high-net-worth clients with investment capabilities in equities, fixed income, real estate and private equity. Established in 1934, Henderson has grown to become one of Europe's largest investment managers, with $104.6 billion in assets under management, and employing approximately 1,000 people worldwide (as of March 31, 2013).

TIAA-CREF is a Fortune 100 financial services organization with more than 90 years of experience providing financial solutions to its clients. With $520 billion in combined assets under management (as of March 31, 2013), TIAA-CREF is best known as the leading provider of retirement services in the academic, research, medical and cultural fields. The organization also offers a wide range of investment capabilities and services, including insurance, mutual funds and asset management across equities, fixed income, real estate and real assets.

focused on the fast-growing Asia Pacific region, where Henderson has already begun to establish a strong presence and growing business.

Darkins: While Henderson is bringing, among other things, its Asia Pacific expertise and assets to the deal — a key area of targeted growth for both firms — TIAA-CREF is bringing its commitment to and experience in the debt sector — another major focus for both firms. The new venture will offer commercial real estate debt investment opportunities to clients and will leverage the resources, track record and experience of TIAA-CREF's U.S. real estate debt team to augment a new dedicated team in Europe. In many ways, this transaction is a specific response to the evolution of the property investment landscape; in recent years, scale and access to capital have become increasingly important factors to success in real estate asset management. We've seen an increasing expectation on the part of investors for the investment manager to demonstrate an alignment of interest through co-investment or seeding.

How will the new company be structured? Who are the key principals?

Darkins: TIAA Henderson Global Real Estate will be a joint venture with TIAA-CREF holding a 60 percent interest and Henderson holding a 40 percent interest. The joint venture's senior management team will consist of Tom Garbutt as Chairman, currently TIAA-CREF's head of global real estate; myself as CEO, currently Henderson's head of global property; Mark Wood as COO, currently TIAA-CREF's head of European real estate; Mike Sales as managing director for Europe, currently Henderson's managing director and CIO of global property; and Phil McAndrews as managing director for North America, currently TIAA-CREF's head of global real estate transactions and joint ventures. The company will be headquartered in London and will have approximately 225 employees across Europe, Asia Pacific and North America. International locations will include Henderson's existing offices in Beijing, Frankfurt, Hamburg, Hong Kong, London, Luxembourg, Madrid, Milan, Paris, Singapore, Stockholm, Sydney and Vienna, as well as


Darkins

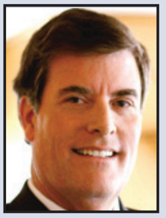

Sales


Martha


Richard


Schwaab


Garbutt


McAndrews

James Darkins is managing director, property at Henderson Global Investors. Since 2001, he has directed the significant growth of the Henderson property business in Europe, which now operates from eight European offices providing property investment funds to over 200 institutional clients. His focus currently includes expanding the firm's growth into the Asia Pacific region.

Mike Sales is joint managing director and CIO of global property at Henderson. He is primarily responsible for overseeing the management and growth of the Henderson property business. As chairman of the Global Property Investment Committee, he is closely involved with the global investment teams and oversees all key investment decisions. He has more than 20 years of experience in the property industry.

Jay Martha, managing director property, North America, is responsible for the overall management of Henderson's North American property business, including the strategic planning and management of various client portfolios. He chairs the North American Property Investment Committee and is a member of Henderson's Global Property Management team. He has 31 years of real estate experience, including 21 years at Henderson.

A.J. Richard, Esq., is director of property portfolio management, responsible for the strategic planning and portfolio management of various Henderson North American property funds. He also oversees Henderson's North American asset managers, who are responsible for property operations, and is a member of the Henderson North American Property Investment Committee. He has 26 years of real estate experience, including 21 years at Henderson.

Mike Schwaab, director of property investments and capital markets, is responsible for Henderson's North American transactions, financings and JVs, including sourcing direct property acquisitions and identifying prospective partners and JV investments for the Manager of Partners Program. This includes oversight of due diligence, underwriting and ongoing partner relationships. He is a member of the Property Investment Committee. He joined Henderson in 2000 and has 23 years of real estate experience.

Tom Garbutt is a senior managing director and head of global real estate for the TIAA-CREF organization. He is responsible for the firm's global equity real estate activities including acquisitions, capital markets sales and financing and portfolio and asset management. He joined the TIAA-CREF organization in 1982 and has 30 years of experience in the real estate finance and investment industries.

