# FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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## FILER

**TIAA REAL ESTATE ACCOUNT**
CIK:**946155**| State of Incorp.:**NY** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **033-92990** | Film No.: **99573809**

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from __________ to __________

Commission file numbers 33-92990, 333-13477 and 333-22809

TIAA REAL ESTATE ACCOUNT
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | Not Applicable |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

c/o Teachers Insurance and Annuity Association of America
730 Third Avenue
New York, New York 10017-3206
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (212) 490-9000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES _X_ NO ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: [X] -- Not Applicable

Aggregate market value of voting stock held by non-affiliates: Not Applicable

Documents Incorporated by Reference: None

PART I

ITEM 1. BUSINESS.

General. The TIAA Real Estate Account (the "Real Estate Account" or the "Account") was established on February 22, 1995, as a separate investment account of Teachers Insurance and Annuity Association of America ("TIAA"), a nonprofit New York insurance company, by resolution of TIAA's Board of Trustees. The Account, which invests mainly in real estate and real estate-related investments, is a variable annuity investment option offered through individual, group and tax-deferred annuity contracts available to employees of educational and research institutions. The Account commenced operations on July 3, 1995, when TIAA contributed $100 million of seed money to the Account, and interests in the Account were first offered to eligible participants on October 2, 1995.

Investment Objective. The Real Estate Account seeks favorable long term returns primarily through rental income and appreciation of real estate investments owned by the Account. The Account also will invest in publicly-traded securities and other investments that are easily converted to cash to make redemptions, purchase or improve properties or cover other expenses.

Investment Strategy. The Account seeks to invest between 70 percent to 95 percent of its assets directly in real estate or real estate-related investments. The Account's principal strategy is to purchase direct ownership interests in income-producing real estate, such as office, industrial, retail, and multi-family residential properties. The Account can also invest in other real estate or real estate-related investments, through joint ventures, real estate partnerships or real estate investment trusts (REITs). To a limited extent, the Account can also invest in conventional mortgage loans, participating mortgage loans, common or preferred stock of companies whose operations involve real estate (i.e., that primarily own or manage real estate), and collateralized mortgage obligations (CMOs).

The Account will invest the remaining portion of its assets in government and corporate debt securities, money market instruments and other cash equivalents, and, at times, stock of companies that don't primarily own or manage real estate. In some circumstances, the Account can increase the portion of its assets invested in debt securities or money market instruments. This could happen if the Account receives a large inflow of money in a short period of time, there is a lack of attractive real estate investments available on the market, or the Account anticipates a need to have more cash available.

The amount the Account invests in real estate and real estate-related investments at a given time will vary depending on market conditions and real estate prospects, among other factors. Through December 31, 1998, the Account had 76.7 percent of its assets invested in real estate and real estate-related investments (including REITs).

Net Assets and Portfolio Investments. As of December 31, 1998, the Account's net assets totalled $1,196,366,887. Through December 31, 1998, the Account had acquired a total of 46 real



estate properties, including 12 office properties, 16 industrial properties, 5 neighborhood shopping enters and 13 apartment complexes. As of December 31, 1998, these properties represented 67.71% of the Account's total investment portfolio. As of that date, the Account also held investments in U.S. government agencies, representing 13.97% of the portfolio, commercial paper, representing 9.09% of the portfolio, real estate investment trusts (REITs), representing 8.98% of the portfolio, and corporate bonds, representing .25% of the portfolio.

Personnel and Management. The Real Estate Account does not directly employ any persons nor does the Account have its own management or board of directors. Rather, TIAA employees, under the direction and control of TIAA's Board of Trustees and Investment Committee, manage the investment of the Account's assets pursuant to investment management procedures adopted by TIAA for the Account. TIAA and TIAA-CREF Individual & Institutional Services, Inc. ("Services"), a subsidiary of TIAA, provide all portfolio accounting, custodial, distribution, administrative and related services for the Account at cost.

ITEM 2. PROPERTIES.

Set forth below is general information about each of the Account's portfolio properties, as of December 31, 1998.

<TABLE>
<CAPTION>

| Property | Location | Year Built | Year Purchased | Rentable Area (sq. ft.) | Percent Leased | Annual Avg. Base Rent per Leased Sq. Ft.(1) | Market Value(2) |
|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| OFFICE PROPERTIES | | | | | | | |
| Parkview Plaza(3) | Oakbrook, IL | 1990 | 1997 | 263,912 | 100% | $18.82 | $ 52,106,591 |
| Columbia Centre III | Rosemont, IL | 1989 | 1997 | 238,941 | 99% | $19.30 | $ 41,000,000 |
| Metro Center Office Park(3)(4) | Sacramento, CA | 1986 | 1997 | 257,989 | 96% | $16.24 | $ 30,056,741 |
| Fairgate at Ballston(3) | Arlington, VA | 1988 | 1997 | 143,564 | 100% | $19.55 | $ 28,725,524 |
| Longview Executive Park(3) | Hunt Valley, MD | 1988 | 1997 | 257,944 | 98% | $10.79 | $ 27,400,000 |
| Two Newton Place(3) | Newton, MA | 1987 | 1997 | 108,819 | 100% | $18.35 | $ 19,600,000 |
| Five Centerpointe(3) | Lake Oswego, OR | 1988 | 1997 | 113,910 | 98% | $19.19 | $ 18,703,502 |
| 371 Hoes Lane | Piscataway, NJ | 1986 | 1997 | 136,088 | 100% | $15.70 | $ 15,614,856 |
| Corporate Center at Sawgrass | Sunrise, FL | 1997 | 1997 | 91,113 | 100% | $16.26 | $ 14,000,000 |
| Southbank Building | Phoenix, AZ | 1995 | 1996 | 122,535 | 100% | $ 9.36 | $ 13,000,000 |
| Northmark Business Center(3) | Blue Ash, OH | 1985 | 1997 | 106,552 | 100% | $12.17 | $ 12,632,603 |
| USF&G Building(3) | Salt Lake City, UT | 1988 | 1997 | 66,526 | 87% | $19.26 | $ 8,800,224 |
| | | | | --------- | | | ------------ |
| Subtotal--Office Properties | | | | 1,907,893 | | | $281,640,041 |
| INDUSTRIAL PROPERTIES | | | | | | | |
| IDI California Portfolio | | | | | | | $ 35,668,791 |
| Timberland Building | Ontario, CA | 1998 | 1998 | 414,435 | 100% | $ 3.52 | -- |
| Park Mira Loma West | Mira Loma, CA | 1998 | 1998 | 557,500 | 100%(5) | $ 3.18 | -- |
| Saks Distribution Facility | Aberdeen, MD | 1997 | 1997 | 470,707 | 100%(5) | $ 5.61 | $ 29,900,000 |
| Park West Int'l Industrial Pk | | | | | | | $ 24,651,154 |
| Building C | Hebron, KY | 1998 | 1998 | 520,000 | 100% | $ 2.90 | -- |
| Buidling D | Hebron, KY | 1998 | 1998 | 184,800 | 100% | $ 2.99 | -- |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ontario Portfolio | | | | | | | $ 24,433,584 |
| 5200 Airport Drive | Ontario, CA | 1997 | 1998 | 404,500 | 100% | $ 3.48 | -- |
| 1200 S. Etiwanda Ave. | Ontario, CA | 1998 | 1998 | 223,170 | 100% | $ 3.36 | -- |

</TABLE>



<TABLE>

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Glen Pointe Business Park | | | | | | | $ 15,400,000 |
| Building V | Chicago, IL | 1997 | 1998 | 117,600 | 100% | $ 5.89 | -- |
| Building VII | Chicago, IL | 1997 | 1998 | 92,543 | 100% | $ 7.23 | -- |
| Interstate Acres | Urbandale, IA | 1981-88 | 1997 | 440,000 | 97% | $ 3.18 | $ 14,369,742 |
| Eastgate Distribution Center | San Diego, CA | 1996 | 1997 | 200,000 | 100% | $ 5.43 | $ 12,700,000 |
| Arapahoe Park E. | Boulder, CO | 1979-82 | 1996 | 129,425 | 100% | $ 9.13 | $ 11,500,000 |
| UPS Distribution Facility | Fernley, NV | 1998 | 1998 | 256,000 | 100% | $ 3.17 | $ 10,989,393 |
| Woodcreek Business Park | Chicago, IL | 1995 | 1998 | 149,907 | 100%(5) | $ 4.32 | $ 6,800,000 |
| Rockrun Business Park | Chicago, IL | 1998 | 1998 | 258,000 | 100% | $ 2.89 | $ 9,325,000 |
| FedEx Distribution Facility | Crofton, MD | 1998 | 1998 | 111,193 | 100% | $ 5.64 | $ 7,828,025 |
| Westinghouse | Coral Springs, FL | 1997 | 1997 | 75,630 | 100% | $ 7.29 | $ 6,200,000 |
| Interstate Crossing | Eagan, MN | 1995 | 1996 | 131,380 | 100% | $ 4.90 | $ 6,361,020 |
| Butterfield Industrial Park | El Paso, TX | 1980-81 | 1995 | 183,510 | 100% | $ 3.62 | $ 4,850,000 |
| River Road Distribution Center | Fridley, MN | 1995 | 1995 | 100,584 | 100% | $ 5.97 | $ 4,200,000 |
| | | | | --------- | | | ------------- |
| Subtotal--Industrial Properties | | | | 5,020,884 | | | $225,176,709 |
| RETAIL PROPERTIES | | | | | | | |
| Rolling Meadows | Rolling Meadows, IL | 1957(6) | 1997 | 131,070 | 92% | $10.09 | $ 12,650,000 |
| River Oaks | Woodbridge, VA | 1995 | 1996 | 90,885 | 92% | $14.37 | $ 12,600,000 |
| Lynnwood Collection | Raleigh, NC | 1988 | 1996 | 86,362 | 100% | $ 9.11 | $ 7,500,000 |
| Millbrook Collection | Raleigh, NC | 1988 | 1996 | 102,221 | 95% | $ 7.88 | $ 7,300,000 |
| Plantation Grove | Ocoee, FL | 1995 | 1995 | 73,655 | 96% | $ 9.73 | $ 7,200,000 |
| | | | | --------- | | | ------------ |
| Subtotal--Retail Properties | | | | 484,193 | | | $47,250,000 |
| | | | | --------- | | | ------------ |
| Subtotal--Commercial Properties | | | | 7,412,970 | | | $554,066,750 |
| RESIDENTIAL PROPERTIES(7) | | | | | | | |
| Bay Court at Harbour Pointe | Mulkiteo, WA | 1991 | 1998 | NA | 91% | NA | $ 35,164,373 |
| The Legends at Chase Oaks | Plano, TX | 1997 | 1998 | NA | 90% | NA | $ 29,200,000 |
| Lodge at Willow Creek | Douglas County, CO | 1997 | 1997 | NA | 96% | NA | $ 28,500,000 |
| Golfview Apartments | Lake Mary, FL | 1998 | 1998 | NA | 89% | NA | $ 28,010,000 |
| Lincoln Woods | Lafayette Hill, PA | 1991 | 1997 | NA | 95% | NA | $ 22,700,000 |
| Monte Vista | Littleton, CO | 1995 | 1996 | NA | 90% | NA | $ 19,500,000 |
| Indian Creek Apartments | Farmington Hills, MI | 1988 | 1998 | NA | 88% | NA | $ 17,003,388 |
| Brixworth | Atlanta, GA | 1989 | 1995 | NA | 98% | NA | $ 16,800,000 |
| Royal St. George | W. Palm Beach, FL | 1995 | 1996 | NA | 98% | NA | $ 16,500,000 |
| Westcreek | Westlake Village, CA | 1988 | 1997 | NA | 99% | NA | $ 14,554,494 |
| Bent Tree Apartments | Columbus, OH | 1987 | 1998 | NA | 85% | NA | $ 14,412,235 |
| The Greens at Metrowest | Orlando, FL | 1990 | 1995 | NA | 93% | NA | $ 14,300,000 |
| The Crest at Shadow Mt. | El Paso, TX | 1992 | 1997 | NA | 94% | NA | $ 9,500,000 |
| | | | | | | | ------------ |
| Subtotal--Residential Properties | | | | NA | | | $266,144,490 |
| | | | | --------- | | | ------------ |
| Total--All Properties | | | | 7,412,970 | | | $820,211,240 |

