ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
November 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

o 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 ý No o

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 ý No o

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.

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 ý

As of October 31, 2013, 71,627,655 shares of common stock, par value $.01 per share, were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2013	December 31, 2012
Assets		
Investments in real estate, net	$6,613,761	$6,424,578
Cash and cash equivalents	53,839	140,971
Restricted cash	30,654	39,947
Tenant receivables	8,671	8,449
Deferred rent	182,909	170,396
Deferred leasing and financing costs, net	179,805	160,048
Investments	129,163	115,048
Other assets	159,567	90,679
Total assets	$7,358,369	$7,150,116
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$708,653	$716,144
Unsecured senior notes payable	1,048,190	549,805
Unsecured senior line of credit	14,000	566,000
Unsecured senior bank term loans	1,100,000	1,350,000
Accounts payable, accrued expenses, and tenant security deposits	452,139	423,708
Dividends payable	54,413	41,401
Total liabilities	3,377,395	3,647,058
Commitments and contingencies		
Redeemable noncontrolling interests	14,475	14,564
Alexandria Real Estate Equities, Inc.'s stockholders' equity:		
Series D cumulative convertible preferred stock	250,000	250,000
Series E cumulative redeemable preferred stock	130,000	130,000
Common stock	711	632
Additional paid-in capital	3,578,343	3,086,052
Accumulated other comprehensive loss	(40,026)	(24,833)
Alexandria's stockholders' equity	3,919,028	3,441,851
Noncontrolling interests	47,471	46,643
Total equity	3,966,499	3,488,494
Total liabilities, noncontrolling interests, and equity	$7,358,369	$7,150,116

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Rental	$116,302	$106,216	$342,821	$311,746
Tenant recoveries	38,757	34,006	110,291	97,769
Other income	3,571	2,628	10,133	14,639
Total revenues	158,630	142,850	463,245	424,154
Expenses:				
Rental operations	47,742	44,203	139,289	126,758
General and administrative	11,666	12,470	35,786	35,125
Interest	16,171	17,092	50,169	51,240
Depreciation and amortization	49,102	46,584	141,747	139,111
Loss on early extinguishment of debt	1,432	—	1,992	2,225
Total expenses	126,113	120,349	368,983	354,459
Income from continuing operations	32,517	22,501	94,262	69,695
(Loss) income from discontinued operations:				
(Loss) income from discontinued operations before impairment of real estate	(64)	5,603	993	14,961
Impairment of real estate	—	(9,799)	—	(9,799)
(Loss) income from discontinued operations, net	(64)	(4,196)	993	5,162
Gains on sales of land parcels	—	—	772	1,864
Net income	32,453	18,305	96,027	76,721
Net income attributable to noncontrolling interests	960	828	2,922	2,390
Dividends on preferred stock	6,472	6,471	19,414	20,857
Preferred stock redemption charge	—	—	—	5,978
Net income attributable to unvested restricted stock awards	442	360	1,187	866
Net income attributable to Alexandria's common stockholders	$24,579	$10,646	$72,504	$46,630
Earnings per share attributable to Alexandria's common stockholders – basic and diluted:				
Continuing operations	$0.35	$0.24	$1.07	$0.67
Discontinued operations, net	—	(0.07)	0.01	0.08
Earnings per share – basic and diluted	$0.35	$0.17	$1.08	$0.75

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$32,453	$18,305	$96,027	$76,721
Other comprehensive income:				
Unrealized gains (losses) on marketable securities:				
Unrealized holding (losses) gains arising during the period	(37)	796	323	1,363
Reclassification adjustment for gains included in net income	(250)	(1,421)	(480)	(2,107)
Unrealized losses on marketable securities, net	(287)	(625)	(157)	(744)
Unrealized gains (losses) on interest rate swaps:				
Unrealized interest rate swap losses arising during the period	(676)	(2,818)	(704)	(9,982)
Reclassification adjustment for amortization of interest expense included in net income	3,904	5,956	12,046	17,626
Unrealized gains on interest rate swap agreements, net	3,228	3,138	11,342	7,644
Foreign currency translation (losses) gains	(3,404)	15,104	(26,461)	7,871
Total other comprehensive (loss) income	(463)	17,617	(15,276)	14,771
Comprehensive income	31,990	35,922	80,751	91,492
Less: comprehensive income attributable to noncontrolling interests	(933)	(805)	(2,839)	(2,379)
Comprehensive income attributable to Alexandria’s common stockholders	$31,057	$35,117	$77,912	$89,113

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

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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 Cumulative Convertible Preferred Stock	Series E Cumulative Redeemable Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance as of December 31, 2012	$250,000	$130,000	63,244,645	$632	$3,086,052	$—	$(24,833)	$46,643	$3,488,494	$14,564
Net income	—	—	—	—	—	93,105	—	2,118	95,223	804
Total other comprehensive income (loss)	—	—	—	—	—	—	(15,193)	(83)	(15,276)	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,207)	(1,207)	(893)
Issuance of common stock	—	—	7,590,000	76	534,601	—	—	—	534,677	—
Issuances pursuant to stock plan	—	—	246,283	3	17,387	—	—	—	17,390	—
Dividends declared on common stock	—	—	—	—	—	(133,388)	—	—	(133,388)	—
Dividends declared on preferred stock	—	—	—	—	—	(19,414)	—	—	(19,414)	—
Distributions in excess of earnings	—	—	—	—	(59,697)	59,697	—	—	—	—
Balance as of September 30, 2013	$250,000	$130,000	71,080,928	$711	$3,578,343	$—	$(40,026)	$47,471	$3,966,499	$14,475

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

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

	Nine Months Ended September 30, 2013	2012
Operating Activities		
Net income	$96,027	$76,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	142,677	143,933
Loss on early extinguishment of debt	1,992	2,225
Gain on sale of land parcel	(772)	(1,864)
Loss (gain) on sale of real estate	121	(1,564)
Non-cash impairment of real estate	—	9,799
Amortization of loan fees and costs	7,300	7,327
Amortization of debt premiums/discounts	383	401
Amortization of acquired above and below market leases	(2,490)	(2,356)
Deferred rent	(20,007)	(19,216)
Stock compensation expense	11,541	10,412
Equity in loss related to investments	—	26
Gain on sales of investments	(4,716)	(12,316)
Loss on sales of investments	529	1,607
Changes in operating assets and liabilities:		
Restricted cash	1,243	441
Tenant receivables	(271)	(2,637)
Deferred leasing costs	(37,190)	(23,597)
Other assets	(11,428)	(3,230)
Accounts payable, accrued expenses, and tenant security deposits	51,437	41,378
Net cash provided by operating activities	236,376	227,490
Investing Activities		
Proceeds from sale of properties	101,815	36,179
Additions to properties	(450,140)	(406,066)
Purchase of properties	(24,537)	(42,171)
Change in restricted cash related to construction projects	5,711	(11,453)
Distributions from unconsolidated real estate entity	—	22,250
Contributions to unconsolidated real estate entity	(13,881)	(5,042)
Additions to investments	(22,835)	(21,997)
Proceeds from investments	12,750	19,905
Net cash used in investing activities	$(391,117)	$(408,395)

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

	Nine Months Ended September 30,	
	2013	2012
Financing Activities		
Borrowings from secured notes payable	$26,319	$2,874
Repayments of borrowings from secured notes payable	(34,120)	(8,125)
Proceeds from issuance of unsecured senior notes payable	498,561	549,533
Principal borrowings from unsecured senior line of credit and unsecured senior bank term loans	319,000	623,147
Repayments of borrowings from unsecured senior line of credit	(871,000)	(580,147)
Repayment of unsecured senior bank term loan	(250,000)	(250,000)
Repurchase of unsecured senior convertible notes	(384)	(84,801)
Redemption of Series C Cumulative Redeemable Preferred Stock	—	(129,638)
Proceeds from issuance of Series E Cumulative Redeemable Preferred Stock	—	124,868
Change in restricted cash related to financings	923	(10,476)
Deferred financing costs paid	(16,247)	(25,301)
Proceeds from common stock offerings	535,686	98,443
Proceeds from exercise of stock options	—	155
Dividends paid on common stock	(120,367)	(92,743)
Dividends paid on preferred stock	(19,414)	(21,348)
Distributions to redeemable noncontrolling interests	—	(943)
Redemption of redeemable noncontrolling interests	—	(150)
Contributions by noncontrolling interests	—	1,626
Distributions to noncontrolling interests	(2,100)	(770)
Net cash provided by financing activities	66,857	196,204
Effect of foreign exchange rate changes on cash and cash equivalents	752	1,066
Net (decrease) increase in cash and cash equivalents	(87,132)	16,365
Cash and cash equivalents at beginning of period	140,971	78,539
Cash and cash equivalents at end of period	$53,839	$94,904
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, net of interest capitalized	$34,281	$30,485
Non-Cash Investing Activities		
Note receivable from sale of real estate	$38,820	$6,125

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,” “we,” “our,” and “us” refer to Alexandria Real Estate Equities, Inc. and its subsidiaries.

Alexandria Real Estate Equities, Inc. (NYSE: ARE), a self-administered and self-managed investment-grade real estate investment trust (“REIT”), is the largest and leading REIT focused principally on owning, operating, developing, redeveloping, and acquiring high-quality, sustainable real estate for the broad and diverse life science industry. Alexandria’s client tenants span the life science industry, including renowned academic and medical institutions, multinational pharmaceutical companies, public and private biotechnology entities, United States (“U.S.”) government research agencies, medical device companies, industrial biotech companies, venture capital firms, and life science product and service companies. For additional information on Alexandria Real Estate Equities, Inc., please visit www.are.com.

2. Basis of presentation

We have prepared the accompanying interim consolidated financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) and in conformity with the rules and regulations of the Securities and Exchange Commission (“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, 2013. 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, 2012.

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

We hold interests, together with certain third parties, in companies that we consolidate in our financial statements. We consolidate the companies because we exercise significant control over major decisions by these entities, such as investment activity and changes in financing.

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.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

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2. Basis of presentation (continued)

Investments in real estate, net, and discontinued operations

We recognize assets 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, 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 carrying 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 and restructuring costs are expensed as incurred.

