At TIAA, we seek to provide you with timely insights and perspectives directly from the professionals whose everyday task is to manage your plan's investments for the long term.

**RANDY GIRALDO**
Portfolio Manager
TIAA Real Estate Account

To our valued TIAA Real Estate Account investors,

Throughout 2020, the world experienced an unprecedented global health crisis and resulting economic crisis that hasn't been seen in over 100 years. The economic impact will be felt for years to come and recovery is expected to be uneven across sectors. However, by the end of the year, there were several reasons for optimism, including: election uncertainty subsiding, federal law makers passing a second round of stimulus, and better than expected COVID-19 vaccine news.

Commercial real estate, relative to other asset classes, experienced greater adverse effects by the ongoing pandemic but we continue to be optimistic about the future of real estate. Our discussion in this letter will focus on three items:

- Work from home implications for the office sector
- The TIAA Real Estate Account's property diversification
- Future Outlook for commercial real estate in 2021

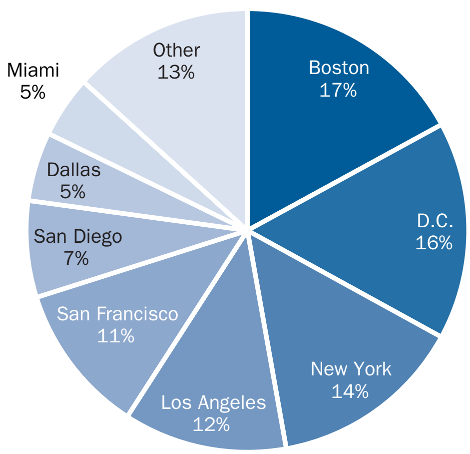
## Work from home implications for the office sector

With traditional office workers continuing to work remotely as we begin 2021, the relevancy of the physical office space has come into question. A recent survey of 50,000 office workers, conducted by Cushman & Wakefield in November, found that 73% of them "want remote working policies expanded and a shift to balancing office, home and third places." While the long-term impacts to office demand are unknown, the general consensus is that workers will demand greater flexibility, ultimately driving a reduction in demand for physical office space. This trend will be somewhat offset by the need for more space per office employee.

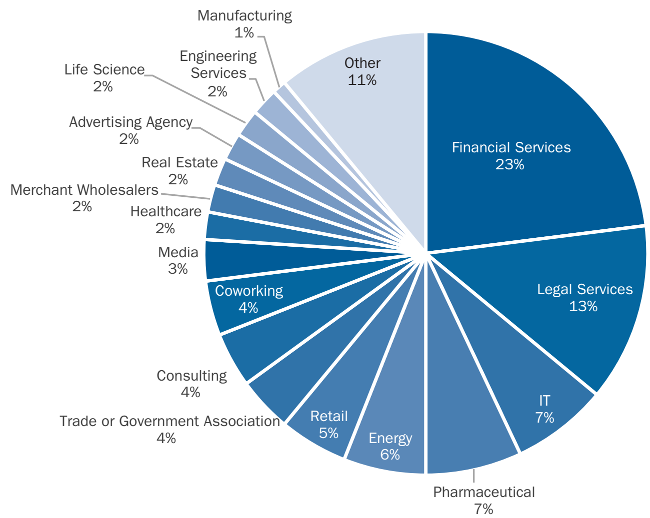
Most tenants have chosen a “wait and see” approach to near-term lease expirations. As leases expired in 2020, U.S. tenants of the Real Estate Account (referred to as the “Account”) have generally signed short-term extensions instead of locking in longer-term deals.

The next few years will likely be challenging for the office sector overall but certain characteristics of the Account, and the sector in general, provide reason for optimism. As you can see below, the broad diversification of the Account’s office portfolio across a number of markets and industries, largely mitigate geographic concentration and tenant risk.