</TABLE>

(1) Based on total rent (excluding tenant payments for real estate taxes and operating expenses) on leases existing at December 31, 1998.

(2) Market value reflects the value determined in accordance with the procedures described in the Account's prospectus. The values shown here assume the Account owns 100% of the properties, including those held jointly.

(3) Purchased through Light Street Partners, L.P., a partnership with Pegasus Partners, Inc., a subsidiary of USF&G Corporation.

(4) Light Street Partners, L.P. sold the Metro Center on January 29, 1999 for a purchase price of $31,750,000.

(5) A portion of the property is under master lease.

(6) Renovated in 1991 and 1995.

(7) For the average unit size and annual average rent per unit for each residential property, see "Residential Properties" below.

Commercial (Non-Residential) Properties

In General. Through the end of 1998, the Account held 33 commercial (non-residential) properties in its portfolio. None of these properties is subject to a mortgage, and although the terms vary under each lease, certain expenses, such as real estate taxes and other operating expenses, are paid or reimbursed by the tenants.

Through the end of 1998, the Account's office property portfolio consisted of 12 suburban office properties located in metropolitan areas throughout the United States. The office properties together are approximately 98 percent leased to 135 tenants. The Account has a 90 percent interest in eight of the office properties, which are held in a partnership with Pegasus Partners, Inc., a wholly-owned subsidiary of USF&G Corporation. (One of these office properties was sold in 1999.) USF&G Realty Advisors, Inc. provides real estate advisory services to the partnership and assists in the overall management of those properties. The partnership has recently notified USF&G Realty Advisors, Inc. that it is exercising its right to terminate without cause its advisory arrangement with the partnership as of April 30, 1999.

Through the end of 1998, the Account's industrial property portfolio consisted of 16 properties used primarily for warehousing, distribution, or light manufacturing activities. The Account's industrial properties together are 100 percent leased to 55 tenants.

The Account's retail property portfolio consisted of five neighborhood shopping centers, each of which is anchored by a supermarket tenant through the end of 1998. These retail properties together are approximately 95 percent leased to 74 tenants.

Residential Properties

The Account's residential property portfolio currently consists of 13 first class or luxury multi-family garden apartment complexes. None of the properties in the portfolio is subject to a mortgage. The complexes generally contain one- to three-bedroom apartment units, with a range of amenities, such as patios or balconies, washers and dryers, and central air conditioning. Many of these apartment communities have use of on-site fitness facilities, including some with swimming pools. Rents on each of the properties tend to be comparable with competitive communities and are not subject to rent regulation. The Account is responsible for the expenses of operating the properties.



In the table below you will find more detailed information regarding the apartment complexes in the Account's portfolio as of December 31, 1998.

<TABLE>
<CAPTION>

| Property | Location | Number of Units | Average Unit Size (Square Feet) | Avg. Rent Per Unit/ Per Month | Percent Leased |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Bay Court at Harbour Pointe | Mulkiteo, WA | 420 | 970 | $ 861 | 91% |
| The Legends at Chase Oaks | Plano, TX | 346 | 972 | $ 1010 | 90% |
| Lodge at Willow Creek | Douglas County, CO | 316 | 1001 | $ 964 | 96% |
| Golfview Apartments | Lake Mary, FLA | 276 | 1089 | $ 1018 | 89% |
| Lincoln Woods | Lafayette Hill, PA | 216 | 773 | $ 1090 | 95% |
| Monte Vista | Littleton, CO | 219 | 888 | $ 998 | 92% |
| Indian Creek Apartments | Farmington Hills, MI | 196 | 1139 | $ 940 | 88% |
| Brixworth | Atlanta, GA | 271 | 718 | $ 809 | 98% |
| Royal St. George | West Palm Beach, FL | 224 | 870 | $ 846 | 98% |
| Westcreek | Westlake Village, CA | 126 | 948 | $ 1180 | 98% |
| Bent Tree Apartments | Columbus, OH | 256 | 928 | $ 685 | 85% |
| The Greens at Metrowest | Orlando, FL | 200 | 920 | $ 855 | 90% |
| The Crest at Shadow Mt. | El Paso, TX | 232 | 837 | $ 627 | 96% |

</TABLE>

Recent Property Purchases and Sales

On January 29, 1999, the Metro Center office property, which the Account held in partnership with USF&G, was sold for a purchase price of $31,750,000.

On February 23, 1999, the Account purchased the Biltmore Commerce Center, an office building located in Phoenix, Arizona, for a purchase price of approximately $37,250,000.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S SECURITIES AND RELATED STOCKHOLDER MATTERS.

(a) Market Information. There is no established public trading market for participating interests in the TIAA Real Estate Account. Accumulation units in the Account are sold to eligible participants at the Account's current accumulation unit value, which is based on the value of the Account's then current net assets. For the period from January 1, 1998 to December 31, 1998, the high and low accumulation unit values for the Account were $132.1715 and $122.2813, respectively.



(b) Approximate Number of Holders. The number of contractowners at February 28, 1999 was 99,846.

(c) Dividends. Not applicable.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data should be considered in conjunction with the Account's consolidated financial statements and notes provided in this report.

<TABLE>
<CAPTION>

| <S> | Year Ended December 31, 1998 <C> | Year Ended December 31, 1997 <C> | Year Ended December 31, 1996 <C> | July 3, 1995 (commencement of operations) to December 31, 1995 <C> |
|---|---|---|---|---|
| Investment income: | | | | |
| Real estate income, net: | | | | |
| Rental income | $ 81,009,203 | $ 44,342,342 | $ 10,951,183 | $ 165,762 |
| Real estate property level expenses and taxes: | | | | |
| Operating expenses | 17,339,706 | 9,024,240 | 2,116,334 | 29,173 |
| Real estate taxes | 9,103,637 | 4,472,311 | 1,254,163 | 14,659 |
| Total real estate property level expenses and taxes | 26,443,343 | 13,496,551 | 3,370,497 | 43,832 |
| Real estate income, net | 54,565,860 | 30,845,791 | 7,580,686 | 121,930 |
| Dividends and interest | 23,943,728 | 16,486,279 | 6,027,486 | 2,828,900 |
| Total investment income | $ 78,509,588 | $ 47,332,070 | $ 13,608,172 | $ 2,950,830 |
| Net realized and unrealized gain on investments | $ 7,864,659 | $ 18,147,053 | $ 3,330,539 | $ 35,603 |
| Net increase in net assets resulting from operations | $ 76,611,662 | $ 60,071,400 | $ 15,782,915 | $ 2,676,000 |
| Net increase in net assets resulting from participant transactions | $ 333,936,510 | $356,052,262 | $233,653,793 | $117,582,345 |
| Net increase in net assets | $ 410,548,172 | $416,123,662 | $249,436,708 | $120,258,345 |

| | December 31, 1998 | December 31, 1997 | December 31, 1996 | December 31, 1995 |
|---|---|---|---|---|
| Total assets | $1,229,603,431 | $815,760,825 | $426,372,007 | $143,177,421 |

| | | | | |
|---|---|---|---|---|
| Total liabilities and minority interest...... | $ 33,236,544 | $ 29,942,110 | $ 56,676,954 | $ 22,919,076 |
| Total net assets............................ | $1,196,366,887 | $785,818,715 | $369,695,053 | $120,258,345 |
| Accumulation units outstanding.............. | 8,833,911 | 6,313,015 | 3,295,786 | 1,172,498 |
| Accumulation unit value..................... | $132.17 | $122.30 | $111.11 | $102.57 |

</TABLE>



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF ACCOUNT'S FINANCIAL CONDITION AND OPERATING RESULTS

The TIAA Real Estate Account began operating on July 3, 1995 and interests in the Account were first offered to participants on October 2, 1995. In a significant achievement for its short existence, the Account passed the $1 billion mark in net assets during 1998.

Through December 31, 1998, the Account had acquired a total of 46 real estate properties, including 12 office properties, 16 industrial properties, 5 neighborhood shopping enters and 13 apartment complexes. As of December 31, 1998, these properties represented 67.71% of the Account's total investment portfolio.

The Account purchased 8 industrial properties and 5 apartment properties during 1998. The Account has sold one office property and purchased one additional office property since the beginning of 1999. The Account continues to pursue suitable property acquisitions, and is currently in various stages of negotiations with a number of prospective sellers. While attractive acquisition prospects are available in the current market, significant competition exists for the most desirable properties.

As of December 31, 1998, the Account also held investments in U.S. government agencies, representing 13.97% of the portfolio, commercial paper, representing 9.09% of the portfolio, real estate investment trusts (REITs), representing 8.98% of the portfolio, and corporate bonds, representing .25% of the portfolio.

The Account owns a controlling 90% interest in a partnership which owns office buildings throughout the U.S. Consistent with generally accepted accounting principles (GAAP), the Account's consolidated financial statements and all financial data discussed in this report reflect 100% of the value of the partnership's assets. The 10% interest of the other partner in the partnership is reflected as a minority interest in the Account's consolidated financial statements.