The values allocated to land improvements, tenant improvements, equipment, buildings, and building improvements are depreciated on a straight-line basis using an estimated life of 20 years for land improvements, the respective lease term for tenant improvements, the estimated useful life for equipment, and the shorter of the term of the respective ground lease and up to 40 years for buildings and building improvements. The values of acquired above and below market leases are amortized over the lives 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, or construction of a project. Capitalization of development, redevelopment, and construction costs is required while activities are ongoing to prepare an asset for its intended use. Fluctuations in our development, redevelopment, 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, 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: (1) management, having the authority to approve the action, commits to a plan to sell the property; (2) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (3) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (4) the sale of the property is probable and is expected to be completed within one year; (5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) 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. When all of these criteria have been met, the property is classified as “held for sale.” If (1) the operations and cash flows of the property have been or will be eliminated from the ongoing operations; and (2) we will not have any significant continuing involvement in the operations of the property after the sale, then its operations, 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. Depreciation of assets ceases upon designation of a property as “held for sale.”

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2. Basis of presentation (continued)

Impairment of long-lived assets

Long-lived assets to be held and used, including our rental properties, land held for future development, construction in progress, and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying 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, land held for future development, and construction in progress, are assessed by project and include significant fluctuations in estimated net operating income, 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 a “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 carrying 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 privately held entities primarily involved in the life 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 net 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 when our interest in the entity is not deemed 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 carrying 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 September 30, 2013, and December 31, 2012, our ownership percentage in the voting stock of each individual entity was less than 10%.

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 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 would 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 non-cash charge to current earnings.

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2. Basis of presentation (continued)

Income taxes

We are organized and qualify as a REIT pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, a REIT that distributes 100% of its REIT taxable income as a dividend to its shareholders each year and that meets certain other conditions is not subject to federal income taxes, but could be subject to certain state and local taxes. We have distributed 100% or more of our taxable income. Therefore, no provision for federal income taxes is required. We file tax returns, including returns for our subsidiaries, with federal, state, and local jurisdictions, including jurisdictions located in the U.S., Canada, India, China, and other international locations. Our tax returns are subject to examination in various jurisdictions for the calendar years 2008 through 2012.

We recognize tax benefits of uncertain tax positions only if it is more likely than not that the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. The measurement of a tax benefit for an uncertain tax position that meets the "more likely than not" threshold is based on a cumulative probability model under which the largest amount of tax benefit recognized is the amount with a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority having full knowledge of all the relevant information. As of September 30, 2013, there were no unrecognized tax benefits. We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

Interest expense and penalties, if any, would be recognized in the first period during which the interest or penalty would begin accruing, according to the provisions of the relevant tax law at the applicable statutory rate of interest. We did not incur tax related interest expense or penalties for the three and nine months ended September 30, 2013.

Interest income

Interest income was approximately $1.2 million and $1.0 million during the three months ended September 30, 2013 and 2012, respectively. Interest income was approximately $3.5 million and $2.5 million during the nine months ended September 30, 2013 and 2012, respectively. Interest income is classified in other income in the accompanying consolidated statements of income.

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 an asset in 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.

Tenant recoveries related to reimbursement of real estate taxes, insurance, utilities, repairs and maintenance, 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 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 rent and deferred rent receivables arising from the straight-lining of rent. As of September 30, 2013, and December 31, 2012, we had no allowance for estimated losses.

As of September 30, 2013, approximately 94% of our leases (on a rentable square footage basis) were triple net leases, requiring client tenants to pay substantially all real estate taxes, insurance, utilities, common area expenses, and other operating expenses (including increases thereto) in addition to base rent. Approximately 95% of our leases (on a rentable square footage basis) contained effective annual rent escalations that were either fixed or based on a consumer price index or another index. Additionally, approximately 92% of our leases (on a rentable square footage basis) provided for the recapture of certain capital expenditures.

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3. Investments in real estate

Our investments in real estate, net, consisted of the following as of September 30, 2013, and December 31, 2012 (in thousands):

	September 30, 2013		December 31, 2012	
Rental properties:				
Land (related to rental properties)	$542,511		$522,664	
Buildings and building improvements	5,315,447		4,933,314	
Other improvements	170,078		189,793	
Rental properties	6,028,036		5,645,771	
Less: accumulated depreciation	(915,494	)	(875,035	)
Rental properties, net	5,112,542		4,770,736	
Construction in progress ("CIP")/current value-creation projects:				
Active development in North America	594,973		431,578	
Investment in unconsolidated joint venture	42,537	(1)	28,656	
Active redevelopment in North America	24,960		199,744	
Active development and redevelopment in Asia	97,319		101,602	
Generic infrastructure/building improvement projects in North America	46,227		80,599	
	806,016		842,179	
Subtotal	5,918,558		5,612,915	
Land/future value-creation projects:				
Land undergoing predevelopment activities (CIP) in North America	351,062		433,310	
Land held for future development in North America	190,427		296,039	
Land held for future development/undergoing predevelopment activities (CIP) in Asia	77,274		82,314	
Land subject to sale negotiations	76,440		—	
	695,203		811,663	
Investments in real estate, net	$6,613,761		$6,424,578	

(1) The book value for this unconsolidated joint venture represents our equity investment in the project.

Investment in unconsolidated real estate entity

We have a 27.5% interest in an unconsolidated joint venture that is currently developing a building totaling 413,536 RSF in the Longwood Medical Area of the Greater Boston market. The project is 37% pre-leased to Dana-Farber Cancer Institute, Inc. Our total investment into this project is approximately$42.5 million as of September 30, 2013. The total project costs are being funded primarily from a $213.2 million non-recourse secured construction loan, of which $75.0 million was drawn and outstanding at September 30, 2013. The loan bears interest at a rate of LIBOR+3.75%, with a floor of 5.25%. This loan has a maturity date of April 1, 2019, assuming the joint venture exercises its two separate one-year options to extend the stated maturity date of April 1, 2017.

We do not qualify as the primary beneficiary of the unconsolidated joint venture since we do not have the power to direct the activities of the entity that most significantly impacts its economic performance. The decisions that most significantly impact the entity's economic performance require both our consent and that of our partners, including all major operating, investing, and financing decisions, as well as decisions involving major expenditures. Consequently, we do not consolidate this joint venture and we account for our investment under the equity method of accounting.

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3. Investments in real estate (continued)

Land undergoing predevelopment activities (additional CIP)

Land undergoing predevelopment activities is classified as construction in progress and is undergoing activities prior to commencement of vertical construction of above-ground building improvements. We generally will not commence ground-up development of any parcels undergoing predevelopment activities without first securing pre-leasing for such space, except when there is significant market demand for high-quality laboratory facilities. If vertical aboveground construction is not initiated at completion of predevelopment activities, the land parcel will be classified as land held for future development. 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 laboratory and office infrastructure to accommodate single and multi-tenancy. The largest project included in land undergoing predevelopment consists of our 1.2 million developable square feet at the Alexandria Center™ at Kendall Square in East Cambridge, Massachusetts.

We are required to capitalize project costs, including interest, property taxes, insurance, and other costs directly related and essential to the development or construction of a project during periods when activities necessary to prepare an asset for its intended use are in progress. Predevelopment costs generally include the following activities prior to commencement of vertical construction:

Traditional preconstruction costs including entitlement, design, construction drawings, Building Information Modeling (3-D virtual modeling), budgeting, sustainability and energy optimization reviews, permitting, and planning for all aspects of the project.

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 vertical construction of aboveground building improvements. For example, site and infrastructure costs for the 1.2 million RSF primarily related to 50 Binney Street and 100 Binney Street of the Alexandria Center™ at Kendall Square are classified as predevelopment prior to commencement of vertical construction.

Land held for future development

Land held for future development represents real estate we plan to develop in the future, but on which, as of each period presented, no construction or predevelopment activities were ongoing. In such cases, all predevelopment efforts have been advanced to appropriate stages and no further predevelopment activities are ongoing; therefore, interest, property taxes, insurance, and other costs are expensed as incurred.

Real estate asset sales

During the nine months ended September 30, 2013, we sold seven properties for aggregate consideration of $128.6 million, including four properties sold at a total gain of $271 thousand and three properties sold at a total loss of $392 thousand. The net loss on sales is classified in (loss) income from discontinued operations before impairment of real estate in the accompanying consolidated statements of income.

During the nine months ended September 30, 2013, we sold three parcels of land for aggregate consideration of $18.1 million and recognized gains of $772 thousand, which included a gain of $381 thousand on the sale of two parcels in the San Francisco Bay Area market, and a gain of $391 thousand on the sale of one parcel in the Greater NYC market. These gains are classified in gains on sales of land parcels in the accompanying consolidated statements of income.

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4. Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. Investments in “available for sale” securities with gross unrealized losses as of September 30, 2013, have each 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 we have not recognized impairment charges related to “available for sale” securities as of September 30, 2013. As of September 30, 2013, and December 31, 2012, there were no unrealized losses in our investments in privately held entities accounted for under the cost method.

The following table summarizes our investments as of September 30, 2013, and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
“Available-for-sale” securities, cost basis	$1,940	$1,236
Gross unrealized gains	1,708	1,561
Gross unrealized losses	(392)	(88)
“Available-for-sale” securities, at fair value	3,256	2,709
Investments accounted for under cost method	125,901	112,333
Investments accounted for under equity method	6	6
Total investments	$129,163	$115,048

The following table outlines our investment income, which is classified in other income in the accompanying consolidated statements of income for the three and nine months ended September 30, 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gross realized gains	$2,050	$1,190	$4,716	$12,316
Gross realized losses	—	(518)	(529)	(1,607)
Equity in loss related to equity method investments	—	—	—	(26)
Investment income	$2,050	$672	$4,187	$10,683
Amount of gains reclassified from accumulated other comprehensive income to realized gains, net	$250	$1,421	$480	$2,107

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5. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debts and their respective principal maturities, as of September 30, 2013 (dollars in thousands):

	Fixed Rate/Hedged Variable Rate	Unhedged Variable Rate	Total Consolidated	Percentage of Total	Weighted Average Interest Rate at End of Period [1]	Weighted Average Remaining Term (in years)
Secured notes payable, net	$589,126	$119,527	$708,653	24.7 %	5.47 %	2.5
Unsecured senior notes payable, net	1,048,190	—	1,048,190	36.5	4.29	9.1
$1.5 billion unsecured senior line of credit	—	14,000	14,000	0.5	1.28	5.3
2016 Unsecured Senior Bank Term Loan	350,000	150,000	500,000	17.4	1.70	2.8
2019 Unsecured Senior Bank Term Loan	600,000	—	600,000	20.9	3.30	5.3
Total debt / weighted average	$2,587,316	$283,527	$2,870,843	100.0 %	3.91 %	5.5
Percentage of total debt	90 %	10 %	100 %			

