

ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
April 29, 2015

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.
(Exact name of registrant as specified in its charter)

Maryland

95-4502084

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

385 East Colorado Boulevard, Suite 299, Pasadena, California 91101

(Address of principal executive offices) (Zip code)

(626) 578-0777

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer x

Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting
company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No y

As of April 15, 2015, 72,040,192 shares of common stock, par value \$.01 per share, were outstanding.

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GLOSSARY

The following abbreviations or acronyms that may be used in this document shall have the adjacent meanings set forth below:

| | |
|--------|--|
| ABR | Annualized Base Rent |
| AFFO | Adjusted Funds from Operations |
| bps | Basis Points |
| CIP | Construction in Progress |
| EBITDA | Earnings before Interest, Taxes, Depreciation, and Amortization |
| EPS | Earnings per Share |
| FASB | Financial Accounting Standards Board |
| FFO | Funds from Operations |
| GAAP | U.S. Generally Accepted Accounting Principles |
| HVAC | Heating, Ventilation, and Air Conditioning |
| LEED® | Leadership in Energy and Environmental Design |
| LIBOR | London Interbank Offered Rate |
| NAREIT | National Association of Real Estate Investment Trusts |
| NAV | Net Asset Value |
| NBV | Net Book Value |
| NOI | Net Operating Income |
| NYSE | New York Stock Exchange |
| REIT | Real Estate Investment Trust |
| RSF | Rentable Square Feet/Foot |
| SEC | Securities and Exchange Commission |
| SoMa | South of Market (submarket of the San Francisco Bay Area market) |
| U.S. | United States |
| VIE | Variable Interest Entity |

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Alexandria Real Estate Equities, Inc.
 Consolidated Balance Sheets
 (In thousands)
 (Unaudited)

| | March 31, 2015 | December 31, 2014 |
|--|----------------|----------------------|
| Assets | | |
| Investments in real estate | \$7,388,059 | \$7,226,016 |
| Cash and cash equivalents | 90,641 | 86,011 |
| Restricted cash | 56,704 | 26,884 |
| Tenant receivables | 10,627 | 10,548 |
| Deferred rent | 243,459 | 234,124 |
| Deferred leasing and financing costs | 199,576 | 201,798 |
| Investments | 283,062 | 236,389 |
| Other assets | 133,093 | 114,266 |
| Total assets | \$8,405,221 | \$8,136,036 |
| Liabilities, Noncontrolling Interests, and Equity | | |
| Secured notes payable | \$760,476 | \$652,209 |
| Unsecured senior notes payable | 1,747,450 | 1,747,370 |
| Unsecured senior line of credit | 421,000 | 304,000 |
| Unsecured senior bank term loans | 975,000 | 975,000 |
| Accounts payable, accrued expenses, and tenant security deposits | 645,619 | 489,085 |
| Dividends payable | 58,824 | 58,814 |
| Total liabilities | 4,608,369 | 4,226,478 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests | 14,282 | 14,315 |
| Alexandria Real Estate Equities, Inc.'s stockholders' equity: | | |
| Series D cumulative convertible preferred stock | 237,163 | 237,163 |
| Series E cumulative redeemable preferred stock | 130,000 | 130,000 |
| Common stock | 716 | 715 |
| Additional paid-in capital | 3,383,456 | 3,461,189 |
| Accumulated other comprehensive income (loss) | 29,213 | (628) |
| Alexandria's stockholders' equity | 3,780,548 | 3,828,439 |
| Noncontrolling interests | 2,022 | 66,804 |
| Total equity | 3,782,570 | 3,895,243 |
| Total liabilities, noncontrolling interests, and equity | \$8,405,221 | \$8,136,036 |

The accompanying notes are an integral part of these consolidated financial statements.

Alexandria Real Estate Equities, Inc.
 Consolidated Statements of Income
 (In thousands, except per share amounts)
 (Unaudited)

| | Three Months Ended March 31, | | |
|---|------------------------------|------------|---|
| | 2015 | 2014 | |
| Revenues: | | | |
| Rental | \$ 143,608 | \$ 130,570 | |
| Tenant recoveries | 48,394 | 41,682 | |
| Other income | 4,751 | 3,934 | |
| Total revenues | 196,753 | 176,186 | |
| Expenses: | | | |
| Rental operations | 61,223 | 52,507 | |
| General and administrative | 14,387 | 13,224 | |
| Interest | 23,236 | 19,123 | |
| Depreciation and amortization | 58,920 | 50,421 | |
| Impairment of real estate | 14,510 | — | |
| Total expenses | 172,276 | 135,275 | |
| Equity in earnings of unconsolidated joint ventures | 574 | — | |
| Income from continuing operations | 25,051 | 40,911 | |
| Loss from discontinued operations | (43 |) (162 |) |
| Net income | 25,008 | 40,749 | |
| Dividends on preferred stock | (6,247 |) (6,471 |) |
| Net income attributable to noncontrolling interests | (492 |) (1,195 |) |
| Net income attributable to unvested restricted stock awards | (483 |) (374 |) |
| Net income attributable to Alexandria's common stockholders | \$ 17,786 | \$ 32,709 | |
| EPS attributable to Alexandria's common stockholders – basic and diluted: | | | |
| Continuing operations | \$0.25 | \$0.46 | |
| Discontinued operations | — | — | |
| EPS – basic and diluted | \$0.25 | \$0.46 | |
| Dividends declared per share of common stock | \$0.74 | \$0.70 | |

The accompanying notes are an integral part of these consolidated financial statements.

Alexandria Real Estate Equities, Inc.
Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | | |
|---|------------------------------|----------|---|
| | 2015 | 2014 | |
| Net income | \$25,008 | \$40,749 | |
| Other comprehensive income: | | | |
| Unrealized gains on marketable securities: | | | |
| Unrealized holding gains arising during the period | 28,435 | 18,779 | |
| Reclassification adjustment for losses included in net income | 1,103 | — | |
| Unrealized gains on marketable securities, net | 29,538 | 18,779 | |
| Unrealized (losses) gains on interest rate swap agreements: | | | |
| Unrealized interest rate swap (losses) gains arising during the period | (3,013 |) 5,592 | |
| Reclassification adjustment for amortization of losses (gains) to interest expense included in net income | 505 | (3,490 |) |
| Unrealized (losses) gains on interest rate swap agreements, net | (2,508 |) 2,102 | |
| Unrealized gains (losses) on foreign currency translation: | | | |
| Unrealized foreign currency translation losses arising during the period | (6,271 |) (3,106 |) |
| Reclassification adjustment for losses included in net income | 9,236 | — | |
| Unrealized gains (losses) on foreign currency translation, net | 2,965 | (3,106 |) |
| Total other comprehensive income | 29,995 | 17,775 | |
| Comprehensive income | 55,003 | 58,524 | |
| Less: comprehensive income attributable to noncontrolling interests | (646 |) (1,195 |) |
| Comprehensive income attributable to Alexandria's common stockholders | \$54,357 | \$57,329 | |

The accompanying notes are an integral part of these consolidated financial statements.

Alexandria Real Estate Equities, Inc.
Consolidated Statement of Changes in Stockholders' Equity and Noncontrolling Interests
(Dollars in thousands)
(Unaudited)

| | Alexandria Real Estate Equities, Inc.'s Stockholders' Equity | | | | | | | | | |
|---|--|-------------|------------|--------|-------------|-------------|---------------|-----------|-------------|----------------|
| | Series D | Series E | | | | Accumulated | | | | |
| | Cumulative | Cumulative | Number of | Common | Additional | Retained | Other | Noncontro | Total | Redeemable |
| | Convertible | Convertible | Common | Stock | Paid-In | Earnings | Comprehensive | Interests | Equity | Noncontrolling |
| | Preferred | Preferred | Shares | | Capital | (Loss) | Income | | | Interests |
| | Stock | Stock | | | | | | | | |
| Balance as of December 31, 2014 | \$237,163 | \$130,000 | 71,463,876 | \$715 | \$3,461,189 | \$— | (\$628) | \$66,804 | \$3,895,243 | \$14,315 |
| Net income | — | — | — | — | — | 24,516 | — | 228 | 24,744 | 264 |
| Total other comprehensive income | — | — | — | — | — | — | 29,841 | 154 | 29,995 | — |
| Contributions by noncontrolling interests | — | — | — | — | — | — | — | 340 | 340 | — |
| Distributions to noncontrolling interests | — | — | — | — | — | — | — | — | — | (297) |
| Issuances pursuant to stock plan | — | — | 81,260 | 1 | 5,767 | — | — | — | 5,768 | — |
| Purchase of noncontrolling interest | — | — | — | — | (48,463) | — | — | (65,504) | (113,967) | (1) |
| Dividends declared on common stock | — | — | — | — | — | (53,306) | — | — | (53,306) | — |
| Dividends declared on preferred stock | — | — | — | — | — | (6,247) | — | — | (6,247) | — |
| Distributions in excess of earnings | — | — | — | — | (35,037) | 35,037 | — | — | — | — |
| Balance as of March 31, 2015 | \$237,163 | \$130,000 | 71,545,136 | \$716 | \$3,383,456 | \$— | \$29,213 | \$2,022 | \$3,782,570 | \$14,282 |

(1) For additional information, refer to Note 11 – “Noncontrolling Interests” to our unaudited consolidated financial statements under Item 1 of this report.

The accompanying notes are an integral part of these consolidated financial statements.

Alexandria Real Estate Equities, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|------------------------------|---------------|
| | 2015 | 2014 |
| Operating Activities | | |
| Net income | \$25,008 | \$40,749 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 58,920 | 50,421 |
| Impairment of real estate | 14,510 | — |
| Equity in earnings from unconsolidated joint ventures | (574) |) — |
| Distributions of earnings from unconsolidated joint ventures | 491 | — |
| Amortization of loan fees | 2,834 | 2,561 |
| Amortization of debt (premiums) discounts | (82) |) 205 |
| Amortization of acquired below market leases | (933) |) (816) |
| Deferred rent | (9,901) |) (11,882) |
| Stock compensation expense | 3,690 | 3,228 |
| Investment gains | (5,937) |) (4,040) |
| Investment losses | 2,225 | 1,694 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | (51) |) — |
| Tenant receivables | (102) |) (690) |
| Deferred leasing costs | (7,131) |) (7,572) |
| Other assets | (3,247) |) (17,315) |
| Accounts payable, accrued expenses, and tenant security deposits | 27,121 | 16,716 |
| Net cash provided by operating activities | 106,841 | 73,259 |
| Investing Activities | | |
| Proceeds from sales of real estate | 67,616 | — |
| Additions to real estate | (104,632) |) (111,587) |
| Purchase of real estate | (93,938) |) (42,338) |
| Deposits for investing activities | (28,000) |) — |
| Change in restricted cash related to construction projects | — |) (140) |
| Investment in unconsolidated real estate joint ventures | (2,539) |) (747) |
| Additions to investments | (15,118) |) (11,905) |
| Sales of investments | 2,345 | 3,998 |
| Repayment of notes receivable | 4,214 | — |
| Net cash used in investing activities | \$(170,052) |) \$(162,719) |

Alexandria Real Estate Equities, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|--|------------------------------|-------------|
| | 2015 | 2014 |
| Financing Activities | | |
| Borrowings from secured notes payable | \$29,585 | \$51,030 |
| Repayments of borrowings from secured notes payable | (7,934 |) (210,844 |
| Principal borrowings from unsecured senior line of credit | 167,000 | 360,000 |
| Repayments of borrowings from unsecured senior line of credit | (50,000 |) (58,000 |
| Change in restricted cash related to financing activities | (1,369 |) 1,059 |
| Payment of loan fees | (563 |) (8 |
| Dividends on common stock | (53,295 |) (48,714 |
| Dividends on preferred stock | (6,247 |) (6,471 |
| Contributions by noncontrolling interests | 340 | 19,410 |
| Distributions to noncontrolling interests | (9,846 |) (988 |
| Net cash provided by financing activities | 67,671 | 106,474 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 170 | 260 |
| Net increase in cash and cash equivalents | 4,630 | 17,274 |
| Cash and cash equivalents as of the beginning of period | 86,011 | 57,696 |
| Cash and cash equivalents as of the end of period | \$90,641 | \$74,970 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the period for interest, net of interest capitalized | \$15,514 | \$6,093 |
| Non-Cash Investing Activities | | |
| Change in accrued construction | \$7,249 | \$(6,028 |
| Assumption of secured notes payable in connection with purchase of real estate | \$(82,000 |) \$(48,329 |
| Non-Cash Financing Activities | | |
| Payable for purchase of noncontrolling interest | \$(113,967 |) \$— |

The accompanying notes are an integral part of these consolidated financial statements.

Alexandria Real Estate Equities, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Background

As used in this quarterly report on Form 10-Q, references to the “Company,” “Alexandria,” “ARE,” “we,” “us” and “our” refer to Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries.

Alexandria Real Estate Equities, Inc. (NYSE:ARE), is a self-administered and self-managed investment-grade REIT, and is the largest and leading REIT focused on unique collaborative campuses in urban innovation clusters located in key coastal science and technology gateway cities, with a total market capitalization of \$11.3 billion as of March 31, 2015, and an asset base of 30.7 million square feet, including 18.5 million RSF of operating and current value-creation projects, as well as an additional 2.2 million square feet of near-term value-creation development projects and 10.0 million square feet of future ground-up development projects. Alexandria pioneered this niche in 1994 and has since established a dominant market presence in AAA locations, including Greater Boston, the San Francisco Bay Area, New York City, San Diego, Seattle, Maryland, and Research Triangle Park. Alexandria is known for its high-quality and diverse client tenant base, with approximately 52% of its total annualized base rent (“ABR”) (as of March 31, 2015) generated from investment-grade client tenants. Alexandria has a longstanding and proven track record of developing Class A assets clustered in urban science and technology campuses that provide its innovative client tenants with highly dynamic and collaborative environments that enhance their ability to successfully recruit and retain world-class talent and inspire productivity, efficiency, creativity, and success. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value. For additional information on Alexandria, please visit our website at www.are.com.