### Results of Operations

### Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

The Account's total net return was 8.07% for the year ended December 31, 1998 and 10.07% for 1997. This decline was primarily due to the decline in value of the Account's REIT holdings. The Account's net investment income, after deduction of all expenses, was $72,234,994 for the year ended December 31, 1998 and $43,805,525 for the year ended December 31, 1997, a 65% increase. This increase was the result of a 52% increase in net assets and an increase in the Account's real estate holdings from December 31, 1997 to December 31, 1998. The Account had net realized and unrealized gains on investments of $7,864,659 and $18,147,053 for the year ended December 31, 1998 and December 31, 1997, respectively. This decrease was primarily the result of the decline in price of the Account's REITs and other marketable securities, as well as the losses incurred from the sale of certain of those investments. These realized and unrealized losses on marketable securities diminished the increase in unrealized appreciation on the Account's real estate properties, which was $33,221,281 in 1998 compared with $10,234,316 in 1997. That increase was the result of the increased values assigned to many of the properties after periodic revaluations from internal or independent appraisals.



The Account's real estate holdings generated approximately 70% and 65% of the Account's total investment income (before deducting Account level expenses) during the year ended December 31, 1998 and December 31, 1997, respectively. The remaining portion of the Account's total investment income was generated by investments in marketable securities.

Gross real estate rental income was $81,009,203 for the year ended

December 31, 1998 and $44,342,342 for the same period in 1997. This increase was primarily due to the increase in the number of properties owned by the Account -- from 33 properties at the end of 1997 to 46 properties at the end of 1998. Interest and dividend income on the Account's marketable securities investments increased from $16,486,279 for 1997 to $23,943,728 for 1998. This increase was due to the fact that the actual amount of money the Account had invested in marketable securities went up as the Account's net asset base grew.

Total property level expenses for the year ended December 31, 1998 were $26,443,343 of which $17,339,706 was attributable to operating expenses and $9,103,637 was attributable to real estate taxes. Total property level expenses for the year ended December 31, 1997 were $13,496,551, of which $9,024,240 represented operating expenses and $4,472,311 was attributable to real estate taxes. The increase in property level expenses during 1998 reflected the increased number of properties in the Account.

The Account also incurred expenses for the year ended December 31, 1998 and 1997 of $2,999,113 and $1,647,689, respectively, for investment advisory services, $2,498,376 and $1,368,501, respectively, for administrative and distribution services, and $777,105 and $510,355, respectively, for mortality and expense risk charges and liquidity guarantee charges. Such expenses increased as a result of the larger net asset base of the Account for 1998 over 1997.

Year Ended December 31, 1997 Compared to
Year Ended December 31, 1996

The Account's total net return was 10.07% for the year ended December 31, 1997 and 8.33% for 1996. The Account's net investment income, after deduction of all expenses, was $43,805,525 for the year ended December 31, 1997 and $12,452,376 for the year ended December 31, 1996, a 252% increase. This increase was the result of a growing base of net assets, which increased 113% from December 31, 1996 to December 31, 1997, and a greater concentration of real estate holdings during the period. In addition, the Account had net realized and unrealized gains on investments of $18,147,053 and $3,330,539 for the year ended December 31, 1997 and December 31, 1996, respectively. This increase was primarily the result of the net increase in unrealized appreciation of $10,234,316 of the Account's properties the real estate assets and $6,836,012 of the Account's marketable securities. These increases reflect the increased value assigned to many of the properties from periodic revaluations and the increase in the value of REITs and other marketable securities during the year.

The Account's real estate holdings generated approximately 65% and 56% of the Account's total investment income (before deducting Account level expenses) during the year ended December 31, 1997 and December 31, 1996, respectively. The remaining portion of the Account's total investment income was generated by investments in marketable securities.



Gross real estate rental income was $44,342,342 for the year ended December 31, 1997 and $10,951,183 for 1996. This increase was primarily due to the increase in the number of properties owned by the Account -- from 13 properties at the end of 1996 to 33 properties at the end of 1997. Interest and dividend income on the Account's marketable securities investments increased from $6,027,486 for 1996 to $16,486,279 for 1997. This increase in interest and dividend income was due primarily to the increased size of the Account's marketable securities holdings (REITs in particular) and the general growth of the Account's assets. Notably, shares of REITs represented 4.95% of the Account's investments at the end of 1996 and 13.64% of the Account investments at the end of 1997.

Total property level expenses for the year ended December 31, 1997 were $13,496,551, of which $9,024,240 represented operating expenses and $4,472,311 was attributable to real estate taxes. Total property level expenses for the year ended December 31, 1996 were $3,370,497 of which $2,116,334 represented operating expenses and $1,254,163 was attributable to real estate taxes. The increase in property level expenses during 1997 reflected the increased number of properties in the Account.

The Account also incurred expenses for the year ended December 31, 1997 and 1996 of $1,647,689 and $642,042, respectively, for investment advisory services, $1,368,501 and $437,894, respectively, for administrative and distribution services and $510,355 and $75,860, respectively, for mortality and expense risk charges and liquidity guarantee charges. Such expenses increased as a result of the larger net asset base of the Account for 1997 over 1996.

Liquidity and Capital Resources

Since September 16, 1996, TIAA had been redeeming the accumulation units related to its $100 million seed money investment in the Account in accordance with a repayment schedule approved by the New York Insurance Department. By December 31, 1998, the Account had redeemed its entire seed money investment.

The Account earned $72,234,994 in net investment income in 1998 and $43,805,525 in 1997. During 1998 the Account received $91,248,578 in premiums and $337,568,064 in net participant transfers from other TIAA and CREF accounts, while in 1997 the Account received $52,344,830 in premiums and $351,174,584 in net participant transfers from other TIAA and CREF accounts. Real estate properties costing $259,746,550 and $377,086,027 were purchased during 1998 and 1997, respectively. At the end of 1998 the Account's liquid assets (i.e., its cash, REITs, short- and intermediate-term investments, and government securities) had a value of $391,605,900, while at the end of 1997 those assets were valued at $280,409,640. We anticipate that much of the Account's liquid assets as of December 31, 1998, exclusive of the REITs, will be used by the Account to purchase additional suitable real estate properties. The remaining liquid assets, exclusive of the REITs, will continue to be available to meet expense needs and redemption requests (e.g., cash withdrawals or transfers).

If the Account's liquid assets and its cash flow from operating activities and participant transactions are not sufficient to meet its cash needs, including redemption requests, TIAA's general account will purchase liquidity units in accordance with TIAA's liquidity guarantee to the Account.



The Account spent approximately $5,426,497 in 1998 for capital (long-term) expenses, including ongoing tenant improvements and leasing commissions at the commercial properties which related to the renewal of existing tenants or re-leasing of space to new tenants during the normal course of business. The Account expects to increase this level of spending as the portfolio of commercial properties grows and new tenants are attracted to lease space in the buildings. For the apartment complexes, the Account expects to incur only routine recurring costs, e.g., painting and carpet cleaning and minor replacements to re-lease apartments that become vacant.

Effects of Inflation

In recent years, inflation has been modest. To the extent that inflation may increase property operating expenses in the future, we anticipate that increases will generally be billed to tenants either through contractual lease provisions in office, industrial, and retail properties or through rent increases in apartment complexes. However, to the extent there is unrented space in a property, the Account may not be able to recover the full amount of such increases in operating expenses.

Year 2000 Issues

TIAA and the Account depend on the smooth functioning of computer systems to operate. The Account, the Account's properties, and participant services could be affected if TIAA's computer systems, the Account's property computer systems, or those of its external service providers fail or incorrectly process or calculate date-related information on or after January 1, 2000.

TIAA is dedicated to providing uninterrupted, high-quality service before, during, and after the Year 2000. To achieve this goal, we have developed and have been actively carrying out an extensive Year 2000 plan to remediate, test and certify all internal computer systems, and to verify, to the extent possible, that external service providers will be ready for the Year 2000. We currently expect to complete Year 2000 testing and initial certification of our internal corporate systems by mid-1999. We are also in the process of testing the critical interfaces we have with our major service providers, vendors, and suppliers. In particular, TIAA has been actively working with all those responsible for property computer systems, i.e., management companies and certain tenants, to assure that they have developed and are implementing plans to remediate and test property systems in a timely manner. In addition, we are making contingency plans intended to lessen the effect unexpected systems failures (internal and external) may have on operations.

While we have taken steps we believe reasonably address the Year 2000 problem, we can't guarantee complete success or eliminate the possibility that interaction with outside computer systems could affect Account operations. If the systems the Account relies upon do fail or produce faulty data, there could be delays in properly processing transactions, or we may be unable temporarily to engage in normal business activities. Also, the Account's performance could be affected if the properties, companies or government entities in which the Account invests are negatively affected by the Year 2000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
## TIAA REAL ESTATE ACCOUNT



All other schedules are omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information is included in the financial statements and notes thereto.



## REPORT OF MANAGEMENT RESPONSIBILITY

To the Participants of the
TIAA Real Estate Account:

The accompanying financial statements of the TIAA Real Estate Account ("Account") of Teachers Insurance and Annuity Association of America ("TIAA") are the responsibility of TIAA's management. They have been prepared in accordance with generally accepted accounting principles and have been presented fairly and objectively in accordance with such principles.

TIAA has established and maintains a strong system of internal controls designed to provide reasonable assurance that assets are properly safeguarded and transactions are properly executed in accordance with management's authorization, and to carry out the ongoing responsibilities of management for reliable financial statements. In addition, TIAA's internal audit personnel provide a continuing review of the internal controls and operations of TIAA, including its separate account operations.

The accompanying financial statements have been audited by the independent auditing firm of Ernst & Young LLP. The independent auditors' report, which appears on the following page, expresses an independent opinion on the fairness of presentation of these financial statements.

The Audit Committee of the TIAA Board of Trustees, consisting of trustees who are not officers of TIAA, meets regularly with management, representatives of Ernst & Young LLP and internal audit personnel to review matters relating to financial reporting, internal controls and auditing.

/s/John H. Biggs
Chairman, President and
Chief Executive Officer

/s/Richard L. Gibbs
Executive Vice President and
Principal Accounting Officer



ERNST & YOUNG LLP 1211 Avenue of the Americas Phone: 212 773-4900

New York, New York 10036 Fax: 212 773-4501

REPORT OF INDEPENDENT AUDITORS

To the Participants of the TIAA Real Estate Account and the
Board of Trustees of Teachers Insurance and Annuity Association of America:

We have audited the accompanying consolidated statements of assets and liabilities, including the statement of investments, of the TIAA Real Estate Account ("Account") of Teachers Insurance and Annuity Association of America ("TIAA") as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in net assets and cash flows for the two years then ended. We have also audited the financial statement schedule listed on the Index as Item 8. These consolidated financial statements and financial statement schedule are the responsibility of TIAA's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. The consolidated financial statements for 1996 were audited by other auditors whose report dated February 6, 1997 expressed an unqualified opinion on those consolidated financial statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our procedures included confirmation of securities owned as of December 31, 1998, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Account as of December 31, 1998 and 1997, the results of its operations and the changes in its net assets and its cash flows for the two years then ended, in conformity with generally accepted accounting principles. Also in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young

February 5, 1999

Ernst & Young LLP is a member of Ernst & Young International, Ltd.