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

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5. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding consolidated indebtedness as of September 30, 2013 (dollars in thousands):

Debt	Stated Rate	Weighted Average Interest Rate[1]	Maturity Date[2]	Remaining for the Period Ending December 31, 2013	2014	2015	2016	2017	Thereafter	Total
Secured notes payable										
Greater Boston	5.26 %	5.59 %	04/01/14	$979	$208,683	$—	$—	$—	$—	$209,662
Suburban Washington, D.C.	2.17	2.17	04/20/14[3]	—	76,000	—	—	—	—	76,000
San Diego	6.05	4.88	07/01/14	24	6,458	—	—	—	—	6,482
San Diego	5.39	4.00	11/01/14	30	7,495	—	—	—	—	7,525
Seattle	6.00	6.00	11/18/14	60	240	—	—	—	—	300
Suburban Washington, D.C.	5.64	4.50	06/01/15	22	138	5,788	—	—	—	5,948
Greater Boston, San Diego, and Greater New York City	5.73	5.73	01/01/16	416	1,713	1,816	75,501	—	—	79,446
Greater Boston, San Diego, and Greater NYC	5.82	5.82	04/01/16	221	931	988	29,389	—	—	31,529
San Francisco Bay Area	6.35	6.35	08/01/16	580	2,487	2,652	126,715	—	—	132,434
San Francisco Bay Area	L+1.50	1.69	07/01/15[4]	—	—	43,227	—	—	—	43,227
San Francisco Bay Area	L+1.40	1.59	06/01/16[5]	—	—	—	—	—	—	—
Greater Boston	L+1.35	1.54	08/23/17[6]	—	—	—	—	—	—	—
San Diego, Suburban Washington, D.C., and Seattle	7.75	7.75	04/01/20	345	1,453	1,570	1,696	1,832	108,469	115,365
San Francisco Bay Area	6.50	6.50	06/01/37	—	17	18	19	20	773	847
Average/Total	5.41 %	5.47		2,677	305,615	56,059	233,320	1,852	109,242	708,765
$1.5 billion unsecured senior line of credit	L+1.10 %[7]	1.28	01/03/19	—	—	—	—	—	14,000	14,000
2016 Unsecured Senior Bank Term Loan	L+1.20 %	1.70	07/31/16	—	—	—	500,000	—	—	500,000
	L+1.20 %	3.30	01/03/19	—	—	—	—	—	600,000	600,000

2019 Unsecured Senior Bank Term Loan											
Unsecured senior notes payable	4.60	%	4.61	04/01/22	—	—	—	—	—	550,000	550,000
Unsecured senior notes payable	3.90	%	3.94	06/15/23	—	—	—	—	—	500,000	500,000
Average/Subtotal			3.91		2,677	305,615	56,059	733,320	1,852	1,773,242	2,872,76
Unamortized discounts			—		(146)	(199)	(139)	(177)	(184)	(1,077)	(1,922
Average/Total			3.91%		$2,531	$305,416	$55,920	$733,143	$1,668	$1,772,165	$2,870,8
Balloon payments					$—	$297,080	$48,955	$730,029	$—	$1,768,352	$2,844,4
Principal amortization					2,531	8,336	6,965	3,114	1,668	3,813	26,427
Total consolidated debt					$2,531	$305,416	$55,920	$733,143	$1,668	$1,772,165	$2,870,8
Fixed rate/hedged variable rate debt					$2,471	$229,176	$12,693	$583,143	$1,668	$1,758,165	$2,587,3
Unhedged variable rate debt					60	76,240	43,227	150,000	—	14,000	283,527
Total consolidated debt					$2,531	$305,416	$55,920	$733,143	$1,668	$1,772,165	$2,870,8

(1) Represents the weighted average contractual interest rate as of the end of the period plus the impact of debt 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 are having discussions with the lender on an extension of the maturity date.

(4) Secured construction loan with aggregate commitments of $55.0 million. We have two, one-year options to extend the stated maturity date to July 1, 2017, subject to certain conditions.

(5) Secured construction loan with aggregate commitments of $33.0 million. We have two, one-year options to extend the stated maturity date to June 1, 2018, subject to certain conditions. As of September 30, 2013, we had not drawn on the loan.

(6) Secured construction loan with aggregate commitments of $245.4 million. We have a one-year option to extend the stated maturity date to August 23, 2018, subject to certain conditions. As of September 30, 2013, we had not drawn on the loan.

(7) In addition to the stated rate, the line of credit is subject to an annual facility fee of 0.20%.

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5. Secured and unsecured senior debt (continued)

3.90% Unsecured senior notes payable

In June 2013, we completed a $500.0 million public offering of our unsecured senior notes payable at a stated interest rate of 3.90% ("3.90% Unsecured Senior Notes"). The unsecured senior notes payable were priced at 99.712% of the principal amount with a yield to maturity of 3.94% and are due June 15, 2023. The unsecured senior notes payable are unsecured obligations of the Company and are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P., a 100% owned subsidiary of the Company. The unsecured senior notes payable rank equally in right of payment with all other senior unsecured indebtedness. However, the unsecured senior notes payable are effectively subordinated to existing and future mortgages and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness) and to all existing and future preferred equity and liabilities, whether secured or unsecured, of the Company's subsidiaries, other than Alexandria Real Estate Equities, L.P. We used the net proceeds of this offering initially to prepay $150.0 million of the outstanding principal balance on our unsecured senior bank term loan due in 2016 ("2016 Unsecured Senior Bank Term Loan"), to reduce the outstanding borrowings on our unsecured senior line of credit to zero, and held the remaining proceeds in cash and cash equivalents. As a result of the $150.0 million prepayment, we recognized a loss on early extinguishment of debt related to the write-off of a portion of unamortized loan fees in June 2013, totaling $560 thousand.

Unsecured senior line of credit and unsecured senior bank term loans

On July 26, 2013, we amended our 2016 Unsecured Senior Bank Term Loan to reduce the applicable interest rate margins in respect of the loan thereunder on outstanding borrowings. We extended the maturity of this loan by one month and we expect to repay the loan over the next one to three years. In addition, on August 30, 2013, we amended our $1.5 billion unsecured senior line of credit and our unsecured senior bank term loan due in 2019 ("2019 Unsecured Senior Bank Term Loan") to reduce the interest rate on outstanding borrowings, extend the maturity dates, and amend certain financial covenants. Also, on August 30, 2013, we amended our 2016 Unsecured Senior Bank Term Loan to conform certain financial covenants to those contained in the amended credit agreement related to our $1.5 billion unsecured senior line of credit and our 2019 Unsecured Senior Bank Term Loan. The maturity dates below reflect any available extension options that we control.

Facility	Balance at 9/30/13		Maturity Date		Applicable Rate		Facility Fee	
			Prior	Amended	Prior	Amended	Prior	Amended
2016 Unsecured Senior Bank Term Loan	$500	million	June 2016	July 2016	L +1.75%	L +1.20%	N/A	N/A
2019 Unsecured Senior Bank Term Loan	$600	million	January 2017	January 2019	L +1.50%	L +1.20%	N/A	N/A
$1.5 billion unsecured senior line of credit	$14	million	April 2017	January 2019	L +1.20%	L +1.10%	0.25 %	0.20 %

On September 30, 2013, we paid down $100 million on our 2016 Unsecured Senior Bank Term Loan to a total outstanding balance of $500 million. During the three months ended September 30, 2013, in conjunction with the refinancing of our unsecured senior bank term loans and the partial repayment of $100 million of our 2016 Unsecured Senior Bank Term Loan, we recognized a loss on early extinguishment of debt totaling $1.4 million, due to the write-off of unamortized loan fees.

Borrowings under the unsecured senior line of credit will bear interest at a "Eurocurrency Rate" or a "Base Rate" specified in the amended unsecured line of credit agreement, plus, in either case, a specified margin (the "Applicable Margin"). The "Eurocurrency Rate" specified in the amended unsecured line of credit agreement is, as applicable, the rate per annum equal to (i) the London interbank offered rate (“LIBOR”) or a successor rate thereto as approved by the administrative agent for loans denominated in a LIBOR quoted currency (i.e., US Dollars, Euro, Sterling, or Yen), (ii) the average annual yield rates applicable to Canadian dollar banker's acceptances for loans denominated in Canadian dollars, (iii) the Bank Bill Swap Reference Bid rate for loans denominated in Australian dollars, or (iv) the rate designated with respect to the applicable alternative currency for loans denominated in a non-LIBOR quoted currency (other than Canadian or Australian dollars). The “Base Rate” specified in the amended unsecured line of credit agreement means for any day a fluctuating rate per annum equal to the highest of (a) the federal funds rate plus 1/2 of 1%, (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate,” and (c) the Eurocurrency Rate plus 1.00%. The Applicable Margin for LIBOR borrowings under the unsecured senior line of credit as of September 30, 2013, was 1.10%, which is based on our existing credit rating as set by certain rating agencies. As of September 30, 2013, we had $14 million in borrowings outstanding on our $1.5 billion unsecured senior line of credit. Our unsecured senior line of credit is subject to an annual facility fee of 0.20% based on the aggregate commitments outstanding.

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5. Secured and unsecured senior debt (continued)

In addition, the terms of the unsecured senior line of credit and unsecured senior bank term loan agreements, among other things, limit the ability of the Company, Alexandria Real Estate Equities, L.P., and the Company's subsidiaries to (i) consummate a merger, or consolidate or sell all or substantially all of the Company's assets, and (ii) incur certain secured or unsecured indebtedness. Additionally, the terms of the unsecured senior line of credit and unsecured senior bank term loan agreements include a restriction that may limit our ability to pay dividends, including distributions with respect to common stock or other equity interests, during any time a default is continuing, except to enable us to continue to qualify as a REIT for federal income tax purposes. As of September 30, 2013, we were in compliance with all such covenants and there were no limitations pursuant to such covenants.

The following table outlines our interest expense for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gross interest	$32,959	$33,855	$96,668	$99,094
Capitalized interest	(16,788)	(16,763)	(46,499)	(47,854)
Interest expense	$16,171	$17,092	$50,169	$51,240

Construction loan of unconsolidated joint venture

We have a 27.5% interest in an unconsolidated joint venture that is currently developing a building in the Longwood Medical Area of the Greater Boston market, with the construction costs funded primarily from a non-recourse secured construction loan with aggregate commitments of $213.2 million and an outstanding balance of $75.0 million as of September 30, 2013. See Note 3 for further information.