Phil McAndrews is a managing director and head of global real estate transactions and joint ventures for the TIAA-CREF organization. He is responsible for overseeing the organization's direct equity and debt real estate transactional activities as well as joint venture relationships. He joined the TIAA-CREF organization in 1990 and has 27 years of real estate experience.

additional new representation in New York City.

How will your North American businesses fit in with the JV?

McAndrews: TIAA-CREF is fully acquiring Henderson's existing North American real estate business, in a separate but related transaction to the JV. The combined North American business, under TIAA-CREF, will be fully aligned with the JV and provide domestic investment management on its behalf. Overall, there will be approximately 150 total real estate staff in the U.S. across seven locations: New York, Newport Beach, Charlotte, San Francisco, Boston, and, with the addition of Henderson's U.S. team, Chicago and Hartford. Total U.S. real estate assets under management, when combining Henderson's with TIAA-CREF's, currently represents approximately $43.5 billion.

Garbutt: While the JV will focus on opportunities in Europe and Asia Pacific, building on Henderson's strength and expertise in those regions, TIAA-CREF will focus on North American investments and opportunities on behalf of the joint venture. The teams will all work together in developing, distributing and servicing real estate investment solutions for our clients worldwide, as one seamless global organization.

Martha: Each of Henderson's current North American clients, for example, will have access to their same local investment and portfolio management teams in the U.S., in addition to the joint venture's broad international platform, all working together to bring them compelling opportunities from each respective market that match their specific needs.

McAndrews: In the longer term, TIAA Henderson Global Real Estate's significant platform, including additional access to capital and enhanced ability to innovate and deliver new investment opportunities across borders, will serve to steadily grow the North American business over the coming years. Going forward, our domestic operations and the joint venture will continue to seek the most efficient ways to integrate our efforts to create enhanced value and service for our clients.

Will this result in any changes to Henderson's existing U.S. investment strategies or focus?

Martha: No. Our existing business will continue to operate as usual, with a primary focus on our current clients and investment strategies. For example we will continue to invest in value-add apartments via our CASA Series of Funds, and pursue other sector-specialist strategies focused on demand-driven markets and high current income, such as our current student housing and medical office strategies. Our teams in Hartford and Chicago are excited at the opportunity to join the TIAA-CREF organization and work with the venture in bringing new opportunities to our clients.

Where do you see U.S. markets heading in the coming years?

McAndrews: U.S. commercial real estate has been producing double-digit returns over the past few years. We think those returns are a reflection of the early stage of the real estate cycle, but as the cycle matures, we expect property returns to approach their long-run average of about 9 percent. Even with the real estate recovery entering its fourth year, we continue to see opportunity in core markets today and going forward. Our research reinforces this disciplined approach, which we believe yields results over time.

Martha: Looking forward, our house view is that the major U.S. markets should benefit from continued investor confidence as the economy improves, although further yield compression may prove limited. In part, this reflects the pricing for prime assets in many of the U.S. gateway markets that has already returned to pre-crisis peak levels given current investor demand and liquidity needs. However, aside from these contested markets, there are sizable pricing disparities, and therefore real opportunities, as transaction volumes and pricing remain far from their respective peak. In an environment lacking strong near-term property demand, our house view favors investment opportunities where current market conditions and long-term demographic trends bolster demand. These include the apartment, student housing and medical office sectors, all of which have very attractive spreads over Treasuries.

Mike Schwaab: We are focused on these demand-driven sectors because we believe they all share clearly defined demographic trends that will drive demand for space, increasing the potential for consistent current income for our clients as well as capital appreciation. With each strategy, we look for well-located assets in submarkets that are anchored by either strong employment centers, large medical campuses or major universities.

A.J. Richard: Of the four major U.S. property types, Henderson's house view continues to believe that apartments are the best-positioned sector to deliver robust, stable performance given favorable demand and supply dynamics. Henderson is a long-term investor in the residential market, and we project that apartments will continue to offer the most favorable fundamentals and financing terms in the current cycle. Although we expect the housing recovery will continue to build momentum in 2013, pent-up demand due to restrictive financing and increased household de-leveraging will continue to put pressure on the homeownership rate, supporting solid consumer demand and boosting rental rates.