TIAA REAL ESTATE ACCOUNT
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

<TABLE>
<CAPTION>

| <S> | December 31, 1998 <C> | December 31, 1997 <C> |
|---|---|---|
| ASSETS | | |
| Investments, at value: | | |
| Real estate properties | | |
| (cost: $775,801,883 and $510,096,015) | $820,211,240 | $521,284,091 |
| Marketable securities | | |
| (cost: $402,041,089 and $270,910,952) | 391,033,557 | 280,002,042 |
| Cash | 572,343 | 407,598 |
| Other | 17,786,291 | 14,067,094 |
| TOTAL ASSETS | 1,229,603,431 | 815,760,825 |
| LIABILITIES | | |
| Payable for securities transactions | -- | 10,463 |
| Accrued real estate property level expenses and taxes | 11,432,529 | 10,343,593 |
| Security deposits held | 1,890,423 | 1,305,958 |

| | 1998 | 1997 |
|---|---|---|
| TOTAL LIABILITIES | 13,322,952 | 11,660,014 |
| MINORITY INTEREST | 19,913,592 | 18,282,096 |
| NET ASSETS | | |
| Accumulation Fund | 1,167,591,317 | 772,059,676 |
| Annuity Fund | 28,775,570 | 13,759,039 |
| TOTAL NET ASSETS | $1,196,366,887 | $785,818,715 |
| THOUSANDS OF ACCUMULATION UNITS OUTSTANDING--Notes 6 and 7 | 8,833,911 | 6,313,015 |
| NET ASSET VALUE, PER ACCUMULATION UNIT--Note 6 | $132.17 | $122.30 |

</TABLE>

See notes to consolidated financial statements.



TIAA REAL ESTATE ACCOUNT
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>

| <S> | Years Ended December 31, 1998 <C> | 1997 <C> | 1996 <C> |
|---|---|---|---|
| INVESTMENT INCOME | | | |
| Real estate income, net: | | | |
| Rental income | $ 81,009,203 | $ 44,342,342 | $10,951,183 |
| Real estate property level expenses and taxes: | | | |
| Operating expenses | 17,339,706 | 9,024,240 | 2,116,334 |
| Real estate taxes | 9,103,637 | 4,472,311 | 1,254,163 |
| Total real estate property level expenses and taxes | 26,443,343 | 13,496,551 | 3,370,497 |
| Real estate income, net | 54,565,860 | 30,845,791 | 7,580,686 |
| Interest | 15,588,829 | 12,079,600 | 5,570,907 |
| Dividends | 8,354,899 | 4,406,679 | 456,579 |
| TOTAL INCOME | 78,509,588 | 47,332,070 | 13,608,172 |
| Expenses -- Note 3: | | | |
| Investment advisory charges | 2,999,113 | 1,647,689 | 642,042 |
| Administrative and distribution charges | 2,498,376 | 1,368,501 | 437,894 |
| Mortality and expense risk charges | 675,450 | 400,925 | 70,535 |
| Liquidity guarantee charges | 101,655 | 109,430 | 5,325 |
| TOTAL EXPENSES | 6,274,594 | 3,526,545 | 1,155,796 |
| INVESTMENT INCOME, NET | 72,234,994 | 43,805,525 | 12,452,376 |
| REALIZED AND UNREALIZED GAIN ON INVESTMENTS | | | |
| Net realized gain (loss) on marketable securities | (5,258,000) | 1,076,725 | 141,439 |
| Net change in unrealized appreciation on: | | | |
| Real estate properties | 33,221,281 | 10,234,316 | 953,760 |
| Marketable securities | (20,098,622) | 6,836,012 | 2,235,340 |
| Net change in unrealized appreciation on investments | 13,122,659 | 17,070,328 | 3,189,100 |
| NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS | 7,864,659 | 18,147,053 | 3,330,539 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS BEFORE MINORITY INTEREST | 80,099,653 | 61,952,578 | 15,782,915 |
| Minority interest in net increase in net assets resulting from operations | (3,487,991) | (1,881,178) | -- |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | $ 76,611,662 | $ 60,071,400 | $15,782,915 |

</TABLE>

See notes to consolidated financial statements.



TIAA REAL ESTATE ACCOUNT
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

| | Years Ended December 31, 1998 | 1997 | 1996 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| FROM OPERATIONS | | | |
| Investment income, net | $ 72,234,994 | $ 43,805,525 | $ 12,452,376 |
| Net realized gain (loss) on marketable securities | (5,258,000) | 1,076,725 | 141,439 |
| Net change in unrealized appreciation on investments | 13,122,659 | 17,070,328 | 3,189,100 |
| Minority interest in net increase in net assets resulting from operations | (3,487,991) | (1,881,178) | -- |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | 76,611,662 | 60,071,400 | 15,782,915 |
| Premiums | 91,248,578 | 52,344,830 | 9,665,306 |
| TIAA seed money withdrawn -- Note 1 | (76,666,109) | (37,915,190) | (7,294,134) |
| Net participant transfers from TIAA - General Account | 26,568,616 | 43,681,385 | 19,203,309 |
| Net participant transfers from CREF Accounts | 310,999,448 | 307,493,199 | 213,306,573 |
| Annuity and other periodic payments | (3,209,761) | (1,499,054) | (336,103) |
| Withdrawals | (14,195,234) | (7,696,711) | (864,480) |
| Death benefits | (809,028) | (356,197) | (26,678) |
| NET INCREASE IN NET ASSETS RESULTING FROM PARTICIPANT TRANSACTIONS | 333,936,510 | 356,052,262 | 233,653,793 |
| NET INCREASE IN NET ASSETS | 410,548,172 | 416,123,662 | 249,436,708 |
| NET ASSETS | | | |
| Beginning of year | 785,818,715 | 369,695,053 | 120,258,345 |
| End of year | $ 1,196,366,887 | $ 785,818,715 | $ 369,695,053 |

</TABLE>

See notes to consolidated financial statements.



TIAA REAL ESTATE ACCOUNT
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

| | Years Ended December 31, 1998 | 1997 | 1996 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net increase in net assets resulting from operations | $ 76,611,662 | $ 60,071,400 | $ 15,782,915 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: | | | |
| Increase in investments | (409,958,664) | (433,355,406) | (249,948,493) |
| Decrease (increase) in receivable from securities transactions | -- | 47,480,000 | (24,330,000) |
| Increase in other assets | (3,719,197) | (7,087,554) | (5,331,140) |
| Increase (decrease) in payable for securities transactions | (10,463) | (51,344,156) | 28,566,584 |
| Increase in accrued real estate property level expenses and taxes | 1,088,936 | 5,021,258 | 5,191,294 |
| Increase in security deposits held | 584,465 | 1,305,958 | -- |
| Increase in minority interest | 1,631,496 | 18,282,096 | -- |
| NET CASH USED IN OPERATING ACTIVITIES | (333,771,765) | (359,626,404) | (230,068,840) |
| CASH FLOWS FROM PARTICIPANT TRANSACTIONS | | | |

| | | | |
|---|---|---|---|
| Premiums | 91,248,578 | 52,344,830 | 9,665,306 |
| TIAA seed money withdrawn -- Note 1 | (76,666,109) | (37,915,190) | (7,294,134) |
| Net participant transfers from TIAA - General Account | 26,568,616 | 43,681,385 | 19,203,309 |
| Net participant transfers from CREF Accounts | 310,999,448 | 307,493,199 | 213,306,573 |
| Annuity and other periodic payments | (3,209,761) | (1,499,054) | (336,103) |
| Withdrawals | (14,195,234) | (7,696,711) | (864,480) |
| Death benefits | (809,028) | (356,197) | (26,678) |
| NET CASH PROVIDED BY PARTICIPANT TRANSACTIONS | 333,936,510 | 356,052,262 | 233,653,793 |
| NET INCREASE (DECREASE) IN CASH | 164,745 | (3,574,142) | 3,584,953 |
| CASH | | | |
| Beginning of year | 407,598 | 3,981,740 | 396,787 |
| End of year | $ 572,343 | $ 407,598 | $ 3,981,740 |

</TABLE>

See notes to consolidated financial statements.



## TIAA REAL ESTATE ACCOUNT
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1--Organization

The TIAA Real Estate Account ("Account") is a segregated investment account of Teachers Insurance and Annuity Association of America ("TIAA") and was established by resolution of TIAA's Board of Trustees on February 22, 1995, under the insurance laws of the State of New York, for the purpose of funding variable annuity contracts issued by TIAA. Teachers REA, LLC, a wholly-owned subsidiary of the Account, began operations in July 1996 and holds one property in Virginia. Light Street Partners, L.P. ("Light Street"), a partnership in which the Account holds a 90% interest, began operations in March 1997 and holds eight office buildings throughout the United States. Teachers REA II, Inc., a wholly-owned subsidiary of the Account, began operations in October 1997 and holds one property in Pennsylvania. Teachers REA III, LLC, a wholly-owned subsidiary of the Account, began operations in July 1998 and holds one property in Florida.

The Account commenced operations on July 3, 1995 with a $100,000,000 seed money investment by TIAA. TIAA purchased 1,000,000 Accumulation Units in the Account and such Units share in the prorata investment experience of the Account and are subject to the same valuation procedures and expense deductions as all other Accumulation Units of the Account. The initial registration statement of the Account filed by TIAA with the Securities and Exchange Commission ("Commission") under the Securities Act of 1933 became effective on October 2, 1995. The Account began to offer Accumulation Units and Annuity Units to participants other than TIAA on October 2, and November 1, 1995, respectively. In August 1996, the Account's net assets first reached $200 million and, as required under a five year repayment schedule approved by the New York State Insurance Department ("NYID"), TIAA began to redeem its seed money Accumulation Units in monthly installments of 16,667 Units beginning in September 1996. Since the Account's assets have been growing rapidly, TIAA in October 1997, with NYID approval, modified the seed money redemption schedule by increasing the monthly redemption of Units at a level equal to the value of 25% of the Account's net asset growth for the prior month, with no fewer than 16,667 Units and no more than 100,000 Units to be redeemed each month. These withdrawals were made at prevailing daily net asset values and are reflected in the accompanying consolidated financial statements. At December 31, 1997, TIAA retained 610,864 Accumulation Units, with a total value of $74,706,529. At December 31, 1998, all of TIAA's Accumulation Units have been withdrawn.