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6. Interest rate swap agreements

During the nine months ended September 30, 2013 and 2012, our interest rate swap agreements were used primarily 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 nine months ended September 30, 2013 and 2012, our interest rate swap agreements were 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. The effective portion of changes in the fair values of our interest rate swap agreements that are designated and that qualify as cash flow hedges is classified in accumulated other comprehensive loss. Losses 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 $8.5 million in accumulated other comprehensive loss to interest expense as an increase to interest expense.

As of September 30, 2013, and December 31, 2012, the fair values of our interest rate swap agreements were classified in accounts payable, accrued expenses, and tenant security deposits based upon their respective fair values, aggregating a liability balance of approximately $9.3 million and $20.7 million, respectively, which included accrued interest and adjustments for non-performance risk, with the offsetting adjustment reflected as unrealized loss in accumulated other comprehensive loss in total equity. Under our interest rate swap agreements, we have no collateral posting requirements.

We had the following outstanding interest rate swap agreements that were designated as cash flow hedges of interest rate risk as of September 30, 2013 (dollars in thousands):

Effective Date	Termination Date	Interest Pay Rate [(1)]	Fair Value as of September 30, 2013	Notional Amount in Effect as of September 30, 2013	Notional Amount in Effect as of December 31, 2013
December 29, 2006	March 31, 2014	4.990 %	$(1,205)	$50,000	$50,000
November 30, 2009	March 31, 2014	5.015 %	(1,817)	75,000	75,000
November 30, 2009	March 31, 2014	5.023 %	(1,820)	75,000	75,000
December 31, 2012	December 31, 2013	0.640 %	(291)	250,000	—
December 31, 2012	December 31, 2013	0.640 %	(291)	250,000	—
December 31, 2012	December 31, 2013	0.644 %	(147)	125,000	—
December 31, 2012	December 31, 2013	0.644 %	(147)	125,000	—
December 31, 2013	December 31, 2014	0.977 %	(1,802)	—	250,000
December 31, 2013	December 31, 2014	0.976 %	(1,799)	—	250,000
Total			$(9,319)	$950,000	$700,000

(1) In addition to the interest pay rate, borrowings outstanding under our unsecured senior bank term loans include an applicable margin of 1.20% as of September 30, 2013.

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7. 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 and nine months ended September 30, 2013 and 2012.

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 September 30, 2013, and December 31, 2012 (in thousands):

		September 30, 2013		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Marketable securities	$3,256	$3,256	$—	$—
Liabilities:				
Interest rate swap agreements	$9,319	$—	$9,319	$—

		December 31, 2012		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Marketable securities	$2,709	$2,709	$—	$—
Liabilities:				
Interest rate swap agreements	$20,661	$—	$20,661	$—

The carrying amounts 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" securities and our interest rate swap agreements, respectively, have been recognized at fair value. 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.

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7. Fair value measurements (continued)

As of September 30, 2013, and December 31, 2012, the book and fair values of our marketable 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):

	September 30, 2013		December 31, 2012	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
Marketable securities	$3,256	$3,256	$2,709	$2,709
Liabilities:				
Interest rate swap agreements	$9,319	$9,319	$20,661	$20,661
Secured notes payable	$708,653	$761,047	$716,144	$788,455
Unsecured senior notes payable	$1,048,190	$1,028,750	$549,805	$593,350
Unsecured senior line of credit	$14,000	$13,738	$566,000	$567,196
Unsecured senior bank term loans	$1,100,000	$1,088,322	$1,350,000	$1,405,124

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8. 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 earnings per share. Pursuant to the presentation and disclosure literature on gains or losses on sales or disposals by REITs and earnings per share required by the SEC and the Financial Accounting Standards Board, 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 earnings per share for income from continuing operations.

The land parcels we sold during the nine months ended September 30, 2013 and 2012, did not meet the criteria for classification as discontinued operations because the land parcels did not have significant operations prior to disposition. Accordingly, for the nine months ended September 30, 2013 and 2012, we classified approximately $0.8 million and $1.9 million, respectively, as gain on sales of land parcels below income from discontinued operations, net, in the accompanying consolidated statements of income, and included the gain in income from continuing operations attributable to Alexandria's common stockholders in the "control number," or numerator for computation of earnings per share.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of earnings per share using the two-class method. Our Series D convertible preferred stock ("Series D Convertible Preferred Stock") is not a participating security, and is not included in the computation of earnings per share 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 earnings per share is computed using the weighted average shares of common stock outstanding determined for the basic earnings per share computation plus the effect of any dilutive securities, including the dilutive effect of stock options using the treasury stock method and potential common shares issuable upon conversion of our 8.00% unsecured senior convertible notes ("8.00% Unsecured Senior Convertible Notes"), during the period the notes were outstanding.

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8. Earnings per share (continued)

The table below is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income from continuing operations	$32,517	$22,501	$94,262	$69,695
Gain on sale of land parcel	—	—	772	1,864
Net income attributable to noncontrolling interests	(960)	(828)	(2,922)	(2,390)
Dividends on preferred stock	(6,472)	(6,471)	(19,414)	(20,857)
Preferred stock redemption charge	—	—	—	(5,978)
Net income attributable to unvested restricted stock awards	(442)	(360)	(1,187)	(866)
Income from continuing operations attributable to Alexandria's common stockholders – basic and diluted	24,643	14,842	71,511	41,468
(Loss) income from discontinued operations, net	(64)	(4,196)	993	5,162
Net income attributable to Alexandria's common stockholders – basic and diluted	$24,579	$10,646	$72,504	$46,630
Weighted average shares of common stock outstanding – basic and diluted	70,900	62,364	67,040	61,847
Earnings per share attributable to Alexandria's common stockholders – basic and diluted:				
Continuing operations	$0.35	$0.24	$1.07	$0.67
Discontinued operations, net	—	(0.07)	0.01	0.08
Earnings per share – basic and diluted	$0.35	$0.17	$1.08	$0.75

For purposes of calculating diluted earnings per share, we did not assume conversion of our 8.00% Unsecured Senior Convertible Notes for the three and nine months ended September 30, 2013 and 2012, since the impact was antidilutive to earnings per share attributable to Alexandria's common stockholders from continuing operations during those periods.

For purposes of calculating diluted earnings per share, we did not assume conversion of our Series D Convertible Preferred Stock for the three and nine months ended September 30, 2013 and 2012, since the impact was antidilutive to earnings per share attributable to Alexandria's common stockholders from continuing operations during those periods.

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9. Net income attributable to Alexandria Real Estate Equities, Inc.

The following table shows income from continuing and discontinued operations attributable to Alexandria Real Estate Equities, Inc. for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income from continuing operations	$32,517	$22,501	$94,262	$69,695
Gain on sale of land parcels	—	—	772	1,864
Less: net income attributable to noncontrolling interests	(960)	(828)	(2,922)	(2,390)
Income from continuing operations attributable to Alexandria	31,557	21,673	92,112	69,169
(Loss) income from discontinued operations, net	(64)	(4,196)	993	5,162
Less: net income from discontinued operations attributable to noncontrolling interests	—	—	—	—
Net income attributable to Alexandria	$31,493	$17,477	$93,105	$74,331

10. Stockholders' equity

Secondary offering of common stock

In May 2013, we sold approximately 7.6 million shares of our common stock in a secondary offering (including 1.0 million shares issued pursuant to the exercise in full of the underwriters' option to purchase additional shares). The shares were issued at a price of $73.50 per share, resulting in aggregate net proceeds of approximately $535.7 million (after deducting underwriting discounts and commissions).

"At the market" common stock offering program

In June 2012, we established an "at the market" common stock offering program under which we may sell, from time to time, up to an aggregate of $250 million of our common stock through our sales agents, BNY Mellon Capital Markets, LLC and Credit Suisse Securities (USA) LLC, during a three-year period. As of September 30, 2013, approximately $150.0 million of our common stock remained available for issuance under the "at the market" common stock offering program.

Dividends

In September 2013, we declared cash dividends for the third quarter of 2013, on our common stock aggregating approximately $48.7 million, or $0.68 per share. In September 2013, we also declared cash dividends for the third quarter of 2013, on our Series D Convertible Preferred Stock aggregating approximately $4.4 million, or $0.4375 per share. Additionally, we declared cash dividends for the third quarter of 2013, on our Series E cumulative redeemable preferred stock ("Series E Cumulative Redeemable Preferred Stock") aggregating approximately $2.1 million, or $0.403125 per share. In October 2013, we paid the cash dividends for the third quarter of 2013, on our common stock, Series D Convertible Preferred Stock, and Series E Cumulative Redeemable Preferred Stock.

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10. Stockholders' equity (continued)

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, 2012	$1,473	$(20,661)	$(5,645)	$(24,833)
Other comprehensive income (loss) before reclassifications	323	(704)	(26,378)	(26,759)
Amounts reclassified from other comprehensive income	(480)	12,046	—	11,566
Net other comprehensive (loss) income	(157)	11,342	(26,378)	(15,193)
Balance as of September 30, 2013	$1,316	$(9,319)	$(32,023)	$(40,026)

The effects on amounts reclassified from accumulated other comprehensive income related to unrealized gain on marketable securities and unrealized loss on interest rate swap agreements are recognized in other income and interest expenses, respectively, in the accompanying consolidated statements of income.

Preferred stock and excess stock authorizations

Our charter authorizes the issuance of up to 100 million shares of preferred stock, of which 15.2 million shares were issued and outstanding as of September 30, 2013. In addition, 200 million shares of "excess stock" (as defined in our charter) are authorized, none of which were issued and outstanding as of September 30, 2013.

11. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities owned 10 properties and three development parcels as of September 30, 2013, 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.

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 carrying 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. As of September 30, 2013, and December 31, 2012, our redeemable noncontrolling interest balances were approximately $14.5 million and $14.6 million, respectively. Our remaining noncontrolling interests, aggregating approximately $47.5 million and $46.6 million as of September 30, 2013, and December 31, 2012, respectively, do not have rights to require us to purchase their ownership interests and are classified in total equity in the accompanying consolidated balance sheets.