Our asset base consisted of the following, as of March 31, 2015:

| | Square Feet |
|---|-------------|
| Operating properties | 16,620,690 |
| Development properties (includes unconsolidated joint ventures) | 1,763,531 |
| Redevelopment properties | 143,777 |
| Total operating and current value-creation projects | 18,527,998 |
| Near-term value-creation projects (CIP) | 2,164,780 |
| Future value-creation projects | 9,961,508 |
| | 12,126,288 |
| Total | 30,654,286 |

Investment-grade client tenants represented approximately 52% of our total annualized base rent;

Approximately 94% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other indexes;

Approximately 95% of our leases (on an RSF basis) were triple net leases, requiring client tenants to pay substantially all real estate taxes, insurance, utilities, common area, and other operating expenses (including increases thereto) in addition to base rent; and

Approximately 93% of our leases (on an RSF basis) provided for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement, and parking lot resurfacing) that we believe would typically be borne by the landlord in traditional office leases.

Any references to the number of buildings, square footage, number of leases, occupancy, and any amounts derived from these values in the notes to the consolidated financial statements are unaudited and outside the scope of our

independent registered public accounting firm's review of our interim consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

2. Basis of presentation and summary of significant accounting policies

We have prepared the accompanying interim consolidated financial statements in accordance with GAAP and in conformity with the rules and regulations of the SEC. In our opinion, the interim consolidated financial statements presented herein reflect all adjustments that are necessary to fairly present the interim consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2014.

Basis of presentation and consolidation

The accompanying consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated.

In certain circumstances, we may enter into joint venture arrangements with outside partners. On a quarterly basis, we evaluate each joint venture arrangement under the VIE model, and if the entity is determined not to be a VIE, then we evaluate the entity under the voting model to determine if the entity should be consolidated.

Under the VIE model, an entity is determined to be a VIE if it has any of the following characteristics:

- The entity does not have sufficient equity to finance its activities without additional subordinated financial support;
- The equity holders, as a group, lack the characteristics of a controlling financial interest; or
- The legal entity is established with non-substantive voting rights.

If an entity is determined to be a VIE, we evaluate whether or not we are the primary beneficiary using qualitative analyses. Factors considered include, but are not limited to, the purpose and design of the VIE, risks that the VIE was designed to create and pass through, the form of our ownership interest, our representation on the entity's governing body, the size and seniority of our investment, our ability to participate in policy-making decisions, and the rights of the other investors to participate in the decision-making process and/or liquidate the venture, if applicable. We consolidate VIEs whenever we determine that we are the primary beneficiary.

If an entity is determined not to be a VIE, we then evaluate such entity under the voting model. Under the voting model, if we are the general partner or managing member, or have a similar role that can direct the operations of the entity, we have a presumption that we control the entity and we should consolidate regardless of our ownership percentage. If we determine that the other equity holders have any one of the following rights, it is assumed that we do not control the entity and therefore should not consolidate the entity: (i) the substantive ability to dissolve the entity or remove us from the lead role of the entity, or (ii) substantive rights that allow them to participate in the activities that most significantly impact the entity's economic performance.

As of March 31, 2015, we had two joint ventures that did not meet the requirements for consolidation and were accounted for under the equity method of accounting. Refer to Note 3 – "Investments in Real Estate," appearing elsewhere in this quarterly report on Form 10-Q, for further information on our unconsolidated joint ventures.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, and equity; the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements; and the amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

2. Basis of presentation and summary of significant accounting policies (continued)

Investments in real estate and properties classified as “held for sale”

We recognize real estate acquired (including the intangible value of above or below market leases, acquired in-place leases, client tenant relationships, and other intangible assets or liabilities), liabilities assumed, and any noncontrolling interest in an acquired entity at their fair value as of the acquisition date. If there is a bargain fixed-rate renewal option for the period beyond the non-cancelable lease term of an in-place lease, we evaluate factors such as the business conditions in the industry in which the lessee operates, the economic conditions in the area in which the property is located, and the ability of the lessee to sublease the property during the renewal term, in order to determine the likelihood that the lessee will renew. When we determine there is reasonable assurance that such bargain purchase option will be exercised, we consider its impact in determining the intangible value of such lease and its related amortization period. The value of tangible assets acquired is based upon our estimation of value on an “as if vacant” basis. The value of acquired in-place leases includes the estimated costs during the hypothetical lease-up period and other costs that would have been incurred in the execution of similar leases, considering market conditions at the acquisition date of the acquired in-place lease. We assess the fair value of tangible and intangible assets based on numerous factors, including estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including the historical operating results, known trends, and market/economic conditions that may affect the property. We also recognize the fair values of assets acquired, the liabilities assumed, and any noncontrolling interest in acquisitions of less than a 100% interest when the acquisition constitutes a change in control of the acquired entity.

Acquisition-related costs related to the acquisition of businesses, including real estate acquired with in-place leases, are expensed as incurred.

The values allocated to buildings and building improvements, land improvements, tenant improvements, and equipment are depreciated on a straight-line basis using the shorter of the term of the respective ground lease and up to 40 years for buildings and building improvements, an estimated life of 20 years for land improvements, the respective lease term for tenant improvements, and the estimated useful life for equipment. The values of acquired above and below market leases are amortized over the terms of the related leases and recognized as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The values of acquired in-place leases are classified in other assets in the accompanying consolidated balance sheets, and amortized over the remaining terms of the related leases.

We are required to capitalize project costs, including predevelopment costs, interest, property taxes, insurance, and other costs directly related and essential to the acquisition, development, redevelopment, predevelopment, or construction of a project. Capitalization of development, redevelopment, predevelopment, and construction costs is required while activities are ongoing to prepare an asset for its intended use. Fluctuations in our development, redevelopment, predevelopment, and construction activities could result in significant changes to total expenses and net income. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Should development, redevelopment, predevelopment, or construction activity cease, interest, property taxes, insurance, and certain other costs would no longer be eligible for capitalization and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

A property is classified as “held for sale” when all of the following criteria for a plan of sale have been met:

(i) management, having the authority to approve the action, commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale of the property is probable and is expected to be completed within one year; (v) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) actions necessary to complete the plan

of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Depreciation of assets ceases upon designation of a property as “held for sale.” Prior to our adoption of the new discontinued operations standard on October 1, 2014, the operations of properties “held for sale” were classified as discontinued operations in our consolidated statements of income, and amounts for all prior periods presented were reclassified from continuing operations to discontinued operations.

Subsequent to the adoption of the new standard, if the disposal of the property represents a strategic shift that has (or will have) a major effect on our operations or financial results, such as (i) a major line of business, (ii) a major geographical area, (iii) a major equity method investment, or (iv) other major parts of an entity, then the operations of the property “held for sale,” including any interest expense directly attributable to it, are classified as discontinued operations in our consolidated statements of income, and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. The disposal of an individual property generally will not represent a strategic shift and therefore will typically not meet the criteria for classification as discontinued operations.

2. Basis of presentation and summary of significant accounting policies (continued)

Impairment of long-lived assets

Long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the amount of a long-lived asset may not be recoverable. The amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators or triggering events for long-lived assets to be held and used, including our rental properties, CIP, and land held for development, are assessed by project and include significant fluctuations in estimated rental revenues less rental operating expenses, occupancy changes, significant near-term lease expirations, current and historical operating and/or cash flow losses, construction costs, estimated completion dates, rental rates, and other market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, current and historical operating results, known trends, current market/economic conditions that may affect the property, and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recognized to reduce the carrying amount to its estimated fair value. If an impairment loss is not required to be recognized, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives.

We use the “held for sale” impairment model for our properties classified as “held for sale.” The “held for sale” impairment model is different from the held and used impairment model. Under the “held for sale” impairment model, an impairment loss is recognized if the amount of the long-lived asset classified as “held for sale” exceeds its fair value less cost to sell. Because of these two different models, it is possible for a long-lived asset previously classified as held and used to require the recognition of an impairment charge upon classification as “held for sale.”

Investments

We hold equity investments in certain publicly traded companies and investments in certain privately held entities primarily involved in the science industry. All of our investments in actively traded public companies are considered “available for sale” and are reflected in the accompanying consolidated balance sheets at fair value. Fair value has been determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of comprehensive income. The classification of each investment is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of each investment sold is determined by the specific identification method, with realized gains or losses classified in other income in the accompanying consolidated statements of income. Investments in privately held entities are generally accounted for under the cost method when our interest in the entity is so minor that we have virtually no influence over the entity’s operating and financial policies. Certain investments in privately held entities are accounted for under the equity method unless our interest in the entity is deemed to be so minor that we have virtually no influence over the entity’s operating and financial policies. Under the equity method of accounting, we recognize our investment initially at cost and adjust the amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. Additionally, we limit our ownership percentage in the voting stock of each individual entity to less than 10%. As of March 31, 2015, and December 31, 2014, our ownership percentage in the voting stock of each individual entity was less than 10%.

We monitor each of our equity investments throughout the year for new developments, including operating results, results of clinical trials, capital-raising events, and merger and acquisition activities. Individual investments are

evaluated for impairment when changes in conditions may indicate an impairment exists. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, available financing, prospects for favorable or unfavorable clinical trial results, new product initiatives, and new collaborative agreements. If there are no identified events or changes in circumstances that might have an adverse effect on our cost method investments, we do not estimate the investment's fair value. For all of our investments, if a decline in the fair value of an investment below the carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a charge to current earnings.

Recognition of rental income and tenant recoveries

Rental income from leases is recognized on a straight-line basis over the respective lease terms. We classify amounts currently recognized as income, and expected to be received in later years, as deferred rent in the accompanying consolidated balance sheets. Amounts received currently, but recognized as income in future years, are classified in accounts payable, accrued expenses, and tenant security deposits in the accompanying consolidated balance sheets. We commence recognition of rental income at the date the property is ready for its intended use and the client tenant takes possession of or controls the physical use of the property.

2. Basis of presentation and summary of significant accounting policies (continued)

Tenant recoveries related to reimbursement of real estate taxes, insurance, utilities, repairs and maintenance, common area expenses, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred.

Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes, and other expenses recoverable from client tenants. Tenant receivables are expected to be collected within one year. We may maintain an allowance for estimated losses that may result from the inability of our client tenants to make payments required under the terms of the lease and for tenant recoveries due. If a client tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of uncollectible tenant receivables and deferred rent arising from the straight-lining of rent. As of March 31, 2015, and December 31, 2014, we had no allowance for uncollectible tenant receivables and deferred rent.

Monitoring client tenant credit quality

During the term of each lease, we monitor the credit quality of our client tenants by (i) reviewing the credit rating of client tenants that are rated by a nationally recognized credit rating agency, (ii) reviewing financial statements of the client tenants that are publicly available or that are required to be delivered to us pursuant to the applicable lease, (iii) monitoring news reports regarding our client tenants and their respective businesses, and (iv) monitoring the timeliness of lease payments. We have a team of employees who, among them, have graduate and undergraduate degrees in biology, chemistry, and industrial biotechnology and experience in the science and technology industries, as well as in finance. Our research team is responsible for assessing and monitoring the credit quality of our client tenants and any material changes in credit quality.

Interest and other income

Interest and other income was \$485 thousand and \$862 thousand during the three months ended March 31, 2015 and 2014, respectively. Interest income is included in other income in the accompanying consolidated statements of income.

Income taxes

We are organized and qualify as a REIT pursuant to the Internal Revenue Code (the "Code"). Under the Code, a REIT that distributes at least 90% of its REIT taxable income to its shareholders annually and meets certain other conditions is not subject to federal income taxes, but could be subject to certain state and local taxes. We distribute 100% of our taxable income annually; therefore, a provision for federal income taxes is not required. In addition to our REIT returns, we file federal, state, and local tax returns for our subsidiaries. We file with jurisdictions located in the U.S., Canada, India, China, and other international locations. Our tax returns are subject to routine examination in various jurisdictions for the calendar years 2010 through 2013.

Recent accounting pronouncements

In February 2015, the FASB issued an Accounting Standards Update that requires reporting entities to evaluate whether they should consolidate certain legal entities. The Accounting Standards Update modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities and eliminates the presumption that a general partner should consolidate a limited partnership. This Accounting Standards Update affects

the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The Accounting Standards Update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. A reporting entity may apply the amendments in the Accounting Standards Update using: (i) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption; or (ii) by applying the amendments retrospectively. We are currently assessing the potential impact that the adoption of the Accounting Standards Update will have on our consolidated financial statements.

In April 2015, the FASB issued an Accounting Standards Update that requires reporting entities to present debt issuance costs as a direct deduction from the face amount of that note payable presented in the balance sheet. The Accounting Standards Update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. A reporting entity is required to apply the amendments in the Accounting Standards Update retrospectively to all prior periods. We are currently assessing the potential impact that the adoption of the Accounting Standards Update will have on our consolidated financial statements.