The investment objective of the Account is a favorable long-term rate of return primarily through rental income and capital appreciation from real estate investments owned by the Account. The Account also invests in publicly-traded securities and other instruments to maintain adequate liquidity for operating expenses, capital expenditures and to make benefit payments.

TIAA employees, under the direction of TIAA's Board of Trustees and its Investment Committee, manage the investment of the Account's assets pursuant to investment management procedures adopted by TIAA for the Account. TIAA's investment management decisions for the Account are also subject to review by the Account's independent fiduciary, Institutional Property Consultants, Inc. TIAA also provides all portfolio accounting and related services for the Account. TIAA-CREF Individual & Institutional Services, Inc. ("Services"), a subsidiary of TIAA, which is registered with the Commission as a broker-dealer and is a member of the National Association of Securities Dealers, Inc., provides administrative and distribution services pursuant to a Distribution and Administrative Services Agreement with the Account.

Note 2--Significant Accounting Policies

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. Actual results may differ from those estimates. The following is a summary of the significant accounting policies followed by the Account, which are in conformity with generally accepted accounting principles.





Basis of Presentation: The accompanying consolidated financial statements include the Account, Teachers REA, LLC, Teachers REA II, Inc. and Teachers REA III, LLC, its wholly-owned subsidiaries, and Light Street, in which the Account holds a 90% interest. The 10% minority interest in Light Street is reflected separately in the accompanying financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

Valuation of Real Estate Properties: Investments in real estate properties are stated at fair value, as determined in accordance with procedures approved by the Investment Committee of the Board of Trustees and in accordance with the responsibilities of the Board as a whole; accordingly, the Account does not record depreciation. Fair value for real estate properties is defined as the most probable price for which a property will sell in a competitive market under all conditions requisite to a fair sale. Determination of fair value involves subjective judgement because the actual market value of real estate can be determined only by negotiation between the parties in a sales transaction. Real estate properties owned by the Account are initially valued at their respective purchase prices (including acquisition costs). Subsequently, independent appraisers value each real estate property at least once a year. The independent fiduciary must approve all independent appraisers used by the Account. The independent fiduciary can also require additional appraisals if it believes that a property's value has changed materially or otherwise to assure that the Account is valued correctly. TIAA's appraisal staff performs a valuation review of each real estate property on a quarterly basis and updates the property value if it believes that the value of the property has changed since the previous valuation review or appraisal. The independent fiduciary reviews and approves any such valuation adjustments which exceed certain prescribed limits. TIAA continues to use the revised value to calculate the Account's net asset value until the next valuation review or appraisal.

Valuation of Marketable Securities: Equity securities listed or traded on any United States national securities exchange are valued at the last sales price as of the close of the principal securities exchange on which such securities are traded or, if there is no sale, at the mean of the last bid and asked prices on such exchange. Short-term money market instruments are stated at market value. Portfolio securities for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Investment Committee of the Board of Trustees and in accordance with the responsibilities of the Board as a whole.

Accounting for Investments: Real estate transactions are accounted for as of the date on which the purchase or sale transactions for the real estate properties close (settlement date). Rent from real estate properties consists of all amounts earned under tenant operating leases, including base rent, recoveries of real estate taxes and other expenses and charges for miscellaneous services provided to tenants. Rental income is recognized in accordance with the billing terms of the lease agreements. The Account bears the direct expenses of the real estate properties owned. These expenses include, but are not limited to, fees to local property management companies, property taxes, utilities, maintenance, repairs, insurance and other operating and administrative costs. An estimate of the net operating income earned from each real estate property is accrued by the Account on a daily basis and such estimates are adjusted as soon as actual operating results are determined. Realized gains and losses on real estate transactions are accounted for under the specific identification method.

Securities transactions are accounted for as of the date the securities are purchased or sold (trade date). Interest income is recorded as earned and, for short-term money market instruments, includes accrual of discount and amortization of premium. Dividend income is recorded on the ex-dividend date. Realized gains and losses on securities transactions are accounted for on the average cost basis.

Federal Income Taxes: Based on provisions of the Internal Revenue Code, no federal income taxes are attributable to the net investment experience of the Account.

Note 3--Management Agreements

Under established management agreements, various services necessary for the operation of the Account are provided, at cost, by TIAA and Services. TIAA provides investment management services for the Account while distribution and administrative services are provided by Services in accordance with a Distribution and Administrative Services Agreement between the Account and Services. An affiliate of the minority partner in Light Street provides certain management services for the properties owned by Light Street. The charges for such services, for the year ended December 31, 1998 amounted to $855,810 ($507,829 in 1997) for investment advisory expenses and $102,953 ($0 for 1997) for administrative expenses which are recorded accordingly in the accompanying consolidated statement of operations. TIAA also provides a liquidity guarantee to the Account, for a fee, to ensure that sufficient funds are available to meet participant transfer and cash withdrawal requests in the event that the Account's cash flows and liquid investments are insufficient to fund such requests. TIAA also receives a fee for assuming certain mortality and expense risks.

Fee payments are made from the Account on a daily basis to TIAA and Services according to formulas established each year with the objective of keeping the fees as close as possible to the Account's actual expenses. Any differences between actual expenses and daily charges are adjusted quarterly.

Note 4--Real Estate Properties

Had the Account's real estate properties which were purchased during the year ended December 31, 1998 been acquired at the beginning of the period (January 1, 1998), rental income and real estate property level expenses and taxes for the year ended December 31, 1998 would have increased by approximately $14,134,000 and $4,182,000 respectively. In addition, interest income for the year ended December 31, 1998 would have decreased by approximately $10,059,000. Accordingly, the total proforma effect on the Account's net investment income for the year ended December 31, 1998 would have been a decrease of approximately $107,000, if the real estate properties acquired during the year ended December 31, 1998 had been acquired at the beginning of the period. Several of these properties had little or no rental activity prior to purchase by the Account because they were newly or recently constructed. In such cases, there was little or no net real estate income to offset the proforma decline in interest income, resulting in a net decrease in net investment income from this calculation. This decrease is not indicative of expected future results because all of these properties were substantially rented at the time of purchase.

Note 5--Leases

The Account's real estate properties are leased to tenants under operating lease agreements which expire on various dates through 2021. Aggregate minimum annual rentals for the properties owned, excluding short-term residential leases, are as follows:

<TABLE>
<CAPTION>

| Years Ending December 31, | |
|---|---|
| <S> | <C> |
| 1999 | $ 52,909,000 |
| 2000 | 50,213,000 |
| 2001 | 44,308,000 |
| 2002 | 40,265,000 |
| 2003 | 32,737,000 |
| Thereafter | 113,865,000 |
| Total | $334,297,000 |

</TABLE>

Certain leases provide for additional rental amounts based upon the recovery of actual operating expenses in excess of specified base amounts.



Note 6--Condensed Consolidated Financial Information

Selected condensed consolidated financial information for an Accumulation Unit of the Account is presented below.

<TABLE>
<CAPTION>

| | For the Years Ended December 31, | | | July 3, 1995 (Commencement of Operations) to December 31, |
|---|---|---|---|---|
| | 1998 | 1997 | 1996 | 1995 (1) |
| <S> | <C> | <C> | <C> | <C> |
| Per Accumulation Unit Data: | | | | |
| Rental income .................................. | $ 10.425 | $ 7.288 | $ 6.012 | $ 0.159 |
| Real estate property level expenses and taxes ...................... | 3.403 | 2.218 | 1.850 | 0.042 |
| Real estate income, net | 7.022 | 5.070 | 4.162 | 0.117 |
| Dividends and interest ......................... | 3.082 | 2.709 | 3.309 | 2.716 |
| Total income | 10.104 | 7.779 | 7.471 | 2.833 |
| Expense charges (2) ............................ | 0.808 | 0.580 | 0.635 | 0.298 |
| Investment income, net | 9.296 | 7.199 | 6.836 | 2.535 |
| Net realized and unrealized gain on investments .......................... | .579 | 3.987 | 1.709 | 0.031 |
| Net increase in Accumulation Unit Value ....................... | 9.875 | 11.186 | 8.545 | 2.566 |
| Accumulation Unit Value: | | | | |
| Beginning of period .......................... | 122.297 | 111.111 | 102.566 | 100.000 |
| End of period ................................ | $ 132.172 | $ 122.297 | $ 111.111 | $ 102.566 |
| Total return ................................... | 8.07% | 10.07% | 8.33% | 2.57% |
| Ratios to Average Net Assets: | | | | |
| Expenses (2) ................................ | 0.64% | 0.58% | 0.61% | 0.30% |
| Investment income, net ....................... | 7.34% | 7.25% | 6.57% | 2.51% |
| Portfolio turnover rate: | | | | |
| Real estate properties ....................... | 0% | 0% | 0% | 0% |
| Securities .................................. | 24.54% | 7.67% | 15.04% | 0% |
| Thousands of Accumulation Units outstanding at end of period ................. | 8,834 | 6,313 | 3,296 | 1,172 |

</TABLE>

(1) The percentages shown for this period are not annualized.

(2) Expense charges per Accumulation Unit and the Ratio of Expenses to Average Net Assets include the portion of expenses related to the 10% minority interest in Light Street and exclude real estate property level expenses and taxes. If the real estate property level expenses and taxes were included, the expense charge per Accumulation Unit for the year ended December 31, 1998 would be $4.211 ($2.798 and $2.485 for the years ended December 31, 1997 and 1996 respectively, and $0.340 for the period July 3, 1995 through December 31, 1995) and the Ratio of Expenses to Average Net Assets for the year ended December 31, 1998 would be 3.32% (2.82% and 2.39% for the years ended December 31, 1997 and 1996 respectively, and 0.34% for the period July 3, 1995 through December 31, 1995).



Note 7--Accumulation Units

Changes in the number of Accumulation Units outstanding were as follows:

<TABLE>
<CAPTION>

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 1998 | 1997 | 1996 |
| <S> | <C> | <C> | <C> |
| Accumulation Units: | | | |
| Credited for premiums ........................................... | 511,462 | 448,822 | 89,841 |
| Credited for transfers, net disbursements and amounts applied to the Annuity Fund ............................ | 2,009,434 | 2,568,407 | 2,033,447 |
| Outstanding: | | | |
| Beginning of year ............................................. | 6,313,015 | 3,295,786 | 1,172,498 |
| End of year ................................................... | 8,833,911 | 6,313,015 | 3,295,786 |

========= ========= =========

</TABLE>

Note 8--Commitments

During the normal course of business, the Account enters into discussions and agreements to purchase or sell real estate properties. As of December 31, 1998, the Account had an outstanding commitment to purchase one real estate property totaling approximately $37.3 million, and an outstanding commitment to sell one real estate property totaling approximately $31.8 million. The sale transaction was closed in January, 1999.