**TIAA Real Estate Account office real estate geographic diversification**




**TIAA Real Estate Account office real estate tenant industry diversification**



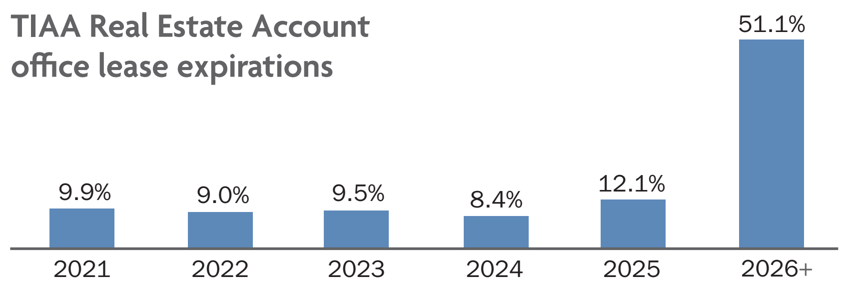

*Data as of September 30th 2020*

Another important point is there are numerous sub-sectors within the broader office market. For example, the Life Science sub-sector, a mix of office and laboratory space, has experienced rapid growth in recent years and was a strong performer in commercial real estate markets in 2020. The TIAA Real Estate Account has approximately $1.1 billion (12% of the office portfolio) in the Life Sciences sub-sector as of September 30, 2020. Notable tenants include Biogen, Eli Lilly and Fibrogen.

The Medical Office sub-sector is another area of opportunity for the Account. In the fourth quarter, the Account established a joint venture with Healthcare Realty, a leading real estate investment trust (REIT) in the sub-sector, with the purpose of acquiring a diverse portfolio of assets over the next few years.

One of the main benefits of office investments is their longer lease terms. Unlike apartments, which typically have 1-year durations, office leases tend to have terms ranging from 5 to 10 years. The weighted average lease term of the Account’s office portfolio is 5.9 years as of September 30, 2020. This helps secure cash flow during periods of uncertainty and disruption. Factoring in the credit quality of the tenant portfolio, rent collections reached

95%+ for the Account's office portfolio through the first nine months of 2020. As shown in the chart below, the Account has a very manageable office lease expiration schedule through the end of 2025.

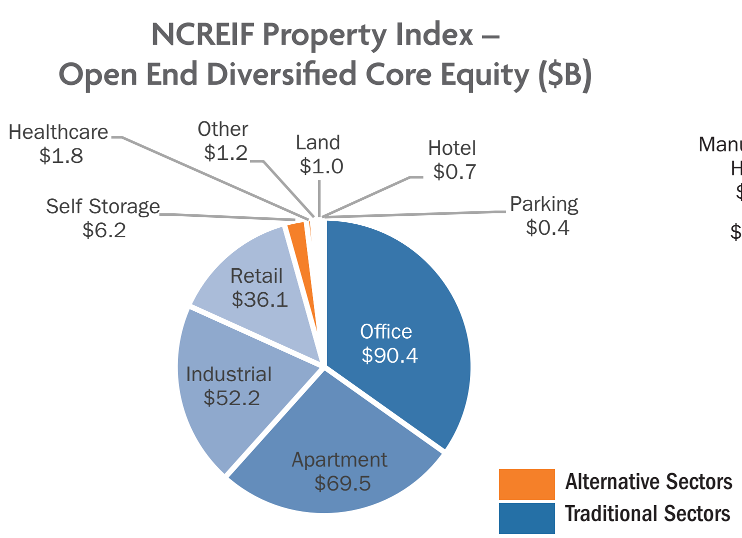


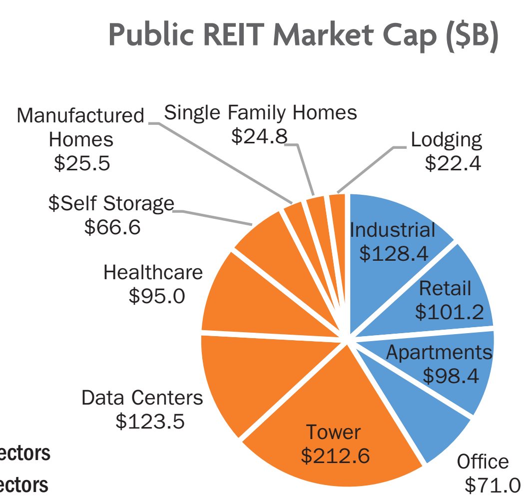

In summary, while we do anticipate some further weakness in the U.S. office market, we believe that the diversity of the Account's holdings and long dated leases will keep the Account well positioned for the future.