3. Investments in real estate

Our investments in real estate consisted of the following as of March 31, 2015, and December 31, 2014 (in thousands):

| | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Land (related to rental properties) | \$679,070 | \$624,681 |
| Buildings and building improvements | 6,609,158 | 6,171,504 |
| Other improvements | 221,535 | 192,128 |
| Rental properties | 7,509,763 | 6,988,313 |
| Current value-creation projects (CIP): | | |
| Current development in North America | 361,182 | 500,894 |
| Current redevelopment in North America | 52,927 | 42,482 |
| Current development in Asia | — | 14,065 |
| | 414,109 | 557,441 |
| Rental properties and current value-creation projects | 7,923,872 | 7,545,754 |
| Near-term value-creation projects in North America (CIP): | | |
| Alexandria Center® at Kendall Square – Binney Street ⁽¹⁾ | 130,475 | 321,907 |
| Other projects | 97,169 | 107,471 |
| | 227,644 | 429,378 |
| Future value-creation projects: | | |
| North America | 190,407 | 175,175 |
| Asia | 79,938 | 78,548 |
| | 270,345 | 253,723 |
| Near-term and future value-creation projects | 497,989 | 683,101 |
| Current, near-term, and future value-creation projects | 912,098 | 1,240,542 |
| Gross investments in real estate | 8,421,861 | 8,228,855 |
| Equity method of accounting – unconsolidated joint ventures | 120,028 | 117,406 |
| Gross investments in real estate – including unconsolidated joint ventures | 8,541,889 | 8,346,261 |
| Less: accumulated depreciation | (1,153,830 |) (1,120,245 |
| Investments in real estate | \$7,388,059 | \$7,226,016 |

(1) Includes amounts related to 100 Binney Street as of March 31, 2015, and 50, 60, and 100 Binney Street as of December 31, 2014.

Acquisitions

During the three months ended March 31, 2015, we acquired 640 Memorial Drive located in our Cambridge submarket, for \$176.5 million. This property is a 225,504 RSF Class A, LEED® Gold certified, office/laboratory building located in mid-Cambridge, near the Massachusetts Institute of Technology campus, and is 100% leased to two high-quality life science client tenants pursuant to long-term leases. In connection with the acquisition, we

assumed a secured note payable of \$82.0 million with a contractual interest rate of 3.93% and a maturity date in 2023. The property is also subject to a long-term ground lease.

3. Investments in real estate (continued)

Sales of real estate assets and related impairment charges

During the three months ended March 31, 2015, we completed the sale of our land and land improvements at 661 University Avenue in Toronto, Canada, for \$54.1 million. Also, during the three months ended March 31, 2015, we sold a 21,859 RSF rental property located in Pennsylvania for \$1.9 million. The sales price less cost to sell for each of the dispositions approximated their carrying value at December 31, 2014, and resulted in no gain or loss on sale.

During the three months ended December 31, 2014, we completed the development of the core and shell for a 175,000 RSF building in Hyderabad, India. Also during this time, we evaluated an offer from an Indian multispecialty healthcare provider to acquire the building in its current condition, subject to a successful permitting to allow for hospital or patient-care use. This entity intended to operate the asset as a hospital or a patient-care facility, requiring additional government permits to complete the building construction, which significantly limited the likelihood that this entity would acquire the building. We intended to complete the development and lease the building if we failed to reach reasonable sale terms with this entity. As a result, we completed a probability-weighted cash flow analysis for this building, inclusive of the estimated costs to complete, and determined that the estimated undiscounted cash flows exceeded the carrying amount of the building as of December 31, 2014.

In March 2015, we determined that the building in Hyderabad, India met the criteria for classification as “held for sale” including, among others, the following: (i) management committed to sell the real estate and executed a purchase and sale agreement on March 23, 2015, and (ii) management determined that the sale was probable within one year. Upon classification as “held for sale,” we recognized an impairment charge of \$14.5 million to lower the carrying costs of the real estate to its estimated fair value less cost to sell, including an estimated \$4.2 million foreign exchange loss. On March 26, 2015, we completed the sale of the building to the Indian multi-specialty healthcare provider for \$12.4 million.

As a result of our sales in Canada and India discussed above, we realized an aggregate \$9.2 million of losses related to foreign currency translation that were previously classified in accumulated other comprehensive income (loss) on our accompanying consolidated balance sheets.

On a quarterly basis, we review current activities and changes in the business conditions of all of our properties prior to and subsequent to the end of each quarter to determine the existence of any triggering events requiring an impairment analysis. If triggering events are identified, we review an estimate of the future undiscounted cash flows for the properties, including a probability-weighted approach if multiple outcomes are under consideration.

Current value-creation development and redevelopment projects

As of March 31, 2015, we had seven ground-up development projects in process in North America aggregating 1.8 million RSF, including two unconsolidated joint venture development projects. We also had two projects undergoing redevelopment in North America aggregating 143,777 RSF.

Investments in unconsolidated joint ventures

Refer to our consolidation policy described in Note 2 – “Basis of Presentation and Summary of Significant Accounting Policies.”

360 Longwood Avenue

We are currently developing a building aggregating 413,536 RSF in the Longwood Medical Area of the Greater Boston market through an unconsolidated joint venture. The cost at completion for this unconsolidated joint venture real estate project is approximately \$350.0 million. As of March 31, 2015, the project was 38% occupied, primarily by Dana-Farber Cancer Institute, Inc. We currently have an additional 103,752 RSF, or 25% of the property, under lease negotiation and expect to reach stabilized occupancy at this property by 2016. The joint venture has a secured construction loan with commitments aggregating \$213.2 million, with \$166.5 million outstanding as of March 31, 2015. The remaining cost to complete the development is expected to be funded primarily from the remaining commitments of \$46.7 million under the secured construction loan. The secured construction loan bears interest at LIBOR+3.75%, with a floor of 5.25%. The maturity date of the loan is April 1, 2017, with two one-year options to extend the stated maturity date to April 1, 2019, subject to certain conditions.

3. Investments in real estate (continued)

We have a 27.5% interest in this unconsolidated joint venture that we account for under the equity method of accounting. Our investment under the equity method of accounting was \$49.2 million as of March 31, 2015, and is classified in investments in real estate in our accompanying consolidated balance sheets.

1455/1515 Third Street

In September 2014, Alexandria and Uber Technologies, Inc. (“Uber”) entered into a joint venture agreement and acquired two land parcels supporting the development of two buildings aggregating 422,980 RSF at 1455/1515 Third Street in the Mission Bay submarket of the San Francisco Bay Area market for a total purchase price of \$125.0 million. We have a 51% interest and Uber has a 49% interest in this unconsolidated joint venture. The purchase price was funded by contributions into the joint venture by Uber and us. We account for our investment in this joint venture under the equity method of accounting. Our investment under the equity method of accounting was \$70.8 million as of March 31, 2015, and is classified in investments in real estate in our accompanying consolidated balance sheets. The project is expected to be funded by equity contributions from Uber and us. We may also fund a portion of the project with proceeds from a secured construction loan. The project is 100% leased to Uber for a 15-year term, commencing upon completion of development.

Near-term value-creation projects in North America (CIP)

Land undergoing predevelopment activities is classified as CIP and is undergoing activities prior to commencement of construction of aboveground building improvements. We generally will not commence ground-up development of any parcels without first securing pre-leasing for such space, except when there is solid market demand. If aboveground construction is not initiated at completion of predevelopment activities, the land parcel will be classified as future value-creation projects. Our objective with predevelopment is to reduce the time it takes to deliver projects to prospective client tenants. Additionally, during predevelopment, we focus on the design of cost-effective buildings with generic and reusable infrastructure to accommodate single tenancy and multi-tenancy. As of March 31, 2015, we had \$227.6 million of land undergoing predevelopment activities in North America aggregating 2.2 million square feet.

Predevelopment costs generally include the following activities prior to commencement of vertical construction:

Traditional predevelopment costs, including entitlement, design, construction drawings, BIM (3-D virtual modeling), budgeting, sustainability and energy optimization reviews, permitting, and planning for all aspects of the project; and

Site and infrastructure construction costs, including belowground site work, utility connections, land grading, drainage, egress and regress access points, foundation, and other costs to prepare the site for construction of aboveground building improvements.

Future value-creation projects

Future value-creation projects represent land that we plan to develop in the future, but for which, as of each period presented, no construction or predevelopment activities were ongoing. As a result, interest, property taxes, insurance, and other costs are expensed as incurred. As of March 31, 2015, we had \$270.3 million of land held for future development supporting an aggregate of 10.0 million square feet of ground-up development.

4. Investments

We hold investments in certain publicly traded companies and privately held entities involved primarily in the science industry. Our investments in privately held entities are primarily accounted for under the cost method. Our investments in publicly traded companies are principally marketable equity securities which are accounted for as “available for sale” securities that are carried at their fair values. Investments in “available for sale” securities with gross unrealized losses as of March 31, 2015, had been in a continuous unrealized loss position for less than 12 months. We have the ability and intent to hold these investments for a reasonable period of time sufficient for the recovery of our investment. We believe that these unrealized losses are temporary and accordingly there are no other-than-temporary impairments in accumulated other comprehensive income related to “available for sale” securities as of March 31, 2015, or December 31, 2014.

The following table summarizes our investments as of March 31, 2015, and December 31, 2014 (in thousands):

| | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| “Available-for-sale” marketable equity securities, cost basis | \$33,851 | \$21,898 |
| Unrealized gains | 83,513 | 53,625 |
| Unrealized losses | (1,608 |) (1,258 |
| “Available-for-sale” marketable equity securities, at fair value | 115,756 | 74,265 |
| Investments accounted for under cost method | 167,306 | 162,124 |
| Total investments | \$283,062 | \$236,389 |

The following table outlines our investment income, which is classified in other income in the accompanying consolidated statements of income (in thousands):

| | Three Months Ended March 31, | |
|-------------------|------------------------------|----------|
| | 2015 | 2014 |
| Investment gains | \$5,937 | \$4,040 |
| Investment losses | (2,225 |) (1,694 |
| Investment income | \$3,712 | \$2,346 |

5. Fair value measurements

We are required to disclose fair value information about all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. We measure and disclose the estimated fair value of financial assets and liabilities utilizing a fair value hierarchy that distinguishes between data obtained from sources independent of the reporting entity and the reporting entity’s own assumptions about market participant assumptions. This hierarchy consists of three broad levels, as follows: (i) quoted prices in active markets for identical assets or liabilities, (ii) “significant other observable inputs,” and (iii) “significant unobservable inputs.” “Significant other observable inputs” can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. “Significant unobservable inputs” are typically based on an entity’s own assumptions, since there is little, if any, related market activity. In instances in which the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers between the levels in the fair value hierarchy during the three months ended March 31, 2015 and 2014.

5. Fair value measurements (continued)

The following tables set forth the assets and liabilities that we measure at fair value on a recurring basis by level within the fair value hierarchy as of March 31, 2015, and December 31, 2014 (in thousands):

| Description | Total | March 31, 2015 | | |
|---------------------------------|-----------|--|-------------------------------------|---------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Assets: | | | | |
| “Available-for-sale” securities | \$115,756 | \$115,756 | \$— | \$— |
| Liabilities: | | | | |
| Interest rate swap agreements | \$3,417 | \$— | \$3,417 | \$— |
| Description | Total | December 31, 2014 | | |
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Assets: | | | | |
| “Available-for-sale” securities | \$74,265 | \$74,265 | \$— | \$— |
| Liabilities: | | | | |
| Interest rate swap agreements | \$909 | \$— | \$909 | \$— |

The carrying values of cash and cash equivalents, restricted cash, tenant receivables, other assets, accounts payable, accrued expenses, and tenant security deposits approximate fair value. Our “available-for-sale” marketable equity securities and our interest rate swap agreements, respectively, have been recognized at fair value. Refer to Note 7 – “Interest Rate Swap Agreements,” for further details on our interest rate swap agreements. The fair values of our secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were estimated using widely-accepted valuation techniques, including discounted cash flow analyses of “significant other observable inputs” such as available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Because the valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate. Additionally, the use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

As of March 31, 2015, and December 31, 2014, the book and estimated fair values of our marketable equity securities, interest rate swap agreements, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

| | March 31, 2015 | | December 31, 2014 | |
|---|----------------|-------------|-------------------|-------------|
| | Book Value | Fair Value | Book Value | Fair Value |
| Assets: | | | | |
| “Available-for-sale” marketable equity securities | \$115,756 | \$115,756 | \$74,265 | \$74,265 |
| Liabilities: | | | | |
| Interest rate swap agreements | \$3,417 | \$3,417 | \$909 | \$909 |
| Secured notes payable | \$760,476 | \$794,432 | \$652,209 | \$693,338 |
| Unsecured senior notes payable | \$1,747,450 | \$1,823,090 | \$1,747,370 | \$1,793,255 |
| Unsecured senior line of credit | \$421,000 | \$421,279 | \$304,000 | \$304,369 |
| Unsecured senior bank term loans | \$975,000 | \$977,194 | \$975,000 | \$976,010 |

Fair value measurements for other than on a non-recurring basis

Refer to discussion at Note 3 – “Investments in Real Estate” and Note 11 – “Noncontrolling Interests.”

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6. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt as of March 31, 2015 (dollars in thousands):

| | Fixed-Rate/Hedged Variable Rate | Unhedged Variable Rate | Total Consolidated | Percentage of Total Debt | Weighted Average Interest Rate at End of Period (1) | Weighted Average Remaining Term (in years) |
|---|------------------------------------|------------------------------|-----------------------|--------------------------------|---|--|
| Secured notes payable | \$ 482,663 | \$277,813 | \$760,476 | 19.5 | % 4.30 | % 3.1 |
| Unsecured senior notes payable | 1,747,450 | — | 1,747,450 | 44.7 | 3.98 | 8.1 |
| \$1.5 billion unsecured senior line of credit | — | 421,000 | 421,000 | 10.8 | 1.22 | 3.8 |
| 2016 Unsecured Senior Bank Term Loan | 350,000 | 25,000 | 375,000 | 9.6 | 1.60 | 1.3 |
| 2019 Unsecured Senior Bank Term Loan | 600,000 | — | 600,000 | 15.4 | 1.71 | 3.8 |
| Total/weighted average | \$ 3,180,113 | \$723,813 | \$3,903,926 | 100.0 | % 3.17 | % 5.3 |
| Percentage of total debt | 81 | % 19 | % 100 | % | | |

Represents the weighted average interest rate as of the end of the period plus the impact of debt (1) premiums/discounts and our interest rate swap agreements. The weighted average interest rate excludes bank fees and amortization of loan fees.

6. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding indebtedness and respective principal maturities as of March 31, 2015 (dollars in thousands):

| Debt | Stated Rate | Weighted Average Interest Rate ⁽¹⁾ | Maturity Date ⁽²⁾ | Principal Payments Remaining for the Period Ending December 31, | | | | | | Thereafter | Total |
|---|------------------------|---|------------------------------|---|---------|---------|-------|---------|---------|------------|----------|
| | | | | 2015 | 2016 | 2017 | 2018 | 2019 | | | |
| Secured notes payable | | | | | | | | | | | |
| San Francisco Bay Area | L+1.50% | 1.68% | 7/1/15 ⁽³⁾ | \$46,983 | \$— | \$— | \$— | \$— | \$— | \$— | \$46,983 |
| Greater Boston, San Francisco Bay Area, and San Diego | 5.73 | 5.73 | 1/1/16 | 1,356 | 75,501 | — | — | — | — | — | 76,857 |
| Greater Boston, San Diego, and New York City | 5.82 | 5.82 | 4/1/16 | 741 | 29,389 | — | — | — | — | — | 30,130 |
| San Diego | 5.74 | 3.00 | 4/15/16 | 132 | 6,916 | — | — | — | — | — | 7,048 |
| San Francisco Bay Area | L+1.40 | 1.58 | 6/1/16 | — | 20,550 | — | — | — | — | — | 20,550 |
| San Francisco Bay Area | 6.35 | 6.35 | 8/1/16 | 1,976 | 126,715 | — | — | — | — | — | 128,691 |
| Maryland | 2.17 | 2.17 | 1/20/17 | — | — | 76,000 | — | — | — | — | 76,000 |
| Greater Boston | L+1.35 | 1.53 | 8/23/17 | — | — | 134,280 | — | — | — | — | 134,280 |
| San Diego, Maryland, and Seattle | 7.75 | 7.75 | 4/1/20 | 1,189 | 1,696 | 1,832 | 1,979 | 2,138 | 104,352 | — | 113,186 |
| San Diego | 4.66 | 4.66 | 1/1/23 | 1,053 | 1,464 | 1,540 | 1,614 | 1,692 | 31,674 | — | 39,037 |
| Greater Boston | 3.93 | 3.10 | 3/10/23 | — | — | — | 1,091 | 1,505 | 79,404 | — | 82,000 |
| San Francisco Bay Area | 6.50 | 6.50 | 6/1/37 | 18 | 19 | 20 | 22 | 23 | 728 | — | 830 |
| Unamortized premiums | | | | 547 | 610 | 573 | 588 | 595 | 1,971 | — | 4,884 |
| Secured notes payable weighted average/subtotal | 4.42 % | 4.30 | | 53,995 | 262,860 | 214,245 | 5,294 | 5,953 | 218,129 | — | 760,376 |
| 2016 Unsecured Senior Bank Term Loan | L+1.20% | 1.60 | 7/31/16 ⁽⁴⁾ | — | 375,000 | — | — | — | — | — | 375,000 |
| 2019 Unsecured Senior Bank Term Loan | L+1.20% | 1.71 | 1/3/19 | — | — | — | — | 600,000 | — | — | 600,000 |
| \$1.5 billion unsecured senior line of credit | L+1.10% ⁽⁵⁾ | 1.22 | 1/3/19 | — | — | — | — | 421,000 | — | — | 421,000 |
| | 2.75 % | 2.79 | 1/15/20 | — | — | — | — | — | 400,000 | — | 400,000 |

| | | | | | | | | | | | | | |
|--|------|---|-------|---------|----------|-----------|-----------|---------|-------------|-------------|---------|-------------|--|
| Unsecured senior notes payable | | | | | | | | | | | | | |
| Unsecured senior notes payable | 4.60 | % | 4.61 | 4/1/22 | — | — | — | — | — | — | 550,000 | 550,000 | |
| Unsecured senior notes payable | 3.90 | % | 3.94 | 6/15/23 | — | — | — | — | — | — | 500,000 | 500,000 | |
| Unsecured senior notes payable | 4.50 | % | 4.51 | 7/30/29 | — | — | — | — | — | — | 300,000 | 300,000 | |
| Unamortized discounts | | | | | (246) | (337) | (350) | (362) | (375) | (880) | | (2,550) | |
| Unsecured debt weighted average/subtotal | | | 2.93 | | (246) | 374,663 | (350) | (362) | 1,020,625 | 1,749,120 | | 3,140,000 | |
| Weighted average/total | | | 3.17% | | \$53,749 | \$637,523 | \$213,895 | \$4,932 | \$1,026,578 | \$1,967,249 | | \$3,900,000 | |
| Balloon payments | | | | | \$46,983 | \$632,449 | \$210,280 | \$— | \$1,021,000 | \$1,954,466 | | \$3,800,000 | |
| Principal amortization | | | | | 6,766 | 5,074 | 3,615 | 4,932 | 5,578 | 12,783 | | 38,700 | |
| Total consolidated debt | | | | | \$53,749 | \$637,523 | \$213,895 | \$4,932 | \$1,026,578 | \$1,967,249 | | \$3,900,000 | |
| Fixed-rate/hedged variable-rate debt | | | | | \$6,766 | \$591,973 | \$3,615 | \$4,932 | \$605,578 | \$1,967,249 | | \$3,100,000 | |
| Unhedged variable-rate debt | | | | | 46,983 | 45,550 | 210,280 | — | 421,000 | — | | 723,800 | |
| Total consolidated debt | | | | | \$53,749 | \$637,523 | \$213,895 | \$4,932 | \$1,026,578 | \$1,967,249 | | \$3,900,000 | |

Represents the weighted average interest rate as of the end of the period plus the impact of debt

(1) premiums/discounts and our interest rate swap agreements. The weighted average interest rate excludes bank fees and amortization of loan fees.

(2) Includes any extension options that we control.

(3) We have two, one-year options to extend the stated maturity date to July 1, 2017, subject to certain conditions. We expect to exercise our option to extend the maturity date from July 1, 2015, to July 1, 2016.

(4) We expect to partially repay a portion of this loan and extend the maturity date to 2021.

(5) Our unsecured senior line of credit contains a feature that allows lenders to competitively bid on the interest rate for borrowings under the facility. This may result in an interest rate that is below the stated rate of L+1.10%. In addition to the cost of borrowing, the facility is subject to an annual facility fee of 0.20%, based on the aggregate commitments outstanding.

6. Secured and unsecured senior debt (continued)

Interest expense

The following table summarizes interest expense for the three months ended March 31, 2015 and 2014 (in thousands):

| | Three Months Ended March 31, | |
|----------------------|------------------------------|-----------|
| | 2015 | 2014 |
| Gross interest | \$34,207 | \$31,136 |
| Capitalized interest | (10,971 |) (12,013 |
| Interest expense | \$23,236 | \$19,123 |

Repayment of secured note payable

During the three months ended March 31, 2015, we repaid a \$5.8 million secured note payable related to a Maryland property that bore interest at a rate of 4.50%.

Secured construction loans

The following table summarizes our secured construction loans as of March 31, 2015 (dollars in thousands):

| Market | Stated Rate | Maturity Date | Outstanding Balance | Remaining Commitments | Total Commitments |
|------------------------|-------------|------------------------|---------------------|-----------------------|-------------------|
| San Francisco Bay Area | L+1.50 % | 7/1/15 ⁽¹⁾ | \$46,983 | \$8,017 | \$55,000 |
| San Francisco Bay Area | L+1.40 % | 6/1/16 ⁽²⁾ | 20,550 | 15,450 | 36,000 |
| Greater Boston | L+1.35 % | 8/23/17 ⁽³⁾ | 134,280 | 116,120 | 250,400 |
| | | | \$201,813 | \$139,587 | \$341,400 |

We have two, one-year options to extend the stated maturity date to July 1, 2017, subject to certain conditions. We (1) are in the process of exercising the first of two options to extend the maturity date from July 1, 2015 to July 1, 2016.

(2) We have two, one-year options to extend the stated maturity date to June 1, 2018, subject to certain conditions.

(3) We have a one-year option to extend the stated maturity date to August 23, 2018, subject to certain conditions.

7. Interest rate swap agreements

We use interest rate swap agreements to hedge the variable cash flows associated with certain of our existing LIBOR-based variable-rate debt, including our unsecured senior line of credit and unsecured senior bank term loans. The ineffective portion of the change in fair value of our interest rate swap agreements is required to be recognized directly in earnings. During the three months ended March 31, 2015 and 2014, our interest rate swap agreements were 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate swap agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive loss. Amounts classified in accumulated other comprehensive loss are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. During the next 12 months, we expect to reclassify approximately \$1.3 million in accumulated other comprehensive loss to earnings as an increase to interest expense. As of March 31, 2015, and December 31, 2014, the fair values of our interest rate swap agreements aggregating a liability balance of \$3.4 million and \$909 thousand, respectively, were classified in accounts payable, accrued expenses, and tenant security deposits, based upon their respective fair values, without any offsetting pursuant to master netting agreements. Under our interest rate swap agreements, we have no collateral posting requirements.

The Company has agreements with certain of its derivative counterparties that contain a provision wherein (i) the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness; or (ii) if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. If the Company had breached any of these provisions as of March 31, 2015, it could have been required to settle its obligations under the agreements at their termination value of \$3.4 million.

We had the following outstanding interest rate swap agreements that were designated as cash flow hedges of interest rate risk as of March 31, 2015 (dollars in thousands):

| Effective Date | Maturity Date | Number of Contracts | Weighted Average Interest Pay Rate ⁽¹⁾ | Fair Value as of 3/31/15 | Notional Amount in Effect as of | | |
|-------------------|----------------|---------------------|---|--------------------------|---------------------------------|-----------|-----------|
| | | | | | 3/31/15 | 12/31/15 | 12/31/16 |
| December 31, 2014 | March 31, 2016 | 3 | 0.53% | \$ (926) | \$500,000 | \$500,000 | \$— |
| March 31, 2015 | March 31, 2016 | 7 | 0.42% | (362) | 450,000 | 450,000 | — |
| March 31, 2016 | March 31, 2017 | 5 | 1.35% | (2,129) | — | — | 600,000 |
| Total | | | | \$ (3,417) | \$950,000 | \$950,000 | \$600,000 |

In addition to the interest pay rate for each swap agreement, interest is payable at an applicable margin for borrowings outstanding as of March 31, 2015. Borrowings under our unsecured senior bank term loans include an applicable margin of 1.20% and borrowings outstanding under our unsecured senior line of credit include an applicable margin of 1.10%.

During April 2015, we executed additional interest rate swap agreements that were designated as cash flow hedges of interest rate risk (dollars in thousands):

| Effective Date | Maturity Date | Number of Contracts | Weighted Average Interest Pay Rate ⁽¹⁾ | Fair Value as of 3/31/15 | Notional Amount in Effect as of | | |
|----------------|----------------|---------------------|---|--------------------------|---------------------------------|----------|-----------|
| | | | | | 3/31/15 | 12/31/15 | 12/31/16 |
| March 31, 2016 | March 31, 2017 | 4 | 0.93% | N/A | \$— | \$— | \$200,000 |

(1) In addition to the interest pay rate for each swap agreement, interest is payable at an applicable margin for borrowings outstanding as of March 31, 2015. Borrowings under our unsecured senior bank term loans include an applicable margin of 1.20% and borrowings outstanding under our unsecured senior line of credit include an applicable margin of 1.10%.

8. Accounts payable, accrued expenses, and tenant security deposits

The following table summarizes the components of accounts payable, accrued expenses, and tenant security deposits as of March 31, 2015, and December 31, 2014 (in thousands):

| | March 31, 2015 | December 31 2014 |
|---|-------------------|---------------------|
| Accounts payable and accrued expenses | \$ 156,269 | \$ 127,828 |
| Accrued construction | 85,769 | 91,110 |
| Acquired below market leases | 29,198 | 8,810 |
| Conditional asset retirement obligations | 8,984 | 9,108 |
| Deferred rent liabilities | 26,722 | 36,231 |
| Interest rate swap liabilities | 3,417 | 909 |
| Prepaid rent and tenant security deposits | 204,688 | 193,699 |
| Other liabilities ⁽¹⁾ | 130,572 | 21,390 |
| Total | \$ 645,619 | \$ 489,085 |

Our March 31, 2015, balance includes a noncontrolling interest purchase liability related to the \$108.3 million acquisition of the outstanding 10% noncontrolling interest in our 1.2 million RSF, flagship campus at Alexandria Technology Square[®]. For additional information, refer to Note 11 – “Noncontrolling Interests” to our unaudited consolidated financial statements under Item 1 of this report.

9. Earnings per share

We use income from continuing operations attributable to Alexandria's common stockholders as the "control number" in determining whether potential common shares are dilutive or antidilutive to EPS. Pursuant to the presentation and disclosure literature on gains or losses on sales or disposals by REITs and EPS required by the SEC and the FASB, gains or losses on sales or disposals by a REIT that do not qualify as discontinued operations are classified below income from discontinued operations in the consolidated statements of income and included in the numerator for the computation of EPS for income from continuing operations.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of EPS using the two-class method. Our 7% series D cumulative convertible preferred stock ("Series D Convertible Preferred Stock") is not a participating security, and is not included in the computation of EPS using the two-class method. Under the two-class method, we allocate net income after preferred stock dividends, preferred stock redemption charge, and amounts attributable to noncontrolling interests to common stockholders and unvested restricted stock awards based on their respective participation rights to dividends declared (or accumulated) and undistributed earnings. Diluted EPS is computed using the weighted average shares of common stock outstanding determined for the basic EPS computation plus the effect of any dilutive securities. We had no dilutive securities outstanding during the three months ended March 31, 2015 and 2014.