TIAA REAL ESTATE ACCOUNT
CONSOLIDATED STATEMENT OF INVESTMENTS
December 31, 1998

<TABLE>
<CAPTION>
REAL ESTATE PROPERTIES--67.71%

| Location / Description | Value |
|---|---|
| --------------------- | ----- |
| <S> | <C> |
| Arizona: | |
| Southbank Building - Office building .................. | $ 13,000,000 |
| California: | |
| IDI California Portfolio - Industrial building ......... | 35,668,791 |
| Ontario Industrial Property - Industrial building ...... | 24,433,584 |
| Metro Center Office Park - Office building ............ | 30,056,741(2) |
| Eastgate Distribution Center - Industrial building ..... | 12,700,000 |
| Westcreek - Apartments ................................ | 14,554,494 |
| Colorado: | |
| Araphoe Park East - Industrial building ............... | 11,500,000 |
| Lodge at Willow Creek - Apartments .................... | 28,500,000 |
| Monte Vista - Apartments .............................. | 19,500,000 |
| Florida: | |
| Westinghouse - Industrial building .................... | 6,200,000 |
| Plantation Grove - Shopping center .................... | 7,200,000 |
| The Greens at Metrowest - Apartments .................. | 14,300,000 |
| Golfview - Apartments ................................. | 28,010,000 |
| Corporate Center at Sawgrass - Office building ......... | 14,000,000 |
| Royal St. George - Apartments ......................... | 16,500,000 |
| Georgia: | |
| Brixworth - Apartments ................................ | 16,800,000 |
| Illinois: | |
| Woodcreek Business Park - Industrial building ......... | 6,800,000 |
| Glenpointe Business park - Industrial building ........ | 15,400,000 |
| Rockrun Business Park - Industrial building ........... | 9,325,000 |
| Parkview Plaza - Office building ...................... | 52,106,591(2) |
| Rolling Meadows - Shopping center ..................... | 12,650,000 |
| Columbia Center III - Office building ................. | 41,000,000 |
| Kentucky: | |
| IDI Kentucky Portfolio - Industrial building .......... | 24,651,154 |
| Iowa: | |
| Interstate Acres - Industrial building ................ | 14,369,742 |
| Maryland: | |
| Saks Distribution Center - Industrial building ........ | 29,900,000 |
| Fedex Distribution Facility - Industrial building ...... | 7,828,025 |
| Longview Executive Park - Office building ............. | 27,400,000(2) |
| Massachusetts: | |
| Two Newton Center - Office building ................... | 19,600,000(2) |
| Michigan: | |
| Indian Creek - Apartments ............................. | 17,003,388 |
| Minnesota: | |
| Interstate Crossing - Industrial building ............. | 6,361,020 |
| River Road Distribution Center - Industrial building ... | 4,200,000 |
| New Jersey: | |
| 371 Hoes Lane - Office building ....................... | 15,614,856 |
| Nevada: | |
| UPS Distribution Facility - Industrial building ........ | 10,989,393 |
| North Carolina: | |
| Lynwood Collection - Shopping center .................. | 7,500,000 |
| Millbrook Collection - Shopping center ................ | 7,300,000 |

</TABLE>



<TABLE>
<CAPTION>

Ohio:

| <S> | <C> |
|---|---|
| Northmark Business Center - Office building ........... | $ 12,632,603(2) |
| Bent Tree - Apartments ............................... | 14,412,235 |
| Oregon: | |
| Five Centerpointe - Office building .................. | 18,703,502(2) |
| Pennsylvania: | |
| Lincoln Woods - Apartments ........................... | 22,700,000 |
| Texas: | |
| Butterfield Industrial Park - Industrial building ...... | 4,850,000(1) |
| The Crest at Shadow Mountain - Apartments ............. | 9,500,000 |
| The Legends at Chase Oaks - Apartments ................. | 29,200,000 |
| Utah: | |
| USF&G Building - Office building ...................... | 8,800,224(2) |
| Virginia: | |
| Fairgate at Ballston - Office building ................ | 28,725,524(2) |
| River Oaks - Shopping center .......................... | 12,600,000 |
| Washington: | |
| The Bay Court at Harbour Pointe - Apartments .......... | 35,164,373 |
| | ------------ |
| TOTAL REAL ESTATE PROPERTIES (Cost $775,801,883) ........ | 820,211,240 |
| | ------------ |

</TABLE>

(1) Leasehold interest only.

(2) The full fair value of this property is reflected; however, the Account only has a 90% interest in the property. The minority partner in Light Street has the remaining 10% interest in the property.

MARKETABLE SECURITIES--32.29%

<TABLE>
<CAPTION>
REAL ESTATE INVESTMENT TRUSTS--8.98%

| Shares | Issuer | Value |
|---|---|---|
| ------ | ------ | ----- |
| <S> | <C> | <C> |
| 89,900 | AMB Property Corporation Series A .................... | 2,225,025 |
| 200,000 | Archstone Communities Tr (Series C) Pf .............. | 5,100,000 |
| 60,000 | Avalon Bay Communities, Inc. ........................ | 2,055,000 |
| 30,000 | Avalon Bay Communities, Inc. Pfd Series F ........... | 759,375 |
| 170,000 | Bradley Real Estate, Inc. ........................... | 3,485,000 |
| 235,000 | Brandywine Realty Trust ............................. | 4,200,625 |
| 80,000 | Camden Property Trust ............................... | 2,080,000 |
| 200,000 | Carramerica Realty Corporation, Pfd Series B ......... | 4,500,000 |
| 60,000 | Centerpoint Properties Corp. ........................ | 2,028,750 |
| 95,000 | Colonial Properties Trust ........................... | 2,529,375 |
| 260,000 | Cornerstone Properties, Inc. ........................ | 4,062,500 |
| 125,000 | Corporate Office Properties Trust, Inc. ............. | 890,625 |
| 90,000 | Developers Diversified Realty ....................... | 2,126,250 |
| 140,000 | Equity Office Properties Trust ...................... | 3,360,000 |
| 200,000 | Equity Office Properties Trust Pfd Series A ......... | 5,100,000 |
| 130,000 | Equity Residential Properties Trust ................. | 5,256,875 |
| 100,000 | Equity Residential Properties Trust, Pfd Series G .... | 2,050,000 |
| 100,000 | Equity Residential Properties Trust, Pfd Series L .... | 2,206,250 |
| 77,966 | Excel Legacy Corporate .............................. | 311,864 |
| 25,000 | Federal Realty Investment Trust Pfd. ................ | 598,438 |
| 100,000 | First Industrial Realty Trust, Inc. Pfd ............. | 2,406,250 |
| 100,000 | Gables Residential Trust, Pfd Series A .............. | 2,318,750 |
| 80,000 | Hospitality Properties Trust ........................ | 1,930,000 |
| 68,000 | Lasalle Hotel Properties ............................ | 705,500 |
| 95,000 | Macerich Company .................................... | 2,434,375 |
| 69,559 | New Plan Excel Realty Trust ......................... | 1,543,340 |
| 100,000 | Post Properties, Inc. ............................... | 3,843,750 |
| 19,900 | Prologis Trust-Pfd Series A ......................... | 506,206 |
| 130,000 | Public Storage, Inc. ................................ | 3,518,125 |
| 20,000 | Rouse Company ....................................... | 550,000 |
| 210,000 | Simon Debartolo Group, Inc. ......................... | 5,985,000 |

</TABLE>



<TABLE>
<CAPTION>

| Shares | Issuer | Value |
|---|---|---|
| ------ | ------ | ----- |
| <S> | <C> | <C> |
| 100,000 | Spieker Properties, Inc. ............................ | $ 3,462,500 |
| 80,000 | Starwood Hotels & Resorts Trust ..................... | 1,815,000 |
| 85,000 | Storage USA, Inc. ................................... | 2,746,563 |
| 150,000 | Taubman Centers, Inc. ............................... | 2,062,500 |

| | | |
|---|---|---|
| 35,000 | Taubman Centers, Inc Pfd Series A | 770,000 |
| 40,000 | Tower Realty Trust, Inc. | 805,000 |
| 132,000 | Trinet Corporate Realty Trust, Inc. | 3,531,000 |
| 26,000 | Trinet Corporate Realty Trust, Inc., Pfd Series B | 611,000 |
| 100,000 | United Dominion Realty Trust, Inc. | 2,537,500 |
| 106,000 | Urban Shopping Centers, Inc. | 3,471,500 |
| 50,000 | Vornado Realty Trust, Pfd Series A | 2,425,000 |
| 135,000 | Weeks Corp. | 3,805,312 |
| | TOTAL REAL ESTATE INVESTMENT TRUSTS (Cost $119,704,512) | 108,710,123 |

CORPORATE BONDS-- 0.25%

| Principal | Issuer, Coupon and Maturity Date | |
|---|---|---|
| <S> | <C> | <C> |
| $3,000,000 | International Paper 6.87% 06/17/99 | 3,021,660 |
| | TOTAL CORPORATE BONDS (Cost $3,040,800) | 3,021,660 |

GOVERNMENT AGENCIES--13.97%

| Principal | Issuer, Coupon and Maturity Date | Value |
|---|---|---|
| 10,546,000 | Federal Home Loan Banks 5.00% 01/8/99 | 10,535,220 |
| 73,420,000 | Federal Home Loan Mortgage Corporation 4.25% 01/4/99 | 73,383,290 |
| 22,555,000 | Federal Home Loan Mortgage Corporation 5.01% 01/22/99 | 22,490,905 |
| 36,000,000 | Federal National Mortgage Association 5.05% 01/7/99 | 35,968,500 |
| 26,945,000 | Federal National Mortgage Association 5.00% 02/9/99 | 26,803,690 |
| | TOTAL GOVERNMENT AGENCIES (Amortized cost $169,187,575) | 169,181,605 |

COMMERCIAL PAPER--9.09%

| Principal | Issuer, Coupon and Maturity Date | Value |
|---|---|---|
| 15,900,000 | Caterpillar Financial Service Corporation 5.45% 02/12/99 | 15,806,560 |
| 15,000,000 | Ciesco LP 5.15% 02/12/99 | 14,911,850 |
| 20,000,000 | Corporate Asset Funding Corporation, Inc. 5.35% 01/14/99 | 19,961,112 |
| 17,000,000 | General Electric Capital Corporation 5.32% 01/19/99 | 16,955,856 |
| 8,335,000 | Mccormick & Company Incorporated 5.12% 01/5/99 | 8,329,096 |
| 2,200,000 | Park Avenue Receivables Corporation 5.45% 01/28/99 | 2,191,581 |
| 13,455,000 | Park Avenue Receivables Corporation 5.60% 01/15/99 | 13,427,417 |
| 15,000,000 | Penny Funding Corporation 5.15% 01/27/99 | 14,944,650 |

</TABLE>



<TABLE>
<CAPTION>

| Principal | Issuer, Coupon and Maturity Date | Value |
|---|---|---|
| <S> | <C> | <C> |
| $ 600,000 | SC Johnson & Son Incorporated 5.10% 01/22/99 | $ 598,196 |
| 3,000,000 | SC Johnson & Son Incorporated 5.23% 01/15/99 | 2,993,851 |
| | TOTAL COMMERCIAL PAPER (Amortized cost $110,108,202) | 110,120,169 |
| | TOTAL MARKETABLE SECURITIES (Cost $402,041,089) | 391,033,557 |

| | |
|---|---|
| TOTAL INVESTMENTS--100.00% (Cost $1,177,842,972) ............. | $1,211,244,797 |

See notes to consolidated financial statements.