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12. Discontinued operations

The following is a summary of net assets of discontinued operations and income from discontinued operations, net (in thousands):

	September 30, 2013	December 31, 2012
Properties "held for sale," net	$4,510	$76,440
Other assets	14	4,546
Total assets	4,524	80,986
Total liabilities	(32)	(3,233)
Net assets of discontinued operations	$4,492	$77,753

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total revenues	$4	$8,418	$3,741	$26,556
Operating expenses	68	2,788	1,697	8,337
Total revenues less operating expenses from discontinued operations	(64)	5,630	2,044	18,219
Depreciation expense	—	1,589	930	4,822
(Gain) loss on sale of real estate	—	(1,562)	121	(1,564)
Impairment of real estate	—	9,799	—	9,799
(Loss) income from discontinued operations, net (1)	$(64)	$(4,196)	$993	$5,162

(1) (Loss) income from discontinued operations, net, includes the results of operations for two operating properties that were classified as "held for sale" as of September 30, 2013, as well as the results of operations (prior to disposition) and (gain) loss on sale of real estate attributable to 10 properties sold during the period from January 1, 2012, to September 30, 2013.

13. Subsequent events

Update on our ground-up development at 499 Illinois Street

In October 2013, we executed a 10-year lease with a high-quality biopharmaceutical company for 43,625 RSF at 499 Illinois Street in the Mission Bay submarket of the San Francisco Bay Area which is now 77% pre-leased.

14. Condensed consolidating financial information

Alexandria Real Estate Equities, Inc. (the "Issuer") has sold certain debt securities registered under the Securities Act, as amended, that are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P. (the "LP"), 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 September 30, 2013, and December 31, 2012, the condensed consolidating statements of income and comprehensive income for the three and nine months ended September 30, 2013 and 2012, and the condensed consolidating statements of cash flow for the nine months ended September 30, 2013 and 2012, for the Issuer, the Guarantor Subsidiary (the LP), the Combined Non-Guarantor Subsidiaries, the eliminations necessary to arrive at the information for Alexandria 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.

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of September 30, 2013
(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, net	$—	$—	$6,613,761	$—	$6,613,761
Cash and cash equivalents	14,667	—	39,172	—	53,839
Restricted cash	61	—	30,593	—	30,654
Tenant receivables	—	—	8,671	—	8,671
Deferred rent	—	—	182,909	—	182,909
Deferred leasing and financing costs, net	38,462	—	141,343	—	179,805
Investments	—	11,828	117,335	—	129,163
Investments in and advances to affiliates	6,119,819	5,655,063	116,004	(11,890,886)	—
Other assets	17,801	—	141,766	—	159,567
Total assets	$6,190,810	$5,666,891	$7,391,554	$(11,890,886)	$7,358,369
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$—	$—	$708,653	$—	$708,653
Unsecured senior notes payable	1,048,190	—	—	—	1,048,190
Unsecured senior line of credit	14,000	—	—	—	14,000
Unsecured senior bank term loans	1,100,000	—	—	—	1,100,000
Accounts payable, accrued expenses, and tenant security deposits	55,467	—	396,672	—	452,139
Dividends payable	54,125	—	288	—	54,413
Total liabilities	2,271,782	—	1,105,613	—	3,377,395
Redeemable noncontrolling interests	—	—	14,475	—	14,475
Alexandria's stockholders' equity	3,919,028	5,666,891	6,223,995	(11,890,886)	3,919,028
Noncontrolling interests	—	—	47,471	—	47,471
Total equity	3,919,028	5,666,891	6,271,466	(11,890,886)	3,966,499
Total liabilities, noncontrolling interests, and equity	$6,190,810	$5,666,891	$7,391,554	$(11,890,886)	$7,358,369

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of December 31, 2012
(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, net	$38,616	$—	$6,385,962	$—	$6,424,578
Cash and cash equivalents	98,567	1,913	40,491	—	140,971
Restricted cash	52	—	39,895	—	39,947
Tenant receivables	1	—	8,448	—	8,449
Deferred rent	1,876	—	168,520	—	170,396
Deferred leasing and financing costs, net	31,373	—	128,675	—	160,048
Investments	—	12,591	102,457	—	115,048
Investments in and advances to affiliates	5,833,368	5,358,883	110,100	(11,302,351)	—
Intercompany note receivable	3,021	—	—	(3,021)	—
Other assets	17,613	—	73,066	—	90,679
Total assets	$6,024,487	$5,373,387	$7,057,614	$(11,305,372)	$7,150,116
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$—	$—	$716,144	$—	$716,144
Unsecured senior notes payable	549,805	—	—	—	549,805
Unsecured senior line of credit	566,000	—	—	—	566,000
Unsecured senior bank term loans	1,350,000	—	—	—	1,350,000
Accounts payable, accrued expenses, and tenant security deposits	75,728	—	347,980	—	423,708
Dividends payable	41,103	—	298	—	41,401
Intercompany notes payable	—	—	3,021	(3,021)	—
Total liabilities	2,582,636	—	1,067,443	(3,021)	3,647,058
Redeemable noncontrolling interests	—	—	14,564	—	14,564
Alexandria's stockholders' equity	3,441,851	5,373,387	5,928,964	(11,302,351)	3,441,851
Noncontrolling interests	—	—	46,643	—	46,643
Total equity	3,441,851	5,373,387	5,975,607	(11,302,351)	3,488,494
Total liabilities, noncontrolling interests, and equity	$6,024,487	$5,373,387	$7,057,614	$(11,305,372)	$7,150,116

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended September 30, 2013
(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	$—	$—	$116,302	$—	$116,302
Tenant recoveries	—	—	38,757	—	38,757
Other income	2,802	(1)	3,965	(3,195)	3,571
Total revenues	2,802	(1)	159,024	(3,195)	158,630
Expenses:					
Rental operations	—	—	47,742	—	47,742
General and administrative	10,141	—	4,720	(3,195)	11,666
Interest	10,238	—	5,933	—	16,171
Depreciation and amortization	1,472	—	47,630	—	49,102
Loss on early extinguishment of debt	1,432	—	—	—	1,432
Total expenses	23,283	—	106,025	(3,195)	126,113
Income (loss) from continuing operations before equity in earnings of affiliates	(20,481)	(1)	52,999	—	32,517
Equity in earnings of affiliates	51,975	48,477	959	(101,411)	—
Income from continuing operations	31,494	48,476	53,958	(101,411)	32,517
(Loss) income from discontinued operations, net	(1)	—	(63)	—	(64)
Net income	31,493	48,476	53,895	(101,411)	32,453
Net income attributable to noncontrolling interests	—	—	960	—	960
Dividends on preferred stock	6,472	—	—	—	6,472
Net income attributable to unvested restricted stock awards	442	—	—	—	442
Net income attributable to Alexandria's common stockholders	$24,579	$48,476	$52,935	$(101,411)	$24,579

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended September 30, 2012
(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	$—	$—	$106,216	$—	$106,216
Tenant recoveries	—	—	34,006	—	34,006
Other income	2,785	51	3,209	(3,417)	2,628
Total revenues	2,785	51	143,431	(3,417)	142,850
Expenses:					
Rental operations	—	—	44,203	—	44,203
General and administrative	9,587	—	6,300	(3,417)	12,470
Interest	11,785	—	5,307	—	17,092
Depreciation and amortization	1,725	—	44,859	—	46,584
Total expenses	23,097	—	100,669	(3,417)	120,349
Income (loss) from continuing operations before equity in earnings of affiliates	(20,312)	51	42,762	—	22,501
Equity in earnings of affiliates	41,380	42,064	804	(84,248)	—
Income from continuing operations	21,068	42,115	43,566	(84,248)	22,501
(Loss) income from discontinued operations, net	(3,591)	—	(605)	—	(4,196)
Net income	17,477	42,115	42,961	(84,248)	18,305
Net income attributable to noncontrolling interests	—	—	828	—	828
Dividends on preferred stock	6,471	—	—	—	6,471
Net income attributable to unvested restricted stock awards	360	—	—	—	360
Net income attributable to Alexandria's common stockholders	$10,646	$42,115	$42,133	$(84,248)	$10,646

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Nine Months Ended September 30, 2013
(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	$—	$—	$342,821	$—	$342,821
Tenant recoveries	—	—	110,291	—	110,291
Other income	8,071	(142)	11,636	(9,432)	10,133
Total revenues	8,071	(142)	464,748	(9,432)	463,245
Expenses:					
Rental operations	—	—	139,289	—	139,289
General and administrative	32,574	—	12,644	(9,432)	35,786
Interest	32,048	—	18,121	—	50,169
Depreciation and amortization	4,393	—	137,354	—	141,747
Loss on early extinguishment of debt	1,992	—	—	—	1,992
Total expenses	71,007	—	307,408	(9,432)	368,983
Income (loss) from continuing operations before equity in earnings of affiliates	(62,936)	(142)	157,340	—	94,262
Equity in earnings of affiliates	155,694	144,660	2,858	(303,212)	—
Income from continuing operations	92,758	144,518	160,198	(303,212)	94,262
Income from discontinued operations, net	347	—	646	—	993
Gain on sale of land parcel	—	—	772	—	772
Net income	93,105	144,518	161,616	(303,212)	96,027
Net income attributable to noncontrolling interests	—	—	2,922	—	2,922
Dividends on preferred stock	19,414	—	—	—	19,414
Net income attributable to unvested restricted stock awards	1,187	—	—	—	1,187
Net income attributable to Alexandria's common stockholders	$72,504	$144,518	$158,694	$(303,212)	$72,504

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Nine Months Ended September 30, 2012
(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	$—	$—	$311,746	$—	$311,746
Tenant recoveries	—	—	97,769	—	97,769
Other income	7,593	891	16,095	(9,940)	14,639
Total revenues	7,593	891	425,610	(9,940)	424,154
Expenses:					
Rental operations	—	—	126,758	—	126,758
General and administrative	32,030	1	13,034	(9,940)	35,125
Interest	34,460	—	16,780	—	51,240
Depreciation and amortization	3,781	—	135,330	—	139,111
Loss on early extinguishment of debt	2,225	—	—	—	2,225
Total expenses	72,496	1	291,902	(9,940)	354,459
Income (loss) from continuing operations before equity in earnings of affiliates	(64,903)	890	133,708	—	69,695
Equity in earnings of affiliates	140,267	134,346	2,662	(277,275)	—
Income from continuing operations	75,364	135,236	136,370	(277,275)	69,695
Income (loss) from discontinued operations, net	(1,033)	—	6,195	—	5,162
Gain on sale of land parcel	—	—	1,864	—	1,864
Net income	74,331	135,236	144,429	(277,275)	76,721
Net income attributable to noncontrolling interests	—	—	2,390	—	2,390
Dividends on preferred stock	20,857	—	—	—	20,857
Preferred stock redemption charge	5,978	—	—	—	5,978
Net income attributable to unvested restricted stock awards	866	—	—	—	866
Net income attributable to Alexandria's common stockholders	$46,630	$135,236	$142,039	$(277,275)	$46,630