The table below is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three months ended March 31, 2015 and 2014 (in thousands, except per share amounts):

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2015 | 2014 |
| Income from continuing operations | \$25,051 | \$40,911 |
| Dividends on preferred stock | (6,247 |) (6,471 |
| Net income attributable to noncontrolling interests | (492 |) (1,195 |
| Net income attributable to unvested restricted stock awards | (483 |) (374 |
| Income from continuing operations attributable to Alexandria's common stockholders – basic and diluted | 17,829 | 32,871 |
| Loss from discontinued operations | (43 |) (162 |
| Net income attributable to Alexandria's common stockholders – basic and diluted | \$17,786 | \$32,709 |
| Weighted average shares of common stock outstanding – basic and diluted | 71,366 | 71,073 |
| EPS attributable to Alexandria's common stockholders – basic and diluted: | | |
| Continuing operations | \$0.25 | \$0.46 |
| Discontinued operations | — | — |
| EPS – basic and diluted | \$0.25 | \$0.46 |

10. Stockholders' equity

Dividends

In March 2015, we declared cash dividends on our common stock for the first quarter of 2015, aggregating \$53.3 million, or \$0.74 per share. Also in March 2015, we also declared cash dividends on our Series D Convertible Preferred Stock for the first quarter of 2015, aggregating approximately \$4.2 million, or \$0.4375 per share. Additionally, we declared cash dividends on our Series E cumulative redeemable preferred stock ("Series E Preferred Stock") for the first quarter of 2015, aggregating approximately \$2.1 million, or \$0.403125 per share. In April 2015, we paid the cash dividends on our common stock, Series D Preferred Stock, and Series E Preferred Stock for the first quarter of 2015.

Accumulated other comprehensive loss

Accumulated other comprehensive loss attributable to Alexandria, consists of the following (in thousands):

| | Unrealized Gain on Marketable Securities | Unrealized Loss on Interest Rate Swap Agreements | Unrealized Loss on Foreign Currency Translation | Total |
|---|---|--|---|----------|
| Balance as of December 31, 2014 | \$52,367 | \$(909) | \$(52,086) | \$(628) |
| Other comprehensive income (loss) before reclassifications | 28,435 | (3,013) | (6,271) | 19,151 |
| Amounts reclassified from other comprehensive income (loss) | 1,103 | 505 | 9,236 | 10,844 |
| Amounts attributable to noncontrolling interest | — | — | (154) | (154) |
| Net other comprehensive income (loss) | 29,538 | (2,508) | 2,811 | 29,841 |
| Balance as of March 31, 2015 | \$81,905 | \$(3,417) | \$(49,275) | \$29,213 |

Preferred stock and excess stock authorizations

Our charter authorizes the issuance of up to 100.0 million shares of preferred stock, of which 14.7 million shares were issued and outstanding as of March 31, 2015. In addition, 200.0 million shares of "excess stock" (as defined in our charter) are authorized, none of which were issued and outstanding as of March 31, 2015.

11. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities owned four projects as of March 31, 2015, and are included in our consolidated financial statements. Noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements.

The following table represents income from continuing operations and discontinued operations attributable to Alexandria Real Estate Equities, Inc., for the three months ended March 31, 2015 and 2014, excluding the amounts attributable to these noncontrolling interests:

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2015 | 2014 |
| Income from continuing operations attributable to Alexandria | \$24,559 | \$39,716 |
| Loss from discontinued operations | \$(43 |) \$(162 |

Certain of our noncontrolling interests have the right to require us to redeem their ownership interests in the respective entities. We classify these ownership interests in the entities as redeemable noncontrolling interests outside of total equity in the accompanying consolidated balance sheets. Redeemable noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements. If the amount of a redeemable noncontrolling interest is less than the maximum redemption value at the balance sheet date, such amount is adjusted to the maximum redemption value. Subsequent declines in the redemption value are recognized only to the extent that previous increases have been recognized.

During the three months ended March 31, 2015, we executed an agreement to purchase the outstanding 10% noncontrolling interest in our 1.2 million RSF, flagship campus at Alexandria Technology Square® for \$108.3 million. The first installment of \$54.3 million was paid on April 1, 2015, and the second installment of \$54.0 million is due on April 1, 2016.

Upon execution of the purchase agreement, we recognized a liability representing the fair value of the aggregate consideration, primarily consisting of the purchase price in the accounts payable, accrued expenses, and tenant security deposits line of our accompanying balance sheet. We measured the fair value of the liability using significant observable inputs including a discount rate that approximates our cost of debt capital in effect during the period the liability is outstanding. The difference between the noncontrolling interest purchase liability and the noncontrolling interest balance of \$48.5 million was recognized as a reduction of additional paid-in capital.

12. Discontinued operations/assets classified as “held for sale”

On October 1, 2014, we adopted an Accounting Standards Update on the reporting of discontinued operations that raised the threshold for classification of assets “held for sale” as discontinued operations. This Accounting Standards Update is applied prospectively, and since our adoption of this Accounting Standards Update, no additional properties have met the criteria for classification as a discontinued operation in our consolidated financial statements. Prior to the adoption of this Accounting Standards Update, certain properties met the previous criteria for classification as discontinued operations and are included in the summary of income from discontinued operations below. For additional information, refer to the section titled “Recent Accounting Pronouncements” in Note 2 – “Basis of Presentation and Summary of Significant Accounting Policies” to our unaudited consolidated financial statements under Item 1 of

this report.

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12. Discontinued operations/assets classified as “held for sale” (continued)

The following is a summary of net assets “held for sale” as of March 31, 2015, and December 31, 2014, including the assets classified as “held for sale” subsequent to our adoption of the new Accounting Standards Update (in thousands):

| | March 31, 2015 | December 31, 2014 |
|---|----------------|-------------------|
| Properties classified as “held for sale” | \$ 117,203 | \$ 173,706 |
| Other assets | 5,611 | 10,147 |
| Total assets | 122,814 | 183,853 |
| Total liabilities | — | (6,044) |
| Net assets classified as “held for sale” ^(b) | \$ 122,814 | \$ 177,809 |

As of March 31, 2015, net assets classified as “held for sale” was composed of the three properties that were (1) classified as “held for sale,” including one property classified as “held for sale” and included in discontinued operations prior to the adoption of the Accounting Standards Update described above.

The following is a summary of loss from discontinued operations related to each asset that met the criteria to be classified as discontinued operations prior to the adoption of the new Accounting Standards Update on October 1, 2014, for the three months ended March 31, 2015 and 2014 (in thousands):

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2015 | 2014 |
| Total revenues | \$— | \$— |
| Operating expenses | (43) | (162) |
| Loss from discontinued operations ⁽¹⁾ | \$(43) | \$(162) |

Loss from discontinued operations includes the results of operations (prior to disposition) of four properties classified as “held for sale” and included in discontinued operations prior to our adoption of the new Accounting Standards Update described above. One property is still classified as “held for sale” and included in discontinued operations as of March 31, 2015, and three properties were sold during the period from January 1, 2014, to March 31, 2015.

The following is a summary of the losses included in our income from continuing operations for the three months ended March 31, 2015 and 2014, from assets classified as “held for sale” subsequent to our adoption of the new Accounting Standards Update (in thousands):

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2015 | 2014 |
| Total revenues | \$ 2,330 | \$ 2,500 |
| Operating expenses | (766) | (701) |
| Total revenues less operating expenses from assets classified as “held for sale,” not qualifying for classification as discontinued operations | 1,564 | 1,799 |
| Depreciation expense | (127) | (1,891) |
| Impairment of real estate | (14,510) | — |
| Loss from assets classified as “held for sale,” not qualifying as discontinued operations ⁽¹⁾ | \$(13,073) | \$(92) |

(1) Includes the results of operations of two properties with an aggregate 234,186 RSF that were classified as “held for sale” as of March 31, 2015, and three properties with an aggregate 196,859 RSF that were sold during the three months ended March 31, 2015, but do not qualify for classification as discontinued operations. For additional

information, refer to Note 2 – “Basis of Presentation and Summary of Significant Accounting Policies” to our consolidated financial statements under Item 1 of this report.

13. Subsequent events

Amended employment agreement with Mr. Marcus

In April 2015, we amended the employment agreement with Joel S. Marcus to, among other items, extend his term as our Chief Executive Officer (“CEO”) through March 31, 2018.

Key leasing activity

In April 2015, we leased 80,000 RSF to Juno Therapeutics, Inc. (“Juno”), at 400 Dexter Avenue North in our Lake Union submarket in Seattle. Juno has an expansion option for 71,000 RSF. We expect to commence ground-up development of our 287,806 RSF project in 2015, upon receipt of master use plan approval. Also in April 2015, we leased 300,000 RSF, or 100%, to Stripe, Inc. at 510 Townsend Street in our SoMa submarket of the San Francisco Bay Area. We expect to commence ground-up development of this build-to-suit project in 2015, upon receipt of Prop M entitlement allocation. In April 2015, we also leased 106,173 RSF, or 75%, to Eli Lilly and Company at our 10300 Campus Point Drive project in our University Town Center submarket in San Diego. We expect to commence ground-up development of our 142,034 RSF project in 2015, upon receipt of permits/approvals.

Interest rate swap agreements

We executed additional interest rate swap agreements in March and April 2015, with an aggregate notional amount of \$750 million to increase notional hedged variable-rate debt to \$950 million during 2015 and a minimum of \$800 million during 2016.

14. Condensed consolidating financial information

Alexandria Real Estate Equities, Inc. (the “Issuer”), has sold certain debt securities registered under the Securities Act of 1933, as amended, that are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P. (the “LP” or the “Guarantor Subsidiary”), an indirectly 100% owned subsidiary of the Issuer. The Company’s other subsidiaries, including, but not limited to, the subsidiaries that own substantially all of its real estate (collectively, the “Combined Non-Guarantor Subsidiaries”) will not provide a guarantee of such securities, including the subsidiaries that are partially or 100% owned by the LP. The following condensed consolidating financial information presents the condensed consolidating balance sheets as of March 31, 2015, and December 31, 2014, and the condensed consolidating statements of income, condensed consolidating statements of comprehensive income, and condensed consolidating statements of cash flows for the three months ended March 31, 2015 and 2014, for the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries, as well as the eliminations necessary to arrive at the information for Alexandria Real Estate Equities, Inc., on a consolidated basis, and consolidated amounts. In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Issuer’s interests in the Guarantor Subsidiary and the Combined Non-Guarantor Subsidiaries, (ii) the Guarantor Subsidiary’s interests in the Combined Non-Guarantor Subsidiaries, and (iii) the Combined Non-Guarantor Subsidiaries’ interests in the Guarantor Subsidiary, where applicable, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries have been eliminated, as shown in the column “Eliminations.” All assets and liabilities have been allocated to the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries generally based on legal entity ownership.

14. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of March 31, 2015
(In thousands)
(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---|--|---|----------------|--------------|
| Assets | | | | | |
| Investments in real estate | \$— | \$— | \$7,388,059 | \$— | \$7,388,059 |
| Cash and cash equivalents | 60,236 | 63 | 30,342 | — | 90,641 |
| Restricted cash | 63 | — | 56,641 | — | 56,704 |
| Tenant receivables | — | — | 10,627 | — | 10,627 |
| Deferred rent | — | — | 243,459 | — | 243,459 |
| Deferred leasing and financing costs | 33,537 | — | 166,039 | — | 199,576 |
| Investments | — | 5,204 | 277,858 | — | 283,062 |
| Investments in and advances to affiliates | 6,971,361 | 6,344,419 | 129,930 | (13,445,710) | — |
| Other assets | 21,651 | — | 111,442 | — | 133,093 |
| Total assets | \$7,086,848 | \$6,349,686 | \$8,414,397 | \$(13,445,710) | \$8,405,221 |
| Liabilities, Noncontrolling Interests, and Equity | | | | | |
| Secured notes payable | \$— | \$— | \$760,476 | \$— | \$760,476 |
| Unsecured senior notes payable | 1,747,450 | — | — | — | 1,747,450 |
| Unsecured senior line of credit | 421,000 | — | — | — | 421,000 |
| Unsecured senior bank term loans | 975,000 | — | — | — | 975,000 |
| Accounts payable, accrued expenses, and tenant security deposits | 104,315 | — | 541,304 | — | 645,619 |
| Dividends payable | 58,535 | — | 289 | — | 58,824 |
| Total liabilities | 3,306,300 | — | 1,302,069 | — | 4,608,369 |
| Redeemable noncontrolling interests | — | — | 14,282 | — | 14,282 |
| Alexandria's stockholders' equity | 3,780,548 | 6,349,686 | 7,096,024 | (13,445,710) | 3,780,548 |
| Noncontrolling interests | — | — | 2,022 | — | 2,022 |
| Total equity | 3,780,548 | 6,349,686 | 7,098,046 | (13,445,710) | 3,782,570 |
| Total liabilities, noncontrolling interests, and equity | \$7,086,848 | \$6,349,686 | \$8,414,397 | \$(13,445,710) | \$8,405,221 |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of December 31, 2014
(In thousands)
(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---|--|---|----------------|--------------|
| Assets | | | | | |
| Investments in real estate | \$— | \$— | \$7,226,016 | \$— | \$7,226,016 |
| Cash and cash equivalents | 52,491 | 63 | 33,457 | — | 86,011 |
| Restricted cash | 67 | — | 26,817 | — | 26,884 |
| Tenant receivables | — | — | 10,548 | — | 10,548 |
| Deferred rent | — | — | 234,124 | — | 234,124 |
| Deferred leasing and financing costs | 35,462 | — | 166,336 | — | 201,798 |
| Investments | — | 5,235 | 231,154 | — | 236,389 |
| Investments in and advances to affiliates | 6,874,866 | 6,295,852 | 128,943 | (13,299,661) | — |
| Other assets | 19,461 | — | 94,805 | — | 114,266 |
| Total assets | \$6,982,347 | \$6,301,150 | \$8,152,200 | \$(13,299,661) | \$8,136,036 |
| Liabilities, Noncontrolling Interests, and Equity | | | | | |
| Secured notes payable | \$— | \$— | \$652,209 | \$— | \$652,209 |
| Unsecured senior notes payable | 1,747,370 | — | — | — | 1,747,370 |
| Unsecured senior line of credit | 304,000 | — | — | — | 304,000 |
| Unsecured senior bank term loans | 975,000 | — | — | — | 975,000 |
| Accounts payable, accrued expenses, and tenant security deposits | 69,013 | — | 420,072 | — | 489,085 |
| Dividends payable | 58,525 | — | 289 | — | 58,814 |
| Total liabilities | 3,153,908 | — | 1,072,570 | — | 4,226,478 |
| Redeemable noncontrolling interests | — | — | 14,315 | — | 14,315 |
| Alexandria's stockholders' equity | 3,828,439 | 6,301,150 | 6,998,511 | (13,299,661) | 3,828,439 |
| Noncontrolling interests | — | — | 66,804 | — | 66,804 |
| Total equity | 3,828,439 | 6,301,150 | 7,065,315 | (13,299,661) | 3,895,243 |
| Total liabilities, noncontrolling interests, and equity | \$6,982,347 | \$6,301,150 | \$8,152,200 | \$(13,299,661) | \$8,136,036 |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended March 31, 2015
(In thousands)
(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|--|---|--------------|--------------|
| Revenues: | | | | | |
| Rental | \$— | \$— | \$143,608 | \$— | \$143,608 |
| Tenant recoveries | — | — | 48,394 | — | 48,394 |
| Other income | 3,026 | (41) | 5,564 | (3,798) | 4,751 |
| Total revenues | 3,026 | (41) | 197,566 | (3,798) | 196,753 |
| Expenses: | | | | | |
| Rental operations | — | — | 61,223 | — | 61,223 |
| General and administrative | 12,226 | — | 5,959 | (3,798) | 14,387 |
| Interest | 17,157 | — | 6,079 | — | 23,236 |
| Depreciation and amortization | 1,247 | — | 57,673 | — | 58,920 |
| Impairment of real estate | — | — | 14,510 | — | 14,510 |
| Total expenses | 30,630 | — | 145,444 | (3,798) | 172,276 |
| Equity in earnings of unconsolidated joint ventures | — | — | 574 | — | 574 |
| Equity in earnings of affiliates | 52,120 | 45,590 | 917 | (98,627) | — |
| Income from continuing operations | 24,516 | 45,549 | 53,613 | (98,627) | 25,051 |
| Loss from discontinued operations | — | — | (43) | — | (43) |
| Net income | 24,516 | 45,549 | 53,570 | (98,627) | 25,008 |
| Dividends on preferred stock | (6,247) | — | — | — | (6,247) |
| Net income attributable to noncontrolling interests | — | — | (492) | — | (492) |
| Net income attributable to unvested restricted stock awards | (483) | — | — | — | (483) |
| Net income attributable to Alexandria's common stockholders | \$17,786 | \$45,549 | \$53,078 | \$(98,627) | \$17,786 |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended March 31, 2014
(In thousands)
(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|--|---|--------------|--------------|
| Revenues: | | | | | |
| Rental | \$— | \$— | \$130,570 | \$— | \$130,570 |
| Tenant recoveries | — | — | 41,682 | — | 41,682 |
| Other income | 2,919 | — | 4,633 | (3,618) | 3,934 |
| Total revenues | 2,919 | — | 176,885 | (3,618) | 176,186 |
| Expenses: | | | | | |
| Rental operations | — | — | 52,507 | — | 52,507 |
| General and administrative | 10,860 | — | 5,982 | (3,618) | 13,224 |
| Interest | 13,539 | — | 5,584 | — | 19,123 |
| Depreciation and amortization | 1,471 | — | 48,950 | — | 50,421 |
| Total expenses | 25,870 | — | 113,023 | (3,618) | 135,275 |
| Equity in earnings of affiliates | 62,505 | 58,306 | 1,148 | (121,959) | — |
| Income from continuing operations | 39,554 | 58,306 | 65,010 | (121,959) | 40,911 |
| Loss from discontinued operations | — | — | (162) | — | (162) |
| Net income | 39,554 | 58,306 | 64,848 | (121,959) | 40,749 |
| Dividends on preferred stock | (6,471) | — | — | — | (6,471) |
| Net income attributable to noncontrolling interests | — | — | (1,195) | — | (1,195) |
| Net income attributable to unvested restricted stock awards | (374) | — | — | — | (374) |
| Net income attributable to Alexandria's common stockholders | \$32,709 | \$58,306 | \$63,653 | \$(121,959) | \$32,709 |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended March 31, 2015

(In thousands)

(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|--|---|--------------|--------------|
| Net income | \$ 24,516 | \$ 45,549 | \$ 53,570 | \$(98,627) | \$ 25,008 |
| Other comprehensive (loss) income: | | | | | |
| Unrealized (losses) gains on marketable securities: | | | | | |
| Unrealized holding (losses) gains arising during the period | — | (54) | 28,489 | — | 28,435 |
| Reclassification adjustment for losses included in net income | — | 41 | 1,062 | — | 1,103 |
| Unrealized (losses) gains on marketable securities | — | (13) | 29,551 | — | 29,538 |
| Unrealized losses on interest rate swap agreements: | | | | | |
| Unrealized interest rate swap losses arising during the period | (3,013) | — | — | — | (3,013) |
| Reclassification adjustment for amortization of interest expense included in net income | 505 | — | — | — | 505 |
| Unrealized losses on interest rate swap agreements | (2,508) | — | — | — | (2,508) |
| Unrealized gains on foreign currency translation: | | | | | |
| Unrealized foreign currency translation losses during the period | — | — | (6,271) | — | (6,271) |
| Reclassification adjustment for losses included in net income | — | — | 9,236 | — | 9,236 |
| Unrealized gains on foreign currency translation | — | — | 2,965 | — | 2,965 |
| Total other comprehensive (loss) income | (2,508) | (13) | 32,516 | — | 29,995 |
| Comprehensive income | 22,008 | 45,536 | 86,086 | (98,627) | 55,003 |
| Less: comprehensive income attributable to noncontrolling interests | — | — | (646) | — | (646) |
| Comprehensive income attributable to Alexandria's common stockholders | \$ 22,008 | \$ 45,536 | \$ 85,440 | \$(98,627) | \$ 54,357 |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended March 31, 2014

(In thousands)

(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non- Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---|--|---|--------------|--------------|
| Net income | \$39,554 | \$58,306 | \$64,848 | \$(121,959) | \$40,749 |
| Other comprehensive income: | | | | | |
| Unrealized gains on marketable securities: | | | | | |
| Unrealized holding gains arising during the period | — | — | 18,779 | — | 18,779 |
| Reclassification adjustment for losses included in net income | — | — | — | — | — |
| Unrealized gains on marketable securities | — | — | 18,779 | — | 18,779 |
| Unrealized gains on interest rate swap agreements: | | | | | |
| Unrealized interest rate swap gains arising during the period | 5,592 | — | — | — | 5,592 |
| Reclassification adjustment for amortization of interest income included in net income | (3,490) | — | — | — | (3,490) |
| Unrealized gains on interest rate swap agreements | 2,102 | — | — | — | 2,102 |
| Unrealized foreign currency translation losses | — | — | (3,106) | — | (3,106) |
| Total other comprehensive income | 2,102 | — | 15,673 | — | 17,775 |
| Comprehensive income | 41,656 | 58,306 | 80,521 | (121,959) | 58,524 |
| Less: comprehensive income attributable to noncontrolling interests | — | — | (1,195) | — | (1,195) |
| Comprehensive income attributable to Alexandria's common stockholders | \$41,656 | \$58,306 | \$79,326 | \$(121,959) | \$57,329 |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Three Months Ended March 31, 2015
(In thousands)
(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|--|--|-------------------------------------|--------------|--------------|
| Operating Activities | | | | | |
| Net income | \$ 24,516 | \$ 45,549 | \$ 53,570 | \$ (98,627) | \$ 25,008 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 1,247 | — | 57,673 | — | 58,920 |
| Impairment of real estate | — | — | 14,510 | — | 14,510 |
| Equity in earnings from unconsolidated joint ventures | — | — | (574) | — | (574) |
| Distributions of earnings from unconsolidated joint ventures | — | — | 491 | — | 491 |
| Amortization of loan fees | 1,925 | — | 909 | — | 2,834 |
| Amortization of debt discounts (premiums) | 80 | — | (162) | — | (82) |
| Amortization of acquired below market leases | — | — | (933) | — | (933) |
| Deferred rent | — | — | (9,901) | — | (9,901) |
| Stock compensation expense | 3,690 | — | — | — | 3,690 |
| Equity in earnings of affiliates | (52,120) | (45,590) | (917) | 98,627 | — |
| Investment gains | — | — | (5,937) | — | (5,937) |
| Investment losses | — | 41 | 2,184 | — | 2,225 |
| Changes in operating assets and liabilities: | | | | | |
| Restricted cash | 4 | — | (55) | — | (51) |
| Tenant receivables | — | — | (102) | — | (102) |
| Deferred leasing costs | — | — | (7,131) | — | (7,131) |
| Other assets | (3,437) | — | 190 | — | (3,247) |
| Accounts payable, accrued expenses, and tenant security deposits | 32,795 | (23) | (5,651) | — | 27,121 |
| Net cash provided by (used in) operating activities | 8,700 | (23) | 98,164 | — | 106,841 |
| Investing Activities | | | | | |
| Proceeds from sale of real estate | — | — | 67,616 | — | 67,616 |
| Additions to real estate | — | — | (104,632) | — | (104,632) |
| Purchase of real estate | — | — | (93,938) | — | (93,938) |
| Deposits for investing activities | — | — | (28,000) | — | (28,000) |
| Investment in unconsolidated real estate entities | — | — | (2,539) | — | (2,539) |
| Investments in subsidiaries | (44,375) | (2,977) | (70) | 47,422 | — |

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| | | | | | |
|---------------------------------------|--------------|-------------|---------------|-----------|---------------|
| Additions to investments | — | — | (15,118) | — | (15,118) |
| Sales of investments | — | — | 2,345 | — | 2,345 |
| Repayment of notes receivable | — | — | 4,214 | — | 4,214 |
| Net cash used in investing activities | \$ (44,375) | \$ (2,977) | \$ (170,122) | \$ 47,422 | \$ (170,052) |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)

for the Three Months Ended March 31, 2015

(In thousands)

(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities L.P. (Guarantor Subsidiary) | Combined Non-Guarantor Subsidiaries | Elimination | Consolidated |
|---|--|--|---|-------------|--------------|
| Financing Activities | | | | | |
| Borrowings from secured notes payable | \$ — | \$ — | \$ 29,585 | \$ — | \$ 29,585 |
| Repayments of borrowings from secured notes payable | — | — | (7,934) | — | (7,934) |
| Principal borrowings from unsecured senior line of credit | 167,000 | — | — | — | 167,000 |
| Repayments of borrowings from unsecured senior line of credit | (50,000) | — | — | — | (50,000) |
| Transfer to/from parent company | (14,038) | 3,000 | 58,460 | (47,422) | — |
| Change in restricted cash related to financing activities | — | — | (1,369) | — | (1,369) |
| Loan fees | — | — | (563) | — | (563) |
| Dividends on common stock | (53,295) | — | — | — | (53,295) |
| Dividends on preferred stock | (6,247) | — | — | — | (6,247) |
| Contributions by noncontrolling interests | — | — | 340 | — | 340 |
| Distributions to noncontrolling interests | — | — | (9,846) | — | (9,846) |
| Net cash provided by financing activities | 43,420 | 3,000 | 68,673 | (47,422) | 67,671 |
| Effect of foreign exchange rate changes on cash and cash equivalents | — | — | 170 | — | 170 |
| Net increase (decrease) in cash and cash equivalents | 7,745 | — | (3,115) | — | 4,630 |
| Cash and cash equivalents as of the beginning of period | 52,491 | 63 | 33,457 | — | 86,011 |
| Cash and cash equivalents as of the end of period | \$ 60,236 | \$ 63 | \$ 30,342 | \$ — | \$ 90,641 |
| Supplemental Disclosure of Cash Flow Information | | | | | |
| Cash paid during the period for interest, net of interest capitalized | \$ 10,412 | \$ — | \$ 5,102 | \$ — | \$ 15,514 |
| Non-Cash Investing Activities | | | | | |
| Change in accrued construction | \$ — | \$ — | \$ 7,249 | \$ — | \$ 7,249 |
| Assumption of secured notes payable in connection with purchase of properties | \$ — | \$ — | \$ (82,000) | \$ — | \$ (82,000) |

Non-Cash Financing Activities

| | | | | | |
|---|------|------|---------------|------|---------------|
| Payable for purchase of noncontrolling interest | \$ — | \$ — | \$ (113,967) | \$ — | \$ (113,967) |
|---|------|------|---------------|------|---------------|