### The TIAA Real Estate Account's property diversification

While stories around office and mall properties dominated news headlines in recent months it's important to understand the property composition of the TIAA Real Estate Account and how its assets are positioned to withstand the current economic environment.

Over the last 10 years the composition of investable real estate has changed significantly. There has been tremendous growth in non-traditional "alternative" asset types, broadly defined as anything other than the traditional main four property types – office, retail, industrial and multifamily. Private real estate lags behind the public REIT market in this regard, demonstrated by the charts below, which illustrate the sector composition of the NCREIF Property Index and the U.S. REIT market.




REITs are constantly rewarded or punished by the capital markets, based on forward-looking prospects. Therefore, their overall composition changes more rapidly than that of private funds. We believe that the optimal composition of real estate portfolios going forward looks more like the REIT market. The TIAA Real Estate Account is ahead of its peers in this transformation. Over the past several years, the Account has diversified into alternative property types, highlighted below.

| Sector | Net market value | Property count | Key alliances |
|---|---|---|---|
| Life sciences | $1,107,000,000 | 9 | Alexandria Real Estate |
| Student housing | $567,000,000 | 11 | The Preiss Company |
| Self-storage | $276,000,000 | 65 | Extra Space Storage |
| Senior living | $188,000,000 | 14 | Life Care Services |
| Medical office | $26,000,000 | 6 | Healthcare Realty Trust, Seavest, Flagler |
| Hotel | $66,000,000 | 1 | Aimbridge Hospitality |
| Total | $2,230,000,000 | 106 | |

*As of September 30, 2020*

With over 9% of its net asset value in non-traditional property types, the TIAA Real Estate Account compares favorably to similar private real estate funds with an approximately 5% allocation to alternative property types.

Traditional commercial real estate is still the bulk of the Account's net assets, and performance has varied by sector during 2020. It's worth noting that several sectors have proven resilient throughout the current downturn.

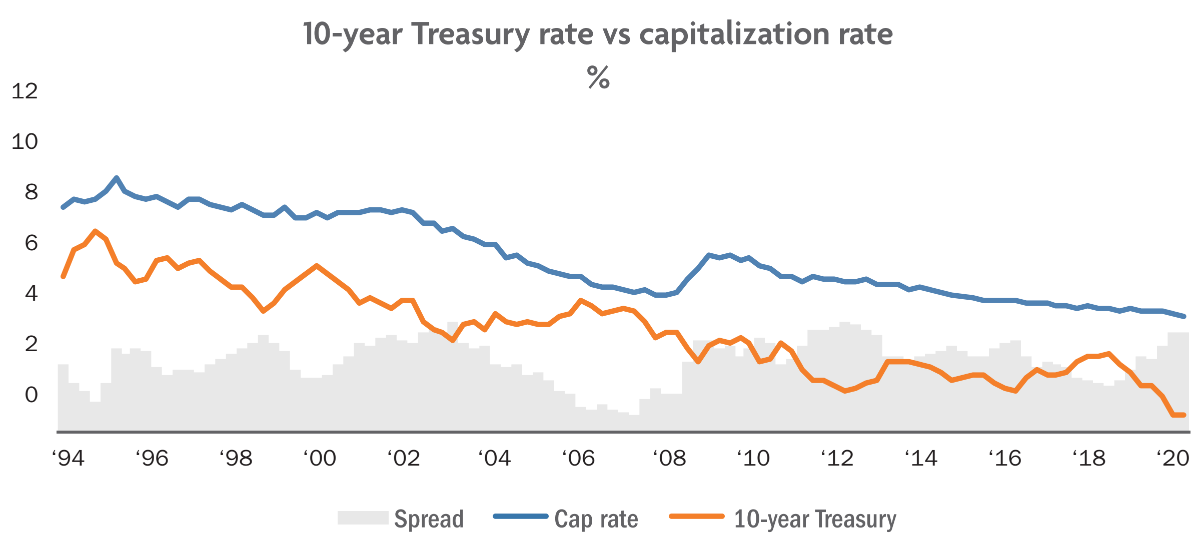
- **Industrial** – At approximately 17% of real estate investments, as of September 30, 2020, this sector has delivered property appreciation and provided stable income in a period of great uncertainty. Rising e-commerce retail sales have been a strong tailwind for the sector as consumers have been forced to do more online shopping.
- **Apartments** – This sector has provided stable income in 2020, with rents in the United States declining only 3% year-over-year through September, according to CBRE. As of September 30, 2020, rent collections for the Account's portfolio have tracked with the broader industry at approximately 95%, slightly below historical rates of 96-98%. Apartments comprise approximately 26% of the Account's real estate investments.
- **Grocery Anchored Retail** – This"necessity"-based sector has proven the most resilient retail subtype during the ongoing pandemic. Even though online grocery shopping saw exponential growth in 2020, it was still estimated to comprise less than 15% of overall grocery sales.
- **"Big Box" Retail** – Shopping centers anchored by Walmart, Target, Costco, Home Depot and Lowes have performed relatively well compared to other retail properties.