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended September 30, 2013
(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	$31,493	$48,476	$53,895	$(101,411)	$32,453
Other comprehensive income:					
Unrealized gains (losses) on marketable securities:					
Unrealized holding gains (losses) arising during the period	—	(796)	759	—	(37)
Reclassification adjustment for (gains) losses included in net income	—	519	(769)	—	(250)
Unrealized gains (losses) on marketable securities, net	—	(277)	(10)	—	(287)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap gains arising during the period	(676)	—	—	—	(676)
Reclassification adjustment for amortization of interest expense included in net income	3,904	—	—	—	3,904
Unrealized gains on interest rate swaps, net	3,228	—	—	—	3,228
Foreign currency translation losses	—	—	(3,404)	—	(3,404)
Total other comprehensive income (loss)	3,228	(277)	(3,414)	—	(463)
Comprehensive income	34,721	48,199	50,481	(101,411)	31,990
Less: comprehensive income attributable to noncontrolling interests	—	—	(933)	—	(933)
Comprehensive income attributable to Alexandria's common stockholders	$34,721	$48,199	$49,548	$(101,411)	$31,057

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended September 30, 2012
(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	$17,477	$42,115	$42,961	$(84,248)	$18,305
Other comprehensive income:					
Unrealized gains (losses) on marketable securities:					
Unrealized holding gains (losses) arising during the period	—	23	773	—	796
Reclassification adjustment for losses included in net income	—	(11)	(1,410)	—	(1,421)
Unrealized gains (losses) on marketable securities, net	—	12	(637)	—	(625)
Unrealized gains (losses) on interest rate swaps:					
Unrealized interest rate swap gains (losses) arising during the period	(2,818)	—	—	—	(2,818)
Reclassification adjustment for amortization of interest expense included in net income	5,956	—	—	—	5,956
Unrealized gains (losses) on interest rate swaps, net	3,138	—	—	—	3,138
Foreign currency translation losses	—	—	15,104	—	15,104
Total other comprehensive income	3,138	12	14,467	—	17,617
Comprehensive income	20,615	42,127	57,428	(84,248)	35,922
Less: comprehensive income attributable to noncontrolling interests	—	—	(805)	—	(805)
Comprehensive income attributable to Alexandria's common stockholders	$20,615	$42,127	$56,623	$(84,248)	$35,117

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Nine Months Ended September 30, 2013
(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	$93,105	$144,518	$161,616	$(303,212)	$96,027
Other comprehensive income:					
Unrealized gains on marketable securities:					
Unrealized holding gains (losses) arising during the period	—	(391)	714	—	323
Reclassification adjustment for (gains) losses included in net income	—	144	(624)	—	(480)
Unrealized gains on marketable securities, net	—	(247)	90	—	(157)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(704)	—	—	—	(704)
Reclassification adjustment for amortization of interest expense included in net income	12,046	—	—	—	12,046
Unrealized gains on interest rate swaps, net	11,342	—	—	—	11,342
Foreign currency translation losses	—	—	(26,461)	—	(26,461)
Total other comprehensive income	11,342	(247)	(26,371)	—	(15,276)
Comprehensive income	104,447	144,271	135,245	(303,212)	80,751
Less: comprehensive income attributable to noncontrolling interests	—	—	(2,839)	—	(2,839)
Comprehensive income attributable to Alexandria's common stockholders	$104,447	$144,271	$132,406	$(303,212)	$77,912

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Nine Months Ended September 30, 2012
(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	$74,331	$135,236	$144,429	$(277,275)	$76,721
Other comprehensive income:					
Unrealized gains (losses) on marketable securities:					
Unrealized holding gains arising during the period	—	10	1,353	—	1,363
Reclassification adjustment for (gains) losses included in net income	—	172	(2,279)	—	(2,107)
Unrealized gains (losses) on marketable securities, net	—	182	(926)	—	(744)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(9,982)	—	—	—	(9,982)
Reclassification adjustment for amortization of interest expense included in net income	17,626	—	—	—	17,626
Unrealized gains on interest rate swaps, net	7,644	—	—	—	7,644
Foreign currency translation losses	—	—	7,871	—	7,871
Total other comprehensive income	7,644	182	6,945	—	14,771
Comprehensive income	81,975	135,418	151,374	(277,275)	91,492
Less: comprehensive income attributable to noncontrolling interests	—	—	(2,379)	—	(2,379)
Comprehensive income attributable to Alexandria's common stockholders	$81,975	$135,418	$148,995	$(277,275)	$89,113

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Nine Months Ended September 30, 2013
(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	$ 93,105	$ 144,518	$ 161,616	$ (303,212)	$ 96,027
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	4,393	—	138,284	—	142,677
Loss on early extinguishment of debt	1,992	—	—	—	1,992
Gain on sale of land parcel	—	—	(772)	—	(772)
Loss on sale of real estate	—	—	121	—	121
Amortization of loan fees and costs	5,148	—	2,152	—	7,300
Amortization of debt premiums/discounts	75	—	308	—	383
Amortization of acquired above and below market leases	—	—	(2,490)	—	(2,490)
Deferred rent	—	—	(20,007)	—	(20,007)
Stock compensation expense	11,541	—	—	—	11,541
Equity in (income) loss related to subsidiaries	(155,694)	(144,660)	(2,858)	303,212	—
Gain on sales of investments	—	(152)	(4,564)	—	(4,716)
Loss on sales of investments	—	298	231	—	529
Changes in operating assets and liabilities:					
Restricted cash	(8)	—	1,251	—	1,243
Tenant receivables	1	—	(272)	—	(271)
Deferred leasing costs	2,421	—	(39,611)	—	(37,190)
Other assets	(5,570)	—	(5,858)	—	(11,428)
Intercompany receivables and payables	3,021	—	(3,021)	—	—
Accounts payable, accrued expenses, and tenant security deposits	(9,599)	—	61,036	—	51,437
Net cash provided by (used in) operating activities	(49,174)	4	285,546	—	236,376
Investing Activities					
Proceeds from sale of properties	10,796	—	91,019	—	101,815
Additions to properties	3,539	—	(453,679)	—	(450,140)
Purchase of properties	—	—	(24,537)	—	(24,537)
Change in restricted cash related to construction projects	—	—	5,711	—	5,711
Contributions to unconsolidated real estate entity	—	—	(13,881)	—	(13,881)
Investments in subsidiaries	(126,967)	(170,033)	(3,045)	300,045	—

Additions to investments	—	—	(22,835)	—	(22,835)
Proceeds from investments	—	1,594	11,156	—	12,750
Net cash provided by (used in) investing activities	$ (112,632)	$ (168,439)	$ (410,091)	$ 300,045	$ (391,117)

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)
for the Nine Months Ended September 30, 2013
(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	$ —	$ —	$ 26,319	$ —	$ 26,319
Repayments of borrowings from secured notes payable	—	—	(34,120)	—	(34,120)
Proceeds from issuance of senior notes payable	498,561	—	—	—	498,561
Principal borrowings from unsecured senior line of credit	319,000	—	—	—	319,000
Repayments of borrowings from unsecured senior line of credit	(871,000)	—	—	—	(871,000)
Repayments of unsecured senior bank term loans	(250,000)	—	—	—	(250,000)
Repurchase of unsecured senior convertible notes	(384)	—	—	—	(384)
Transfer to/from parent company	—	166,522	133,523	(300,045)	—
Change in restricted cash related to financings	(1)	—	924	—	923
Deferred financing costs paid	(14,175)	—	(2,072)	—	(16,247)
Proceeds from common stock offerings	535,686	—	—	—	535,686
Dividends paid on common stock	(120,367)	—	—	—	(120,367)
Dividends paid on preferred stock	(19,414)	—	—	—	(19,414)
Distributions to noncontrolling interests	—	—	(2,100)	—	(2,100)
Net cash provided by (used in) financing activities	77,906	166,522	122,474	(300,045)	66,857
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	752	—	752
Net increase (decrease) in cash and cash equivalents	(83,900)	(1,913)	(1,319)	—	(87,132)
Cash and cash equivalents at beginning of period	98,567	1,913	40,491	—	140,971
Cash and cash equivalents at end of period	$ 14,667	$ —	$ 39,172	$ —	$ 53,839
Supplemental Disclosure of Cash Flow Information					
Cash paid during the period for interest, net of interest capitalized	$ 16,569	$ —	$ 17,712	$ —	$ 34,281

Non-Cash Investing Activities					
Note receivable from sale of real estate	$ 29,820	$ —	$ 9,000	$ —	$ 38,820

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Nine Months Ended September 30, 2012
(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	$ 74,331	$ 135,236	$ 144,429	$ (277,275)	$ 76,721
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	3,781	—	140,152	—	143,933
Loss on early extinguishment of debt	2,225	—	—	—	2,225
Gain on sale of land parcel	—	—	(1,864)	—	(1,864)
Gain on sale of real estate	—	—	(1,564)	—	(1,564)
Non-cash impairment of real estate	4,799		5,000		9,799
Amortization of loan fees and costs	5,307	—	2,020	—	7,327
Amortization of debt premiums/discounts	104	—	297	—	401
Amortization of acquired above and below market leases	—	—	(2,356)	—	(2,356)
Deferred rent	164	—	(19,380)	—	(19,216)
Stock compensation expense	10,412	—	—	—	10,412
Equity in loss related to investments	—	26	—	—	26
Equity in (income) loss related to subsidiaries	(140,267)	(134,346)	(2,662)	277,275	—
Gain on sales of investments	—	(1,109)	(11,207)	—	(12,316)
Loss on sales of investments	—	195	1,412	—	1,607
Changes in operating assets and liabilities:					
Restricted cash	(8)	—	449	—	441
Tenant receivables	11	—	(2,648)	—	(2,637)
Deferred leasing costs	4,232	—	(27,829)	—	(23,597)
Other assets	2,603	—	(5,833)	—	(3,230)
Intercompany receivables and payables	(49)	—	49	—	—
Accounts payable, accrued expenses, and tenant security deposits	3,592	—	37,786	—	41,378
Net cash provided by (used in) operating activities	(28,763)	2	256,251	—	227,490
Investing Activities					
Proceeds from sale of properties	—	—	36,179	—	36,179
Additions to properties	(1,192)	—	(404,874)	—	(406,066)
Purchase of properties	—	—	(42,171)	—	(42,171)
Change in restricted cash related to construction projects	—	—	(11,453)	—	(11,453)
	—	—	22,250	—	22,250