TIAA REAL ESTATE ACCOUNT
Schedule III - Real Estate Owned
December 31, 1998

| Description | Encum-brances | Initial cost to Acquire Property | Costs Capitalized Subsequent to Acquisition (Including Unrealized Gains and Losses) | Value at December 31, 1998 | Year Construction Completed | Date Acquired |
|---|---|---|---|---|---|---|
| River Road Distribution Center<br>Industrial Building<br>Fridley, Minnesota | $-0- | $ 4,166,787 | $ 33,213 | $ 4,200,000 | 1995 | 11/22/95 |
| The Greens At Metrowest<br>Apartments<br>Orlando, Florida | -0- | 12,490,895 | 1,809,105 | 14,300,000 | 1990 | 12/15/95 |
| Butterfield Industrial Park<br>Industrial Building<br>El Paso, Texas (1) | -0- | 4,431,166 | 418,834 | 4,850,000 | 1981 | 12/22/95 |
| Brixworth Apartments<br>Apartments<br>Atlanta, Georgia | -0- | 15,574,647 | 1,225,353 | 16,800,000 | 1989 | 12/28/95 |
| Plantation Grove Shopping Center<br>Shopping Center<br>Ocoee, Florida | -0- | 7,326,170 | (126,170) | 7,200,000 | 1995 | 12/28/95 |
| Southbank Business Park<br>Office Building<br>Phoenix, Arizona | -0- | 10,069,898 | 2,930,102 | 13,000,000 | 1995 | 02/27/96 |
| Millbrook Collection<br>Shopping Center<br>Raleigh, North Carolina | -0- | 6,774,711 | 525,289 | 7,300,000 | 1988 | 03/29/96 |



| Description | Encum-brances | Initial cost to Acquire Property | Costs Capitalized Subsequent to Acquisition (Including Unrealized Gains and Losses) | Value at December 31, 1998 | Year Construction Completed | Date Acquired |
|---|---|---|---|---|---|---|
| Lynnwood Collection<br>Shopping Center<br>Raleigh, North Carolina | $-0- | $6,708,120 | $ 791,880 | $ 7,500,000 | 1988 | 03/29/96 |
| Monte Vista Apartments<br>Apartments<br>Littleton, Colorado | -0- | 17,664,247 | 1,835,753 | 19,500,000 | 1995 | 06/21/96 |
| River Oaks Shopping Center<br>Shopping Center<br>Woodbridge, Virginia | -0- | 13,036,153 | (436,153) | 12,600,000 | 1995 | 07/12/96 |
| Arapahoe Park East | -0- | 9,920,680 | 1,579,320 | 11,500,000 | 1982 | 10/31/96 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Industrial Building<br>Boulder, Colorado | | | | | | |
| Royal St. George Apartments<br>Apartments<br>West Palm Beach, Florida | -0- | 16,072,275 | 427,725 | 16,500,000 | 1995 | 12/20/96 |
| Interstate Crossing<br>Industrial Building<br><br>Eagan, Minnesota | -0- | 6,485,249 | (124,229) | 6,361,020 | 1995 | 12/31/96 |
| West Creek Apartments<br>Apartments<br>Westlake Village, California | -0- | 13,488,279 | 1,066,215 | 14,554,494 | 1988 | 01/02/97 |
| Interstate Acres<br>Industrial Building<br>Urbandale, Iowa | -0- | 13,610,294 | 759,448 | 14,369,742 | 1988 | 01/24/97 |

</TABLE>



<TABLE>
<CAPTION>

| Description | Encum-<br>brances | Initial cost<br>to Acquire<br>Property | Costs Capitalized<br>Subsequent to<br>Acquisition<br>(Including<br>Unrealized Gains<br>and Losses) | Value at<br>December 31,<br>1998 | Year<br>Construction<br>Completed | Date<br>Acquired |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| The Crest at Shadow Mountain<br>Apartments<br>El Paso, Texas | $-0- | $ 9,192,389 | $ 307,611 | $ 9,500,000 | 1992 | 01/31/97 |
| Westinghouse Facility<br>Industrial Building<br>Coral Springs, Florida | -0- | 6,089,473 | 110,527 | 6,200,000 | 1997 | 02/05/97 |
| Rolling Meadows<br>Shopping Center<br>Rolling Meadows, Illinois | -0- | 12,930,463 | (280,463) | 12,650,000 | 1957 | 05/28/97 |
| Saks Distribution Center<br>Industrial Building<br>Aberdeen, Maryland | -0- | 26,908,401 | 2,991,599 | 29,900,000 | 1997 | 05/15/97 |
| Eastgate distribution Center<br>Industrial Building<br>San Diego, California | -0- | 11,941,992 | 758,008 | 12,700,000 | 1996 | 05/29/97 |
| Five Centerpointe<br>Office Building<br>Lake Oswego, Oregon | -0- | 15,429,103 | 3,274,399 | 18,703,502 | 1988 | 04/21/97 |
| Longview Executive Park<br>Office Building<br>Longview, Maryland | -0- | 23,249,805 | 4,150,195 | 27,400,000 | 1988 | 04/21/97 |
| Metro Center Office Park<br>Office Building<br>Sacramento, California | -0- | 21,085,210 | 8,971,531 | 30,056,741 | 1986 | 04/21/97 |

</TABLE>



<TABLE>
<CAPTION>

| Description | Encum-<br>brances | Initial cost<br>to Acquire<br>Property | Costs Capitalized<br>Subsequent to<br>Acquisition<br>(Including<br>Unrealized Gains<br>and Losses) | Value at<br>December 31,<br>1998 | Year<br>Construction<br>Completed | Date<br>Acquired |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |

| | | | | | | |
|---|---|---|---|---|---|---|
| Northmark Business Center III<br>Office Building<br>Blue Ash, Ohio | $-0- | $ 8,591,636 | $4,040,967 | $12,632,603 | 1985 | 04/21/97 |
| USF&G Building<br>Office Building<br>Salt Lake City, Utah | -0- | 6,195,142 | 2,605,082 | 8,800,224 | 1988 | 04/21/97 |
| Two Newton Place<br>Office Building<br>Newton, Massachusetts | -0- | 16,368,169 | 3,231,831 | 19,600,000 | 1987 | 04/21/97 |
| Fairgate at Ballston<br>Office Building<br>Arlington, Virginia | -0- | 26,790,792 | 1,934,732 | 28,725,524 | 1988 | 04/21/97 |
| Parkview Plaza<br>Office Building<br>Oakbrook Terrace, Illinois | -0- | 49,139,012 | 2,967,579 | 52,106,591 | 1990 | 04/29/97 |
| Lincoln Woods Apartments<br>Apartments<br>Lafayette Hill, Pennsylvania | -0- | 21,476,050 | 1,223,950 | 22,700,000 | 1991 | 10/20/97 |
| Corporate Center at Sawgrass<br>Office Building<br>Sunrise, Florida | -0- | 12,956,957 | 1,043,043 | 14,000,000 | 1997 | 12/02/97 |
| 371 Hoes Lane<br>Office Building<br>Piscataway, New Jersey | -0- | 15,499,306 | 115,550 | 15,614,856 | 1986 | 12/15/97 |

</TABLE>



<TABLE>
<CAPTION>

| Description | Encum-<br>brances | Initial cost<br>to Acquire<br>Property | Costs Capitalized<br>Subsequent to<br>Acquisition<br>(Including<br>Unrealized Gains<br>and Losses) | Value at<br>December 31,<br>1998 | Year<br>Construction<br>Completed | Date<br>Acquired |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Columbia Centre III<br>Office Building<br>Rosemont, Illinois | $-0- | $38,580,850 | $2,419,150 | $41,000,000 | 1989 | 12/23/97 |
| The Lodge at Willow Creek<br>Apartments<br>Douglas County, Colorado | -0- | 27,562,882 | 937,118 | 28,500,000 | 1997 | 12/24/97 |
| The Legends at Chase Oaks<br>Apartments<br>Plano, Texas | -0- | 29,701,668 | (501,668) | 29,200,000 | 1997 | 03/31/98 |
| Glen Pointe Business Park<br>Industrial Building<br>Glendale Heights, Illinois | -0- | 15,279,508 | 120,492 | 15,400,000 | 1997 | 06/30/98 |
| Wood Creek Business Park<br>Industrial Building<br>Boilingbrook, Illinois | -0- | 7,222,421 | (422,421) | 6,800,000 | 1995 | 06/30/98 |
| Rock Run Business Park<br>Industrial Building<br>Joliet, Illinois | -0- | 9,325,421 | (421) | 9,325,000 | 1998 | 06/30/98 |
| Golfview Apartments<br>Apartments<br>Lake Mary, Florida | -0- | 28,066,591 | (56,591) | 28,010,000 | 1998 | 07/31/98 |
| Indian Creek Apartments<br>Apartments<br>Farmington Hills, Michigan | -0- | 17,003,388 | 0 | 17,003,388 | 1988 | 10/08/98 |