The above asset allocations, together with the alternative property types, constitute $13.4 billion of net assets (56% of net asset value) for the Account. Together with the resilient characteristics presented earlier regarding the Account's office assets, we're optimistic the portfolio is built to withstand the current economic crisis and exit this period on solid footing.

### Future outlook for commercial real estate in 2021

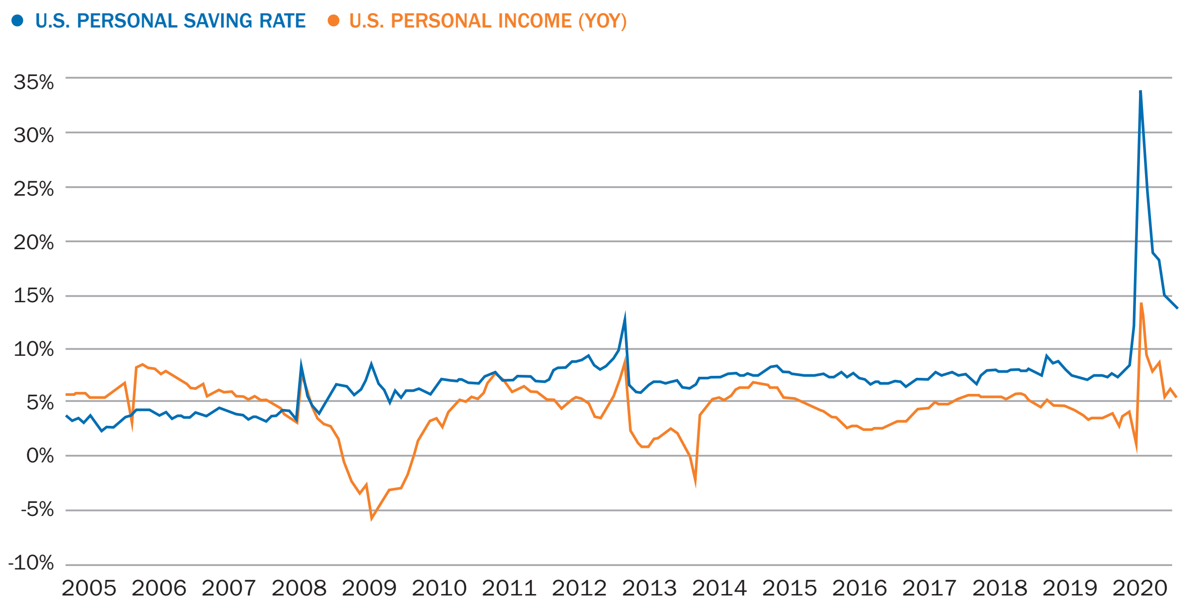
After a challenging 2020, the prospects for the U.S. economy and the commercial real estate market have begun to improve. Many of the obstacles and uncertainties present in the middle of the year have been resolved.