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Three Months Ended March 31, 2014
(In thousands)
(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|--|---|---|--------------|--------------|
| Operating Activities | | | | | |
| Net income | \$ 39,554 | \$ 58,306 | \$ 64,848 | \$ (121,959) | \$ 40,749 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | | | |
| Depreciation and amortization | 1,471 | — | 48,950 | — | 50,421 |
| Amortization of loan fees | 1,770 | — | 791 | — | 2,561 |
| Amortization of debt discounts | 40 | — | 165 | — | 205 |
| Amortization of acquired below market leases | — | — | (816) |) — | (816) |
| Deferred rent | — | — | (11,882) |) — | (11,882) |
| Stock compensation expense | 3,228 | — | — | — | 3,228 |
| Equity in earnings of affiliates | (62,505) |) (58,306) |) (1,148) |) 121,959 | — |
| Investment gains | — | — | (4,040) |) — | (4,040) |
| Investment losses | — | — | 1,694 | — | 1,694 |
| Changes in operating assets and liabilities: | | | | | |
| Tenant receivables | — | — | (690) |) — | (690) |
| Deferred leasing costs | — | — | (7,572) |) — | (7,572) |
| Other assets | (748) |) — | (16,567) |) — | (17,315) |
| Accounts payable, accrued expenses, and tenant security deposits | 13,478 | — | 3,238 | — | 16,716 |
| Net cash (used in) provided by operating activities | (3,712) |) — | 76,971 | — | 73,259 |
| Investing Activities | | | | | |
| Additions to real estate | — | — | (111,587) |) — | (111,587) |
| Purchase of real estate | — | — | (42,338) |) — | (42,338) |
| Change in restricted cash related to construction projects | — | — | (140) |) — | (140) |
| Investment in unconsolidated joint venture | — | — | (747) |) — | (747) |
| Investments in subsidiaries | (221,513) |) (193,863) |) (6,338) |) 421,714 | — |
| Additions to investments | — | — | (11,905) |) — | (11,905) |
| Sales of investments | — | — | 3,998 | — | 3,998 |
| Net cash used in investing activities | \$ (221,513) |) \$ (193,863) |) \$ (169,057) |) \$ 421,714 | \$ (162,719) |

14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)

for the Three Months Ended March 31, 2014

(In thousands)

(Unaudited)

| | Alexandria Real Estate Equities, Inc. (Issuer) | Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary) | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|--|---|---|--------------|--------------|
| Financing Activities | | | | | |
| Borrowings from secured notes payable | \$ — | \$ — | \$ 51,030 | \$ — | \$ 51,030 |
| Repayments of borrowings from secured notes payable | — | — | (210,844) | — | (210,844) |
| Principal borrowings from unsecured senior line of credit | 360,000 | — | — | — | 360,000 |
| Repayments of borrowings from unsecured senior line of credit | (58,000) | — | — | — | (58,000) |
| Transfer to/from parent company | — | 193,863 | 227,851 | (421,714) | — |
| Change in restricted cash related to financing activities | — | — | 1,059 | — | 1,059 |
| Loan fees | — | — | (8) | — | (8) |
| Dividends on common stock | (48,715) | — | 1 | — | (48,714) |
| Dividends on preferred stock | (6,471) | — | — | — | (6,471) |
| Contributions by noncontrolling interests | — | — | 19,410 | — | 19,410 |
| Distributions to noncontrolling interests | — | — | (988) | — | (988) |
| Net cash provided by financing activities | 246,814 | 193,863 | 87,511 | (421,714) | 106,474 |
| Effect of foreign exchange rate changes on cash and cash equivalents | — | — | 260 | — | 260 |
| Net increase (decrease) in cash and cash equivalents | 21,589 | — | (4,315) | — | 17,274 |
| Cash and cash equivalents as of the beginning of period | 14,790 | — | 42,906 | — | 57,696 |
| Cash and cash equivalents as of the end of period | \$ 36,379 | \$ — | \$ 38,591 | \$ — | \$ 74,970 |
| Supplemental Disclosure of Cash Flow Information | | | | | |
| Cash paid during the period for interest, net of interest capitalized | \$ 347 | \$ — | \$ 5,746 | \$ — | \$ 6,093 |
| Non-Cash Investing Activities | | | | | |
| Change in accrued construction | \$ — | \$ — | \$ (6,028) | \$ — | \$ (6,028) |
| Assumption of secured notes payable in connection with purchase of properties | \$ — | \$ — | \$ (48,329) | \$ — | \$ (48,329) |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain information and statements included in this quarterly report on Form 10-Q, including, without limitation, statements containing the words "forecast," "guidance," "projects," "estimates," "anticipates," "believes," "expects," "intends," "plans," "seeks," "should," or "will," or the negative of these words or similar words, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, results of operations, and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by the forward-looking statements, including, but not limited to, the following:

- Operating factors such as a failure to operate our business successfully in comparison to market expectations or in comparison to our competitors, our inability to obtain capital when desired or refinance debt maturities when desired, and/or a failure to maintain our status as a REIT for federal tax purposes;
- Market and industry factors such as adverse developments concerning the science and technology industries and/or our client tenants;
- Government factors such as any unfavorable effects resulting from federal, state, local, and/or foreign government policies, laws, and/or funding levels;
- Global factors such as negative economic, political, financial, credit market, and/or banking conditions; and
- Other factors such as climate change, cyber-intrusions, and/or changes in laws, regulations, and financial accounting standards.

This list of risks and uncertainties is not exhaustive. Additional information regarding risk factors that may affect us is included under "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the fiscal year ended December 31, 2014. Readers of this quarterly report on Form 10-Q should also read our other documents filed publicly with the SEC for further discussion regarding such factors.

Overview

We are a Maryland corporation formed in October 1994 that has elected to be taxed as a REIT for federal income tax purposes. We are a fully integrated, self-administered, and self-managed REIT. We are the largest and leading REIT uniquely focused on collaborative science campuses in urban innovation clusters located in key coastal gateway cities, with a total market capitalization of \$11.3 billion as of March 31, 2015, and an asset base of 30.7 million RSF, including 18.5 million RSF of operating and current value-creation projects, as well as an additional 2.2 million square feet of near-term and 10.0 million square feet of future ground-up development projects. Alexandria pioneered this niche in 1994 and has since established a dominant market presence in AAA locations, including Greater Boston, the San Francisco Bay Area, New York City, San Diego, Seattle, Maryland, and Research Triangle Park. Alexandria is known for its high-quality and diverse client tenant base, with approximately 52% of total annualized base rent as of March 31, 2015, generated from investment-grade client tenants – a REIT industry-leading percentage. Alexandria has a longstanding and proven track record of developing Class A assets clustered in urban science and technology campuses that provide its innovative client tenants with highly dynamic and collaborative environments that enhance their ability to successfully recruit and retain world-class talent and inspire productivity, efficiency, creativity, and success. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value.

Our primary business objective is to maximize stockholder value by providing our stockholders with the greatest possible total return and long-term asset value based on a multifaceted platform of internal and external growth. A key element of our strategy is our unique focus on Class A assets clustered in urban campuses. These key urban campus locations are characterized by high barriers to entry for new landlords, and a limited supply of available space. They represent highly desirable locations for tenancy by science and technology entities because of their close proximity to concentrations of specialized skills, knowledge, institutions, and related businesses. Our strategy also includes drawing upon our deep and broad real estate, science, and technology relationships in order to identify and attract new and leading client tenants and to source additional value-creation real estate opportunities.

Executive summary

Our results for the first quarter of 2015 highlight both the strength of our operating fundamentals and our unique real estate platform strategy focused on Class A assets in urban innovation cluster campuses located in Greater Boston, the San Francisco Bay Area, New York City, and San Diego. Our growth in FFO and NAV continued into the first quarter of 2015, as we reported FFO per share of \$1.28, up 9.4% over the first quarter of 2014. Growth in FFO and cash flows for the quarter was again driven by strong internal growth, including 18.5% cash rental rate increases on lease renewals/re-leasing of space and a 7.8% cash same property NOI increase. Our value-creation pipeline continued to deliver significant earnings and NAV growth with highly leased projects located in collaborative urban innovation campuses. Furthermore, we delivered 494,477 RSF into service, including 388,270 RSF at 75/125 Binney Street in March 2015. We also commenced the ground-up development at 50/60 Binney Street in our Cambridge submarket, with 98% of the project leased or under negotiation, including 251,234 RSF leased to Sanofi for 97% of 50 Binney Street. Our value-creation deliveries during the quarter decreased our non-income producing assets as a percentage of total assets to 12%.

With our operating properties generating steady growth and our value-creation pipeline producing significant additional growth of NOI, EBITDA, and NAV, we remain confident in our ability to deliver strong results in 2015, while improving our net debt to adjusted EBITDA to less than 7.0 times by year-end.

Results

FFO attributable to Alexandria's common stockholders – diluted:

\$1.28 per share for the three months ended March 31, 2015, up 9.4%, compared to

\$1.17 per share for the three months ended March 31, 2014;

\$91.3 million for the three months ended March 31, 2015, up \$8.3 million or 9.9%, compared to

\$83.1 million for the three months ended March 31, 2014.

Net income attributable to Alexandria's common stockholders – diluted:

\$17.8 million, or \$0.25 per share, for the three months ended March 31, 2015, compared to

\$32.7 million, or \$0.46 per share, for the three months ended March 31, 2014;

Results for the three months ended March 31, 2015, included an impairment of real estate of \$14.5 million, or \$0.20 per share.

Core operating metrics

Total revenues of \$196.8 million for the three months ended March 31, 2015, up \$20.6 million, or 11.7%, compared to \$176.2 million for the three months ended March 31, 2014;

NOI, including our share of unconsolidated joint ventures, of

\$136.4 million for the three months ended March 31, 2015, up \$12.7 million, or 10.3%, compared to

\$123.7 million for the three months ended March 31, 2014;

Same property NOI increase of 2.3% and 7.8% (cash basis) for the three months ended March 31, 2015, compared to the three months ended March 31, 2014;

Executed leases for 1,022,669 RSF during the three months ended March 31, 2015, including:

251,234 RSF to Sanofi at 50 Binney Street in our Cambridge submarket;

145,946 RSF to Illumina, Inc. ("Illumina") at 5200 Illumina Way in our University Town Center submarket;

83,561 RSF to Massachusetts Institute of Technology at 600 Technology Square in our Cambridge submarket;

30.8% and 18.5% (cash basis) rental rate increase on lease renewals and re-leasing of space aggregating 489,286 RSF;

Occupancy for properties in North America, as of March 31, 2015:

96.8% occupancy for operating properties, up 20 bps from March 31, 2014;

95.9% occupancy for operating and redevelopment properties, up 80 bps from March 31, 2014;
Operating margins steady at 69% for the three months ended March 31, 2015; and
Adjusted EBITDA margins solid at 64% for the three months ended March 31, 2015.

External growth: value-creation projects and acquisitions

Value-creation projects

Development and redevelopment value-creation projects were on average 90% leased or under negotiation (71% leased and 19% under negotiation);

Key deliveries of value-creation projects during the three months ended March 31, 2015:

388,270 RSF primarily to ARIAD Pharmaceuticals, Inc., at 75/125 Binney Street in our Cambridge submarket;

43,209 RSF to various client tenants at 430 East 29th Street in our Manhattan submarket; and,

60,891 RSF to Receptos, Inc., and The Medicines Company at 3013/3033 Science Park Road in our Torrey Pines submarket;

Key commencements of value-creation development projects during the three months ended March 31, 2015:

Commenced a 530,477 RSF value-creation development project at 50/60 Binney Street located in our Cambridge submarket; 98% leased or under negotiation, including 47% leased to Sanofi.

Acquisitions

In January 2015, we completed the acquisition of 640 Memorial Drive in the Cambridge submarket for \$176.5 million. This property is a 225,504 RSF Class A, LEED Gold certified, office/laboratory building in mid-Cambridge near the Massachusetts Institute of Technology campus, and it is 100% leased to two high-quality life science client tenants pursuant to long-term leases. In connection with the acquisition, we assumed a secured note payable of \$82.0 million with an interest rate of 3.93% and a maturity date in 2023;

In January 2015, we executed an agreement to purchase the outstanding 10% noncontrolling interest in our flagship campus at Alexandria Technology Square® in our Cambridge submarket for \$108.3 million. The first installment of \$54.3 million was paid on April 1, 2015, and the second installment of \$54.0 million is due on April 1, 2016.

Dispositions

In January 2015, we completed the sale of our land and land improvements at 661 University Avenue in Canada for \$54.1 million;

In the first quarter of 2015, we complete the sale of two additional properties for \$14.3 million; and,

Refer to the section titled "Real Estate Asset Sales" in "Value-Creation Projects and External Growth" under Item 2 of this report for further information.

Balance sheet

\$11.3 billion total market capitalization as of March 31, 2015;

12% non-income-producing assets (percentage of gross investments in real estate);

7.5 times net debt to adjusted EBITDA – first quarter of 2015 annualized,

2015 target range from 6.5 times to 7.5 times, with goal of less than 7.0 times by the fourth quarter of 2015;

3.3 times fixed charge cover ratio – first quarter of 2015 annualized; year ending December 31, 2015, target range from 3.0 times to 3.5 times;

Executed additional interest rate swap agreements in March and April 2015, with an aggregate notional amount of \$750 million to increase notional hedged variable-rate debt to \$950 million during 2015 and a minimum of \$800 million during 2016; and,

19% unhedged variable-rate debt as a percentage of total debt as of March 31, 2015.

LEED statistics and other awards

As of March 31, 2015, 53 LEED projects, including 32 LEED-certified projects aggregating 4.8 million RSF and 21 additional LEED projects in process aggregating 4.0 million square feet;

54% of our total annualized base rent will be generated from LEED projects upon completion of our in-process projects;

In March 2015, we were awarded the 2015 Owner of the Year Award by the Engineering News-Record New England for outstanding work developing dynamic campuses for our client tenants in our Greater Boston market;

In March 2015, we were awarded the 2014 Land Deal of the Year Award by the San Francisco Business Times for our signature land acquisition of 1455/1515 Third Street in our Mission Bay submarket, 100% pre-leased to Uber Technologies, Inc.; and,

In March 2015, we were awarded the Deal of the Year Award by the San Diego Business Journal for our role in expanding Illumina's campus and supporting the company's growth in our University Town Center submarket.