Distribution from unconsolidated real estate entity					
Contributions to unconsolidated real estate entity	—	—	(5,042)	—	(5,042)
Investments in subsidiaries	(147,782)	(112,504)	(389)	260,675	—
Additions to investments	—	(160)	(21,837)	—	(21,997)
Proceeds from investments	—	1,944	17,961	—	19,905
Net cash provided by (used in) investing activities	$ (148,974)	$ (110,720)	$ (409,376)	$ 260,675	$ (408,395)

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14. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)
for the Nine Months Ended September 30, 2012
(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	$ —	$ —	$ 2,874	$ —	$ 2,874
Repayments of borrowings from secured notes payable	—	—	(8,125)	—	(8,125)
Proceeds from issuance of unsecured senior notes payable	549,533	—	—	—	549,533
Principal borrowings from unsecured senior line of credit and unsecured senior bank term loan	623,147	—	—	—	623,147
Repayments of borrowings from unsecured senior line of credit	(580,147)	—	—	—	(580,147)
Repayment of unsecured senior bank term loan	(250,000)	—	—	—	(250,000)
Repurchase of unsecured senior convertible notes	(84,801)	—	—	—	(84,801)
Redemption of Series C Cumulative Redeemable Preferred Stock	(129,638)	—	—	—	(129,638)
Proceeds from issuance of Series E Cumulative Redeemable Preferred Stock	124,868	—	—	—	124,868
Transfer to/from parent company	—	110,718	149,957	(260,675)	—
Change in restricted cash related to financings	—	—	(10,476)	—	(10,476)
Deferred financing costs paid	(19,949)	—	(5,352)	—	(25,301)
Proceeds from common stock offering	98,443	—	—	—	98,443
Proceeds from exercise of stock options	155	—	—	—	155
Dividends paid on common stock	(92,743)	—	—	—	(92,743)
Dividends paid on preferred stock	(21,348)	—	—	—	(21,348)
Distributions to redeemable noncontrolling interests	—	—	(943)	—	(943)
Redemption of redeemable noncontrolling interests	4	—	(154)	—	(150)
Contributions by noncontrolling interests	—	—	1,626	—	1,626
Distributions to noncontrolling interests	—	—	(770)	—	(770)
Net cash provided by (used in) financing activities	217,524	110,718	128,637	(260,675)	196,204
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	1,066	—	1,066
	39,787	—	(23,422)	—	16,365

Net increase (decrease) in cash and cash equivalents					
Cash and cash equivalents at beginning of period	10,608	—	67,931	—	78,539
Cash and cash equivalents at end of period	$ 50,395	$ —	$ 44,509	$ —	$ 94,904
Supplemental Disclosure of Cash Flow Information					
Cash paid during the period for interest, net of interest capitalized	$ 23,226	$ —	$ 7,259	$ —	$ 30,485
Non-Cash Investing Activities					
Note receivable from sale of real estate	$ —	$ —	$ 6,125	$ —	$ 6,125

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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 "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," "antic "projects," 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:

- Negative economic, financial, credit market, and banking conditions in the U.S. economy;
- Worldwide economic recession, lack of confidence, and/or high structural unemployment;
- Potential defaults on national debt by certain countries;
- Potential and further downgrade of the U.S. credit rating;
- The continuation of the ongoing economic crisis in Europe;
- Failure of the U.S. government to agree on a debt ceiling or deficit reduction plan;
- Inability of the U.S. government to avoid the fiscal cliff or sequestration;
- The end of quantitative easing monetary policies by the Federal Reserve;
- Potential and further downgrades of the credit ratings of major financial institutions, or their perceived creditworthiness;
- The seizure or illiquidity of credit markets;
- Failure to meet market expectations for our financial performance;
- Our inability to obtain capital (debt, construction financing, and/or equity) or refinance debt maturities;
- Potential negative impact of capital plan objectives to reduce our balance sheet leverage;
- Our inability to comply with financial covenants in our debt agreements;
- Inflation or deflation;
- Prolonged period of stagnant growth;
- Increased interest rates and operating costs;
- Adverse economic or real estate developments in our markets;
- Our failure to successfully complete and lease our existing space held for redevelopment and new properties acquired for that purpose and any properties undergoing development;
- Significant decreases in our active development, active redevelopment, or predevelopment activities, resulting in significant increases in our interest, operating, and payroll expenses;
- Our failure to successfully operate or lease acquired properties;
- The financial condition of our insurance carriers;
- Adverse developments concerning the life science industry and/or our life science client tenants;
- Client tenant base concentration within the life science industry;
- Potential decreases in U.S. National Institutes of Health ("NIH") funding;
- U.S. government client tenants' not receiving government funding;
- Government-driven changes to the healthcare system and its negative impact on our client tenants, including changes that may reduce pricing of drugs, negatively impact healthcare coverage, or negatively impact reimbursement of healthcare services and products;
- Our life science industry client tenants are subject to a number of risks unique to the life science industry, including (i) high levels of regulation, (ii) safety and efficacy of their products, (iii) significant funding requirements for product research and development, and (iv) changes in technology, patent expiration and intellectual property protection.

These risks may adversely affect their ability to make rental payments to us or satisfy their other lease obligations, and consequently, may materially adversely affect our business, results of operations, financial condition, and stock price;

- The nature and extent of future competition;
- Lower rental rates and/or higher vacancy rates;
- Failure to renew or replace expiring leases;
- Defaults on or non-renewal of leases by client tenants;
- Availability of and our ability to attract and retain qualified personnel;
- Our failure to comply with laws or changes in law;
- Compliance with environmental laws;
- Extreme weather conditions or climate change;
- Our failure to maintain our status as a REIT for federal tax purposes;

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- Changes in laws, regulations, and financial accounting standards;
- Certain ownership interests outside the U.S. that may subject us to different or greater risks than those associated with our domestic operations;
- Fluctuations in foreign currency exchange rates;
- Security breaches through cyber-attacks or cyber-intrusions;
- Changes in the method of determining the LIBOR; and
- Negative impact on economic growth resulting from the combination of federal income tax increases and government spending restrictions.

This list of risks and uncertainties is not exhaustive. Additional information regarding risk factors that may affect us is included under the headings “Risk Factors” and “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, 2012. 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.

As used in this quarterly report on Form 10-Q, references to the “Company,” “Alexandria,” “we,” “our,” and “us” refer to Alexandria Real Estate Equities, Inc. and its subsidiaries. The following discussion should be read in conjunction with the consolidated financial statements and the accompanying notes appearing elsewhere in this quarterly report on Form 10-Q. References to “GAAP” used herein refer to United States generally accepted accounting principles.

Overview

We are a self-administered and self-managed investment-grade REIT. We are the largest and leading REIT focused principally on owning, operating, developing, redeveloping, and acquiring high-quality, sustainable real estate for the broad and diverse life science industry. Founded in 1994, we are the first REIT to identify and pursue the laboratory niche and have focused our operations in core life science cluster locations including Greater Boston; the San Francisco Bay Area; San Diego; New York City; Seattle; Suburban Washington, D.C.; and Research Triangle Park. Our high-credit client tenants span the life science industry, including renowned academic and medical institutions, multinational pharmaceutical companies, public and private biotechnology entities, United States government research agencies, medical device companies, industrial biotech companies, venture capital firms, and life science product and service companies.

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. The key elements to our strategy include our consistent focus on Class A laboratory/office assets and operations in AAA life science cluster locations, with our properties located in close proximity to life science entities, driving growth and technological advances within each cluster. These locations are characterized by high barriers to entry for new landlords, high barriers to exit for client tenants, and limited supply of available space. They represent highly desirable locations for tenancy by life science entities because of the close proximity to concentrations of specialized skills, knowledge, institutions, and related businesses. Our strategy also includes drawing upon our deep and broad life science and real estate relationships in order to attract new and leading life science client tenants and value-creation real estate. We executed our initial public offering in 1997 and received our investment-grade ratings in 2011.

As of September 30, 2013, Alexandria's asset base consisted of 30.9 million square feet, including 17.3 million RSF of operating assets and active value-creation projects and 13.6 million additional RSF through future ground-up development projects. Our operating properties were approximately 93.5% leased as of September 30, 2013.

Investment-grade client tenants represented 50% of our total annualized base rent as of September 30, 2013. The comparability of financial data from period to period is affected by the timing of our property acquisition, development, and redevelopment activities.