- **Political uncertainty** – The recent elections have been resolved thereby reducing uncertainty regarding economic policy. Further, the government was able to pass a second round of stimulus in an effort to provide much needed economic aid to small businesses, distressed corporations and families. Additionally, Proposition 15 in California was voted down, ensuring commercial property tax increases do not exceed 2% annually.
- **Vaccines** – With reported efficacies of 95%, the Moderna and Pfizer vaccines have exceeded expectations. As states begin mass distribution in the first half of 2021, experts believe that widespread immunity could be possible before year-end. Cases are expected to peak in early 2021, then drop steadily as a result of vaccination efforts.
- **Accommodative monetary policy** – The Federal Reserve has signaled that it will keep rates near zero at least through 2023 in order to allow the economy to fully recover. Historically, there has been a statistically significant positive correlation between interest rates and capitalization rates, a common metric of real estate value. As seen below, the spread between the 10-year Treasury yield and the average NCREIF capitalization has widened recently. With treasury yields expected to remain low, it is possible that capitalization rates decline, driving real estate valuations higher.



- **Pent-Up Demand** – In 2020, the combination of stimulus, economic uncertainty and inability to physically consume certain types of goods and services (e.g.,events, travel, experiential, retail) led to a historically high savings rate, as shown below. As government-mandated restrictions ease and health fears subside, we expect spending to bounce back in the second half of 2021.

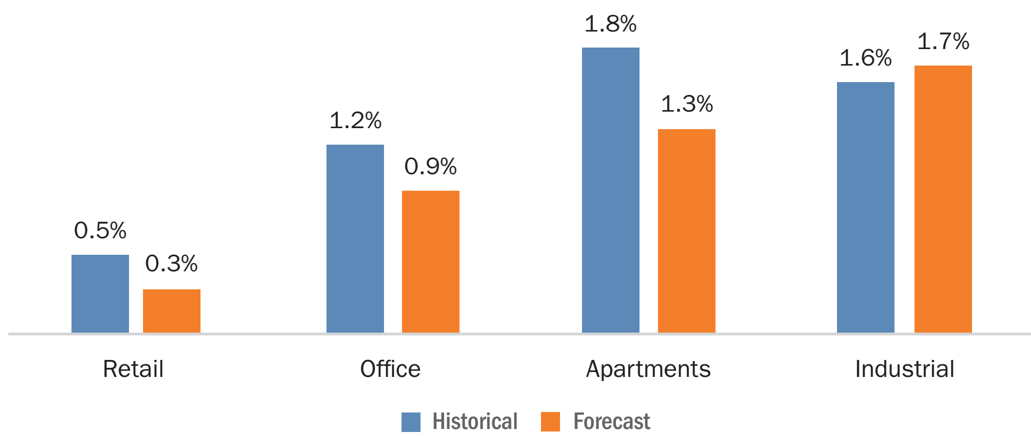
### High savings rates and growing incomes imply higher future spending




*Data source: Bloomberg, Bureau of Economic Analysis, Jan 2005 to Oct 2020.*

- **Slowing supply growth** – New construction was largely paused at the onset of the pandemic in March 2020, as real estate firms' appetite for development risk diminished. This interruption in supply bodes well for owners of existing real estate as competition for tenants eases just as demand recovers.

### 5-year supply growth historical vs forecasted




*Source: CBRE data as of September 30th 2020*

**Log in to your account on TIAA.org or visit TIAA.org/REA to learn more.**

While 2020 was certainly a challenging year, we believe there is reason for optimism in 2021. The Account is well positioned for the future. Given its strong balance sheet and broad portfolio diversification, it has the unique ability to make strategic asset allocation decisions during this unprecedented time. As we look to 2021, the Account will seek to further improve diversification by selling lower productivity assets and acquiring assets in preparation for what we believe is a bright future. We thank you for your trust and support and we will continue to provide the high-quality management and service that you deserve.

Sincerely,

Randy Giraldo
Portfolio Manager
TIAA Real Estate Account



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