Schwaab: For multifamily housing, we focus on class B assets because they capture demand from a very broad range of the workforce, namely, middle-income earners. Within the class B apartment space, our CASA strategy specifically targets tax-exempt bond-financed assets to provide below-market rate fund leverage, and offer the opportunity for higher income returns. We also like the student housing sector because college enrollments are expected to grow by 13 percent over the next seven years and universities are generally unable to keep up with demand for campus housing. Regarding the medical office sector, which is of course driven by the aging population, we target strategically located assets on or directly adjacent to major medical campuses, or off-campus assets sponsored by investment-grade "hub and spoke" healthcare systems. We work with an operating partner, vetted through our

Manager of Partners Program, which has a market research arm with the ability to evaluate healthcare metrics in submarkets across the country. Markets that rate at or above a particular grade on the matrix are pursued.

How do the firms' investment philosophies compare?

Darkins: Both firms emphasize a disciplined investment process centered around top-down fundamental research coupled with bottom-up local market knowledge, and both believe in global reach as an overall diversification strategy. Both businesses are managed based on a proprietary research process, disciplined portfolio construction, and focused risk management.

McAndrews: Yes, we believe consistent results are built on a reliably solid investment process involving proprietary analysis of top-down research, a disciplined portfolio construction methodology, and focused risk management. Consistent results are also dependent on bottom-up expertise through local market presence and maintaining active long-standing relationships with local developers, property management firms and real estate brokers, as well as, of course, a rigorous underwriting process.

Sales: In addition, both firms are committed to sustainability measures. Both recognize that sustainability underpins the embedded value of assets and the long-term performance delivered. Henderson's Responsible Property Investment (RPI) philosophy is based on continuous, measurable improvement, and the property business works to a clearly defined RPI policy designed to protect and hopefully enhance returns to investors over the long term. Current initiatives range from employing renewable energy incentives via the installation of PV panels to encouraging biodiversity through the installation of beehives at several retail and office properties.

Garbutt: TIAA-CREF's commitment to sustainability measures includes seeking ways to enhance the value and competitiveness of our real estate assets through portfolio-wide opportunities to realize high returns on investments in those measures. From mandating LEED certification for all new development projects to pursuing Energy Star certification for all eligible properties, TIAA-CREF's activities to drive greater energy efficiency help our real estate assets to stand out in the market.

In what other ways do the firms complement each other?

Darkins: TIAA-CREF's investments have historically been concentrated in North America, while Henderson's biggest presence has been in Europe, and more recently in Asia Pacific, which, when combined, provides a solid base on which to build and expand the joint venture's global platform. Also, while both firms primarily are invested in the four major property types, TIAA-CREF is more heavily weighted toward the debt sector, while Henderson's assets mainly comprise private equity investments. In addition, about 80 percent of TIAA-CREF's investments are in the core space with the remainder in the value-add and opportunistic spaces, while Henderson's assets are approximately 55 percent core, 45 percent value-add. These variations will combine well to create a diversified platform on which to further build.

Martha: An interesting synergy specific to the U.S. business is that our property investment committee (PIC), which will continue to oversee the Henderson-managed U.S. portfolios after transition to TIAA-CREF, will be rejoined by Ed Pierzak, director of research for TIAA-CREF, and formerly Henderson's head of U.S. research and a prior PIC member. We are delighted to be welcoming him back to our PIC in a research and strategy capacity.

Where do you see the greatest opportunities in Asia Pacific and Europe today?

Garbutt: In Europe, we see the U.K., Germany and France as strong opportunities due to their high levels of liquidity and transparency, and robust legal structures. In Asia Pacific, we believe Singapore and Australia offer similar favorable characteristics along with the added benefit of direct exposure to Asia's growth cycle. Top-quality, well-located office and retail properties in the "gateway" cities of London, Paris, Munich, Berlin, Singapore, Sydney and Melbourne are considered to be well positioned to benefit from the ongoing global economic recovery.

Darkins: In the coming year, apart from major changes yet to come for fiscal and sovereign debt situations in the U.S. and Europe, a number of key socio-political events are expected to have significant impacts on the Asia Pacific region's capital and property markets. We believe China is a particularly attractive growth market for luxury goods retailers due to its large population, high number of densely populated large cities, growing affluence and local consumers' appetite for luxury as well as for globally recognized brands. Any scheme that brings like-minded retailers together and provides the quality of shopping experience the discerning Chinese consumers will increasingly demand, while offering attractive prices, should perform very well.

Sales: In Europe, the challenges faced by banks still dealing with the repercussions of the global financial crisis have created an attractive lending environment as they continue to shrink their balance sheets, most notably to commercial real estate. As a result, we believe there is an opportunity for institutional investors to enhance their investment portfolios by widening their exposure to a broad range of senior secured asset classes such as real estate debt. ❖

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