Subsequent events

In April 2015:

We amended the employment agreement with Joel S. Marcus to extend his term as our CEO through March 31, 2018;

We leased 300,000 RSF, or 100%, to Stripe, Inc. at 510 Townsend Street in our SoMa submarket. We expect to commence ground-up development of this build-to-suit project in 2015 upon receipt of Prop M entitlement allocation;

We leased 106,173 RSF, or 75%, to Eli Lilly and Company at our 10300 Campus Point Drive project in our University Town Center submarket in San Diego. We expect to commence ground-up development of our 142,034 RSF project in 2015, upon receipt of permits/approvals; and,

We leased 80,000 RSF to Juno at 400 Dexter Avenue North in our Lake Union submarket in Seattle. Juno has an expansion option for 71,000 RSF. We expect to commence ground-up development of our 287,806 RSF project in 2015, upon receipt of master use plan approval.

Operating summary

Core operations

The following table presents information regarding our asset base as of March 31, 2015, and December 31, 2014:

| | March 31, 2015 | December 31, 2014 | | |
|--|----------------|-------------------|--|---|
| (Rentable square feet) | | | | |
| Operating properties | 16,620,690 | 16,727,985 | | |
| Development properties | 1,763,531 | 1,857,520 | | |
| Redevelopment properties | 143,777 | 143,777 | | |
| RSF of total properties | 18,527,998 | 18,729,282 | | |
| Number of properties | 193 | 193 | | |
| Occupancy in North America at period end – operating | 96.8 | % 97.0 | | % |
| Occupancy in North America at period end – operating and redevelopment | 95.9 | % 96.1 | | % |
| Annualized base rent per occupied RSF at period end | \$38.67 | \$37.23 | | |

Leasing

Executed a total of 58 leases, with a weighted average lease term of 8.3 years, for 1,022,669 RSF, including 449,208 RSF related to our development or redevelopment projects;

Achieved rental rate increases for renewed/re-leased space of 30.8% and 18.5% (cash basis) on 489,286 RSF; and increased the occupancy rate for operating properties in North America by 20 bps to 96.8% as of March 31, 2015, compared to 96.6% as of March 31, 2014.

Approximately 69% of the 58 leases executed during the three months ended March 31, 2015, did not include concessions for free rent. Tenant concessions/free rent averaged approximately 2.8 months with respect to the 1,022,669 RSF leased during the three months ended March 31, 2015.

The following table summarizes our leasing activity at our properties:

| | Three Months Ended March 31, 2015 | | Year Ended December 31, 2014 | |
|---|--------------------------------------|----------------|------------------------------------|------------|
| | Including Straight-line Rent | Cash Basis | Including Straight-line Rent | Cash Basis |
| (Dollars are per RSF) | | | | |
| Leasing activity: | | | | |
| Renewed/re-leased space ⁽¹⁾ | | | | |
| Rental rate changes | 30.8% | 18.5% | 13.3% | 5.4% |
| New rates | \$36.98 | \$37.67 | \$40.32 | \$40.73 |
| Expiring rates | \$28.27 | \$31.79 | \$35.60 | \$38.63 |
| Rentable square footage | 489,286 | | 1,447,516 | |
| Number of leases | 38 | | 124 | |
| Tenant improvements/leasing commissions per square foot | \$11.80 | | \$10.49 | |
| Average lease terms | 4.1 years | | 3.5 years | |
| Developed/redeveloped/previously vacant space leased | | | | |
| New rates | \$47.89 | \$43.15 | \$40.62 | \$36.50 |
| Rentable square footage | 533,383 | | 1,321,317 | |
| Number of leases | 20 | | 66 | |
| Tenant improvements/leasing commissions per square foot | \$19.18 | | \$14.96 | |
| Average lease terms | 12.2 years | | 11.5 years | |
| Leasing activity summary (totals): | | | | |
| New rates | \$42.67 | \$40.53 | \$40.46 | \$38.71 |
| Rentable square footage | 1,022,669 | ⁽²⁾ | 2,768,833 | |
| Number of leases | 58 | | 190 | |
| Tenant improvements/leasing commissions per square foot | \$15.65 | | \$12.62 | |
| Average lease terms | 8.3 years | | 7.3 years | |
| Lease expirations ⁽¹⁾ | | | | |
| Expiring rates | \$28.29 | \$32.06 | \$33.09 | \$35.79 |
| Rentable square footage | 616,528 | | 1,733,614 | |
| Number of leases | 50 | | 151 | |

⁽¹⁾ Excludes 23 month-to-month leases for 103,763 RSF and 20 month-to-month leases for 43,672 RSF as of March 31, 2015, and December 31, 2014, respectively.

⁽²⁾ During the three months ended March 31, 2015, we granted tenant concessions/free rent averaging approximately 2.8 months with respect to the 1,022,669 RSF leased.

Summary of lease expirations

The following table summarizes information with respect to the lease expirations at our properties as of March 31, 2015:

| Year of Lease Expiration | Number of Leases Expiring | RSF of Expiring Leases | Percentage of Aggregate Total RSF | ABR of Expiring Leases (per RSF) |
|--------------------------|---------------------------|------------------------|-----------------------------------|----------------------------------|
| 2015 | 52 ⁽¹⁾ | 897,006 ⁽¹⁾ | 5.4 % | \$27.92 |
| 2016 | 96 | 1,198,870 | 7.2 % | \$32.25 |
| 2017 | 88 | 1,658,853 | 9.9 % | \$28.18 |
| 2018 | 72 | 1,618,216 | 9.7 % | \$40.06 |
| 2019 | 61 | 1,504,408 | 9.0 % | \$36.33 |
| 2020 | 49 | 1,405,953 | 8.4 % | \$35.82 |
| 2021 | 35 | 1,263,228 | 7.5 % | \$38.78 |
| 2022 | 21 | 793,378 | 4.7 % | \$33.74 |
| 2023 | 22 | 1,182,259 | 7.1 % | \$37.71 |
| 2024 | 14 | 752,398 | 4.5 % | \$45.13 |
| Thereafter | 38 | 3,212,519 | 19.2 % | \$48.80 |

(1) Excludes 23 month-to-month leases for 103,763 RSF.

The following tables present information by market with respect to our lease expirations as of March 31, 2015, for the remainder of 2015 and all of 2016:

| Market | 2015 RSF of Expiring Leases | | | | | Total ⁽¹⁾ | ABR of Expiring Leases (per RSF) |
|-------------------------------|-----------------------------|------------------------------|-------------------------------|---------------------------------|------------------------|----------------------|----------------------------------|
| | Leased | Negotiating/ Anticipating | Targeted for Redevelopment | Remaining Expiring Leases | | | |
| Greater Boston | 89,105 | 39,917 | — | 167,944 | ⁽²⁾ 296,966 | \$35.91 | |
| San Francisco Bay Area | 74,909 | 15,081 | — | 23,822 | 113,812 | 39.69 | |
| New York City | — | — | — | 9,330 | 9,330 | N/A | |
| San Diego | — | — | 182,611 ⁽³⁾ | 35,919 | 218,530 | 16.29 | |
| Seattle | — | — | — | 39,578 | 39,578 | 20.22 | |
| Maryland | 7,227 | — | — | 101,751 | 108,978 | 16.70 | |
| Research Triangle Park | — | 2,189 | — | 92,350 | ⁽⁴⁾ 94,539 | 20.56 | |
| Non-cluster markets | — | 4,703 | — | 5,647 | 10,350 | N/A | |
| Asia | — | — | — | 4,923 | 4,923 | 17.05 | |
| Total | 171,241 | 61,890 | 182,611 | 481,264 | 897,006 | \$27.92 | |
| Percentage of expiring leases | 19 | % 7 | % 20 | % 54 | % 100 | % | |

| Market | 2016 RSF of Expiring Leases | | | | | Total | ABR of Expiring Leases (per RSF) |
|--------|-----------------------------|------------------------------|-------------------------------|---------------------------------|--|-------|----------------------------------|
| | Leased | Negotiating/ Anticipating | Targeted for Redevelopment | Remaining Expiring Leases | | | |

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| | | | | | | |
|-------------------------------|--------|---------|-----|---------|-----------|---------|
| Greater Boston | 27,303 | 39,301 | — | 223,453 | 290,057 | \$40.17 |
| San Francisco Bay Area | 23,892 | 10,142 | — | 116,027 | 150,061 | 32.10 |
| New York City | — | — | — | 5,449 | 5,449 | N/A |
| San Diego | — | — | — | 254,423 | 254,423 | 39.81 |
| Seattle | 2,468 | 9,594 | — | 38,975 | 51,037 | 32.75 |
| Maryland | — | — | — | 148,654 | 148,654 | 26.15 |
| Research Triangle Park | — | 44,866 | — | 97,478 | 142,344 | 23.15 |
| Canada | — | — | — | 67,479 | 67,479 | 23.99 |
| Non-cluster markets | — | — | — | 3,854 | 3,854 | N/A |
| Asia | — | 81,170 | — | 4,342 | 85,512 | 15.98 |
| Total | 53,663 | 185,073 | — | 960,134 | 1,198,870 | \$32.25 |
| Percentage of expiring leases | 4 | % 15 | % — | % 81 | % 100 | % |

(1) Excludes 23 month-to-month leases for 103,763 RSF.

(2) Includes a lease for 128,325 RSF expiring on May 31, 2015, at 19 Presidential Way, Woburn, MA. We are currently marketing this space for lease.

(3) Comprises 48,880 RSF at 10151 Barnes Canyon Road and 133,731 RSF at 9625 Towne Centre Drive, which were acquired in the third quarter of 2013 and the fourth quarter of 2014, respectively, with the intent to redevelop them into tech office spaces in the fourth quarter of 2015 and the third quarter of 2015, respectively, upon expiration of the acquired in-place leases.

(4) Includes a lease for 81,580 RSF that expired on April 24, 2015, at 2525 NC Highway 54, Durham, NC. We are currently marketing this space for lease.

Location of properties

The locations of our properties are diversified among a number of science and technology cluster markets. The following table sets forth, as of March 31, 2015, the total RSF, number of properties, and annualized base rent of our properties in each of our existing markets (dollars in thousands):

| Market | RSF | | | Total | % Total | Number of Properties | Annualized Base Rent | | |
|---|------------|-------------|---------------|------------|---------|----------------------|----------------------|-----|---|
| | Operating | Development | Redevelopment | | | | | | |
| Greater Boston | 4,319,427 | 786,382 | 112,500 | 5,218,309 | 28 | % 42 | \$208,517 | 36 | % |
| San Francisco Bay Area | 2,713,034 | 422,980 | — | 3,136,014 | 17 | 27 | 115,322 | 19 | |
| New York City | 678,816 | 134,013 | — | 812,829 | 4 | 4 | 53,494 | 9 | |
| San Diego | 3,144,604 | 358,609 | 31,277 | 3,534,490 | 19 | 48 | 102,311 | 17 | |
| Seattle | 746,260 | — | — | 746,260 | 4 | 10 | 30,369 | 5 | |
| Maryland | 2,156,196 | — | — | 2,156,196 | 12 | 29 | 49,298 | 8 | |
| Research Triangle Park | 980,763 | 61,547 | — | 1,042,310 | 6 | 15 | 20,864 | 3 | |
| Canada | 322,967 | — | — | 322,967 | 2 | 4 | 8,100 | 1 | |
| Non-cluster markets | 105,033 | — | — | 105,033 | 1 | 3 | 1,373 | — | |
| North America | 15,167,100 | 1,763,531 | 143,777 | 17,074,408 | 93 | 182 | 589,648 | 98 | |
| Asia | 1,197,464 | — | — | 1,197,464 | 6 | 8 | 6,503 | 1 | |
| Subtotal | 16,364,564 | 1,763,531 | 143,777 | 18,271,872 | 99 | 190 | 596,151 | 99 | |
| Properties “held for sale” ⁽¹⁾ | 256,126 | — | — | 256,126 | 1 | 3 | 6,668 | 1 | |
| Total | 16,620,690 | 1,763,531 | 143,777 | 18,527,998 | 100 | % 193 | \$602,819 | 100 | % |

(1) Refer to Note 12 – “Discontinued Operations/Assets Classified as Held for Sale” for additional information regarding properties classified as “held for sale” as of March 31, 2015.

Summary of occupancy percentages in North America

The following table sets forth the occupancy percentages for our operating assets and our assets under redevelopment in each of our North America markets as of March 31, 2015, December 31, 2014, and March 31, 2014:

| Market | Operating Properties | | | Operating and Redevelopment Properties | | |
|------------------------|----------------------|----------|---------|--|----------|---------|
| | 3/31/15 | 12/31/14 | 3/31/14 | 3/31/15 | 12/31/14 | 3/31/14 |
| Greater Boston | 98.9 | % 98.8 | % 97.5 | % 96.4 | % 95.9 | % 94.5 |
| San Francisco Bay Area | 98.5 | 98.9 | 99.9 | 98.5 | 98.9 | 99.9 |
| New York City | 99.5 | 99.5 | 98.3 | 99.5 | 99.5 | 98.3 |
| San Diego | 94.9 | 96.5 | 96.6 | 93.9 | 95.5 | 93.0 |
| Seattle | 96.2 | 94.8 | 92.9 | 96.2 | 94.8 | 92.9 |
| Maryland | 93.2 | 92.5 | 92.2 | 93.2 | 92.5 | 92.2 |
| Research Triangle Park | 98.8 | 99.1 | 99.0 | 98.8 | 99.1 | 99.0 |
| Subtotal | 97.0 | 97.2 | 96.8 | 96.1 | 96.2 | 95.2 |
| Canada | 99.0 | 97.6 | 96.8 | 99.0 | 97.6 | 96.8 |
| Non-cluster markets | 68.0 | 77.3 | 76.2 | 68.0 | 77.3 | 76.2 |
| North America | 96.8 | % 97.0 | % 96.6 | % 95.9 | % | |