</TABLE>

<TABLE>
<CAPTION>

| Description | Encum- brances | Initial cost to Acquire Property | Costs Capitalized Subsequent to Acquisition (Including Unrealized Gains and Losses) | Value at December 31, 1998 | Year Construction Completed | Date Acquired |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Bent Tree Apartments<br>Apartments<br>Columbus, Ohio | $-0- | $14,412,235 | $ 0 | $ 14,412,235 | 1987 | 10/22/98 |
| UPS Distribution Center<br>Industrial Building<br>Fernly, Nevada | -0- | 10,989,393 | 0 | 10,989,393 | 1998 | 11/13/98 |
| Ontario Industrial Properties<br>Industrial Building<br>Ontario, California | -0- | 24,433,584 | 0 | 24,433,584 | 1997 | 12/17/98 |
| IDI California Portfolio<br>Industrial Building<br>Ontario, California | -0- | 35,668,791 | 0 | 35,668,791 | 1998 | 12/17/98 |
| IDI Kentucky Portfolio<br>Industrial Building<br>Hebron, Kentucky | -0- | 24,651,154 | 0 | 24,651,154 | 1998 | 12/17/98 |
| Feded Distribution Center<br>Industrial Building<br>Crofton, Maryland | -0- | 7,828,025 | 0 | 7,828,025 | 1998 | 12/18/98 |
| The Bay Court at Harbor Pointe<br>Apartments<br>Mukilteo, Washington | -0- | 35,164,373 | 0 | 35,164,373 | 1991 | 12/18/98 |
| | $ -0- | $767,553,755 | $52,657,485 | $820,211,240 | | |

</TABLE>

(1) Leasehold interest only



<TABLE>

| | |
|---|---|
| <S> | <C> |
| Reconciliation of investment property owned: | |
| Balance at beginning of period | $521,284,091 |
| Acquisitions | 259,746,550 |
| Capital improvements and carrying costs (including unrealized gains and losses) | 39,180,599 |
| Balance at end of period | $820,211,240 |

</TABLE>



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The Account has no officers or directors. The Trustees and principal executive officers of TIAA, and their principal occupations during the last five years, are as follows:

Trustees

David Alexander, 66.

President Emeritus, Pomona College. Formerly, President, Pomona College and American Secretary, Rhodes Scholarship Trust.

Marcus Alexis, 67.

Board of Trustees Professor of Economics and Professor of Management and Strategy, J.L. Kellogg Graduate School of Management, Northwestern University.

Willard T. Carleton, 64.

Karl L. Eller Professor of Finance, College of Business and Public Administration, University of Arizona.

Robert C. Clark, 55.

Dean and Royall Professor of Law, Harvard Law School, Harvard University.

Estelle A. Fishbein, 64.

Vice President and General Counsel, The Johns Hopkins University.

Frederick R. Ford, 62.

Executive Vice President and Treasurer Emeritus, Purdue University. Formerly, Treasurer, Purdue University.

Martin J. Gruber, 61.

Nomura Professor of Finance, New York University Stern School of Business. Formerly, Chairman, Department of Finance, New York University Stern School of Business.



Ruth Simms Hamilton, 61.

Professor, Department of Sociology, and Director, African Diaspora Research Project, Michigan State University.

Dorothy Ann Kelly, O.S.U., 69.

Chancellor, College of New Rochelle. Formerly, President, College of New Rochelle.

Robert M. O'Neil, 64.

Professor of Law, University of Virginia and Director, The Thomas Jefferson Center for the Protection of Free Expression.

Leonard S. Simon, 62.

Vice Chairman, Charter One Financial Inc. Formerly, Chairman, President and Chief Executive Officer, RCSB Financial, Inc. and Chairman and Chief Executive Officer, The Rochester Community Savings Bank.

Ronald L. Thompson, 49.

Chairman and Chief Executive Officer, Midwest Stamping Co. Formerly, Chairman and President, The GR Group.

Paul R. Tregurtha, 63.

Chairman, Chief Executive, and Director, Mormac Marine Group, Inc.; Vice Chairman and Director, The Interlake Steamship Company; Chairman and Director, Moran Transportation Company and Meridian Aggregates, L.P.; Vice Chairman, Lakes Shipping Company.

William H. Waltrip, 61.

Chairman, Technology Solutions Company. Formerly, Chairman and Chief Executive Officer, Bausch & Lomb Inc., and Chairman and Chief Executive Officer, Biggers Brothers, Inc.

Rosalie J. Wolf, 57.

Treasurer and Chief Investment Officer, The Rockefeller Foundation. Formerly, Executive Vice President, Sithe Energies, Inc., and Managing Director -- Merchant Banking, Bankers Trust Company.



Officer-Trustees

John H. Biggs, 62.

Chairman, President and Chief Executive Officer, TIAA and CREF.

Martin L. Leibowitz, 62.

Vice Chairman and Chief Investment Officer, TIAA and CREF, since November 1995. Executive Vice President, TIAA and CREF, from June 1995 to November 1995. Formerly, Managing Director, Director of Research and member of the Executive Committee, Salomon Brothers Inc.

Other Officers

Richard J. Adamski, 56.

Vice President and Treasurer, TIAA and CREF.

Richard L. Gibbs, 51.

Executive Vice President, Finance and Planning, TIAA and CREF.

E. Laverne Jones, 49

Vice President and Corporate Secretary, TIAA and CREF.

ITEM 11. EXECUTIVE COMPENSATION.

Not applicable.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Not applicable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

TIAA's general account plays a significant role in operating the Real Estate Account, including providing seed money, a liquidity guarantee, and investment management and other services.

Seed Money. On July 3, 1995, TIAA supplied the Account's initial $100 million seed money investment in exchange for 1,000,000 accumulation units, at $100 per unit. As of December 31, 1998, the Account, following a schedule approved by the New York Insurance



Department, had redeemed all of TIAA's seed money investment at prevailing daily unit values, amounting to $121,875,433 in total redemption payments to TIAA.

Liquidity Guarantee. If the Account's cash flow is insufficient to fund redemption requests, TIAA's general account has agreed to fund them by purchasing accumulation units. TIAA thereby guarantees that a participant can redeem accumulation units at their then current daily net asset value. For the year ended December 31, 1998, the Account paid TIAA $101,655 for this liquidity guarantee through a daily deduction from the net assets of the Account.

Investment Management and Administrative Services/Certain Risks Borne by TIAA. Deductions are made each valuation day from the net assets of the Account for various services required to manage investments, administer the Account and distribute the contracts, and to cover mortality and expense risks borne by TIAA. These services are performed at cost by TIAA and Services.

For the year ended December 31, 1998, the Account paid TIAA $2,143,303 for investment management services and $675,450 for mortality and expense risks. For the same period, the Account paid Services $2,395,423 for its administrative and distribution services.



PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements. See Item 8 for required financial statements.

(a) 2. Financial Statement Schedules. See Item 8 for required financial statement schedules.

(a) 3. Exhibits.

(1) Distribution and Administrative Services Agreement by and between TIAA and TIAA-CREF Individual & Institutional Services, Inc. (as amended)*

(3) (A) Charter of TIAA (as amended)*

(B) Bylaws of TIAA (as amended)**

(4) (A) Forms of RA, GRA, GSRA, SRA, and IRA Real Estate Account Contract Endorsements*

(B) Forms of Income-Paying Contracts*

(10) (A) Independent Fiduciary Agreement by and among TIAA, the Registrant, and Institutional Property Consultants, Inc. (as amended)***

(B) Custodial Services Agreement by and between TIAA and Morgan Guaranty Trust Company of New York with respect to the Real Estate Account*

(27) Financial Data Schedule of the Account's Financial Statements for the year ended December 31, 1998

(b) Reports on 8-K. No reports on Form 8-K have been filed during the last quarter of the period covered by this report. The Account filed a report on Form 8-K on January 5, 1999 under Item 5 of the form with respect to the acquisition of properties for its portfolio.

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* - Previously filed and incorporated herein by reference to Post-Effective Amendment No. 2 to the Account's previous Registration Statement on Form S-1 filed April 30, 1996 (File No. 33- 92990).

** - Previously filed and incorporated herein by reference to the Account's Form 10-Q Quarterly Report for the period ended September 30, 1997, filed November 13, 1997 (File No. 33-92990).

*** - Previously filed and incorporated herein by reference to Pre-Effective Amendment No. 1 to the Account's Registration Statement on Form S-1 filed April 29, 1997 (File No. 333-22809).



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIAA REAL ESTATE ACCOUNT

By: TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA

By: /s/ Peter C. Clapman
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Peter C. Clapman
Senior Vice President and
Chief Counsel, Investments

March 24, 1999
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Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons, trustees and officers of Teachers Insurance and Annuity Association of America, in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ John H. Biggs<br>------------------------<br>John H. Biggs | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) and Trustee | 3/24/99 |
| /s/ Martin L. Leibowitz<br>------------------------<br>Martin L. Leibowitz | Vice Chairman and Chief Investment Officer and Trustee | 3/24/99 |
| /s/ Richard L. Gibbs<br>------------------------<br>Richard L. Gibbs | Executive Vice President (Principal Financial and Accounting Officer) | 3/24/99 |



| Signature of Trustee | Date | Signature of Trustee | Date |
|---|---|---|---|
| /s/ David Alexander<br>------------------------<br>David Alexander | 3/24/99 | /s/ Dorothy Ann Kelly<br>--------------------------<br>Dorothy Ann Kelly, O.S.U. | 3/24/99 |
| /s/ Marcus Alexis<br>------------------------<br>Marcus Alexis | 3/24/99 | /s/Robert M. O'Neil<br>--------------------------<br>Robert M. O'Neil | 3/24/99 |
| /s/ Willard T. Carleton<br>------------------------<br>Willard T. Carleton | 3/24/99 | /s/ Leonard S. Simon<br>--------------------------<br>Leonard S. Simon | 3/24/99 |
| /s/ Robert C. Clark<br>------------------------<br>Robert C. Clark | 3/24/99 | /s/ Ronald L. Thompson<br>--------------------------<br>Ronald L. Thompson | 3/24/99 |
| /s/ Estelle A. Fishbein<br>------------------------<br>Estelle A. Fishbein | 3/24/99 | /s/ Paul R. Tregurtha<br>--------------------------<br>Paul R. Tregurtha | 3/24/99 |
| /s/ Frederick R. Ford<br>------------------------<br>Frederick R. Ford | 3/24/99 | /s/ William H. Waltrip<br>--------------------------<br>William H. Waltrip | 3/24/99 |
| /s/ Martin J. Gruber<br>------------------------<br>Martin J. Gruber | 3/24/99 | /s/ Rosalie J. Wolf<br>--------------------------<br>Rosalie J. Wolf | 3/24/99 |
| /s/ Ruth Simms Hamilton | 3/24/99 | | |

------------------------
Ruth Simms Hamilton



SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(D) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT

Because the Registrant has no voting securities, nor its own management or board of directors, no annual report or proxy materials will be sent to contractowners holding interests in the Account.



EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|---|---|
| 27 | Financial Data Schedule of the Account's Financial Statements for the period ended December 31, 1998 |

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<MULTIPLIER> 1

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