Third quarter ended September 30, 2013, highlights

- Net income attributable to Alexandria's common stockholders – diluted:
- $24.6 million, or $0.35 per share, for the three months ended September 30, 2013 ("3Q13") compared to $10.6 million, or $0.17 per share, for the three months ended September 30, 2012 ("3Q12")
- $72.5 million, or $1.08 per share, for the nine months ended September 30, 2013 ("YTD 3Q13") compared to $46.6 million, or $0.75 per share, for the nine months ended September 30, 2012 ("YTD 3Q12")
- Funds from operations ("FFO") attributable to Alexandria's common stockholders – diluted, as adjusted:
- $75.0 million, or $1.06 per share, for 3Q13 compared to $67.1 million, or $1.08 per share, for 3Q12
- $216.6 million, or $3.23 per share, for YTD 3Q13 compared to $199.1 million, or $3.22 per share, for YTD 3Q12
- Adjusted funds from operations ("AFFO") attributable to Alexandria's common stockholders – diluted:
- $70.2 million, or $0.99 per share, for 3Q13 compared to $65.0 million, or $1.04 per share, for 3Q12

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- $205.0 million, or $3.06 per share, for YTD 3Q13 compared to $191.4 million, or $3.09 per share, for YTD 3Q12

Core operating metrics

Total revenues from continuing operations:
- $158.6 million for 3Q13, up 11.0%, compared to $142.9 million for 3Q12
- $463.2 million YTD 3Q13, up 9.2%, compared to $424.2 million for YTD 3Q12
- Net operating income ("NOI") from continuing operations:
- $110.9 million for 3Q13, up 12.4%, compared to $98.6 million for 3Q12
- $324.0 million for YTD 3Q13, up 8.9%, compared to $297.4 million for YTD 3Q12
- Same property NOI performance:
- 4.7% and 1.9% increases on a cash and GAAP basis, respectively, for 3Q13 compared to 3Q12
- 6.5% and 2.0% increases on a cash and GAAP basis, respectively, for YTD 3Q13 compared to YTD 3Q12
- Leasing activity strong during the three months ended September 30, 2013:
- 57 leases executed for 829,533 RSF, including 228,311 RSF of development and redevelopment space
- Rental rate increase of 4.1% and 16.5% on a cash and GAAP basis, respectively, on renewed/re-leased space
- Occupancy for North American properties, as of September 30, 2013:
- 95.0% for operating properties and 94.5% for operating and redevelopment properties, up 40 basis points ("bps") and 160 bps, respectively, compared to June 30, 2013
- Operating margins steady at 70% for 3Q13 and YTD 3Q13
- Investment-grade client tenants represent 50% of total annualized base rent ("ABR")

Value-creation projects and external growth

Value-creation development and redevelopment projects delivered in 3Q13

- On September 30, 2013, we delivered a build-to-suit development project located at 225 Binney Street in the Greater Boston market:
- 305,212 RSF, 100% leased to Biogen Idec, Inc. for 15 years
- Initial stabilized yields of 7.7% and 8.2% for cash and GAAP, respectively; average cash yield of 8.2%

- During the quarter ended September 30, 2013, we delivered an aggregate of 155,818 RSF at four redevelopment projects in North America:
- Total redevelopment spaces aggregating 222,082 RSF with occupancy of 83%, including 155,818 RSF delivered in 3Q13 at an average occupancy of 76% and 66,264 RSF placed in service prior to 3Q13 with occupancy of 100%.
- Average initial stabilized yields for the 222,082 RSF of 7.0% and 7.1% for cash and GAAP, respectively; average cash yield of 7.3%

Acquisitions

On September 16, 2013, we acquired 407 Davis Drive, a Class A laboratory/office property in our Research Triangle Park market for a total purchase price of $19.4 million. The building consists of 81,956 RSF and is 100% leased to Bayer AG, an existing client tenant of the Company. The initial stabilized cash and GAAP yields are 7.8% and 8.7%, respectively. The average cash yield for the project is 8.7%.

On July 5, 2013, we acquired 10121/10151 Barnes Canyon Road, a 115,895 RSF office property located in the Sorrento Mesa submarket of San Diego, for a total purchase price of $13.1 million. The property is currently 100% occupied with leases that expire in 2014 and 2015. We intend to convert the existing office space through redevelopment when the spaces become available. Initial stabilized yields and average cash yield will be provided upon commencement of the redevelopment.

Dispositions

On July 2, 2013, we executed a purchase and sale agreement to sell our land parcel at 1600 Owens Street in the Mission Bay submarket of the San Francisco Bay Area for an aggregate sales price of $55.2 million. Ownership of the parcel was strategically important to the buyer and we will earn a fee to manage the building construction. This sale is expected to close in December 2013.

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Balance sheet

- Reduced outstanding debt under our unsecured senior line of credit and unsecured senior bank term loans by $802.0 million since December 31, 2012
- Closed a secured construction loan with aggregate commitments of $245.4 million at a rate of LIBOR + 1.35%, for our development project at 75/125 Binney Street in the Greater Boston market
- Liquidity of $1.54 billion, consisting of $1.49 billion available under our unsecured senior line of credit and $53.8 million in cash and cash equivalents as of September 30, 2013
- Net debt to adjusted EBITDA of 6.8x for the three months ended September 30, 2013 (annualized)
- Fixed charge coverage ratio of 2.8x for the three months ended September 30, 2013 (annualized)
- Unhedged variable rate debt at 10% of total consolidated debt as of September 30, 2013
- Non-income-producing assets (CIP and land) at 19% of gross investments in real estate as of September 30, 2013, down from 23% as of December 31, 2012, due to deliveries of development and redevelopment projects noted above

Update on our ground-up development at 75/125 Binney Street

During the third quarter of 2013, ARIAD Pharmaceuticals, Inc. ("ARIAD") executed an amendment to their lease at 75/125 Binney Street and increased their RSF by 141,988 to a total of 386,111 RSF, or 99.4% of the entire property. This project represents a ground-up development of two buildings consisting of 167,909 RSF at 75 Binney Street and 220,361 RSF at 125 Binney Street. Each building may accommodate flexible laboratory/office multi-tenancy with relatively minor modifications. During the third quarter of 2013, we updated the design and budget for the expansion requirements for ARIAD. Based upon the preliminary design and budget for ARIAD's interior improvements, we expect an increase in both estimated net operating income and estimated cost at completion, with no significant change in our initial cash and GAAP yields and average cash yields. We expect to finalize the design and budget for the interior improvements in the future and will provide an update on our estimated cost at completion and targeted yields.

On October 9, 2013, ARIAD announced changes in the clinical development program of Iclusig. On October 11, 2013, the U.S. Food and Drug Administration (“FDA”) communicated it is investigating an increasing frequency of reports of serious and life-threatening blood clots and severe narrowing of blood vessels of patients taking the leukemia chemotherapy drug Iclusig. On October 18, 2013, ARIAD announced the discontinuation of the Phase 3 Evaluation of Ponatinib versus Imatinib in Chronic Myeloid Leukemia (“EPIC”) trial of Iclusig in patients with newly diagnosed chronic myeloid leukemia (“CML”). In the October 18, 2013 press release, ARIAD's Chief Scientific Officer stated that its decision to stop the EPIC trial was based on its current evaluation of safety data in the trial. ARIAD also stated that Iclusig is commercially available in the U.S. and EU for patients with resistant or intolerant CML and Philadelphia-chromosome positive acute lymphoblastic leukemia. On October 31, 2013, ARIAD announced, in response to a request by the FDA, the temporary suspension of marketing and commercial distribution of Iclusig in the U.S. while ARIAD continues to negotiate updates to the U.S. prescribing information for Iclusig and implementation of a risk mitigation strategy. ARIAD also indicated that it is working on a plan to provide updated financial guidance and financial information on its upcoming third quarter 2013 financial results conference call. Subsequently on October 31, 2013, the FDA issued a statement, which included clarification that patients currently receiving Iclusig should discuss with their health care professionals the risks and benefits of continuing treatment with the drug. On November 5, 2013, the FDA provided instructions to health care professionals whose patients have been taking Iclusig and are benefitting from the drug on how to continue those patients on the drug. The FDA provided that Iclusig treatment may be continued under an emergency Investigational New Drug application for patients who are responding to the drug and for whom the potential benefits outweigh the risks. Due to the recent nature of these events, it is too early to predict the impact of these events, and Alexandria will continue to intensively monitor ARIAD's business and financing plans, including plans to address safety concerns with Iclusig.

Operating Summary

Core operations

The key elements to our strategy include our consistent focus on high-quality assets and operations in the top life science cluster locations; our properties are located adjacent to life science entities, driving growth and technological advances within each cluster. These adjacency locations are characterized by high barriers to entry for new landlords, high barriers to exit for client tenants, and limited supply of available space. They represent highly desirable locations for tenancy by life science 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 longstanding life science and real estate relationships in order to attract new and leading life science client tenants that provide us with our unique ability to create value through strong tenant retention and strategic development and redevelopment projects.

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The following table presents information regarding our asset base and value-creation projects as of September 30, 2013, and December 31, 2012:

Rentable square feet	September 30, 2013	December 31, 2012
Operating properties	14,950,417	14,500,845
Development properties	2,192,712	2,473,835
Redevelopment properties	113,083	547,092
Total rentable square feet	17,256,212	17,521,772
Number of properties	176	179
Occupancy of operating properties	93.5 %	93.4 %
Occupancy of operating and redevelopment properties	92.8 %	89.8 %
Annualized base rent per leased rentable square foot	$35.20	$34.59

Leasing

Our leasing activity continued its strong velocity during three months ended September 30, 2013, with a total of 57 leases executed totaling 829,533 RSF. Rental rates increased for the third consecutive quarter both on a cash and GAAP basis. The following table summarizes our leasing activity since 2012:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013		Year Ended December 31, 2012	
Leasing activity:	Cash	GAAP	Cash	GAAP	Cash	GAAP
Renewed/re-leased space						
Rental rate changes	4.1%	16.5%	5.2%	14.6%	(2.0)%	5.2%
New rates	$31.19	$32.64	$31.91	$32.83	$29.86	$30.36
Expiring rates	$29.96	$28.01	$30.32	$28.65	$30.47	$28.87
Rentable square footage	498,143		985,067		1,475,403	
Number of leases	37		83		102	
TI's/lease commissions per square foot	$7.50		$7.73		$6.22	
Average lease terms	4.4 years		4.3 years		4.7 years	
Developed/redeveloped/previously vacant space leased						
New rates	$47.06	$47.39	$48.54	$51.76	$30.66	$32.56
Rentable square footage	331,390		1,315,302		1,805,693	
Number of leases	20		77		85	
TI's/lease commissions per square foot	$25.08		$22.69		$11.02	
Average lease terms	11.0 years		10.8 years		9.0 years	
Leasing activity summary:						
Totals [(1)]						
New rates	$37.53	$38.53	$41.42	$43.66	$30.30	$31.57
Rentable square footage	829,533		2,300,369		3,281,096	
Number of leases	57		160		187	
TI's/lease commissions per square foot	$14.52		$16.28		$8.87	
Average lease terms	7.0 years		8.0 years		7.1 years	
Lease expirations						
Expiring rates	$30.35	$28.53	$30.83	$28.93	$30.03	$27.65
Rentable square footage	575,429		1,251,867		2,350,348	

Number of leases	56	119	162

(1) Excludes 11 month-to-month leases for 21,254 RSF at September 30, 2013.

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During the nine months ended September 30, 2013, we granted tenant concessions/free rent averaging approximately 2.4 months with respect to the 2,300,369 RSF leased.

Lease Structure	September 30, 2013
Percentage of triple net leases	94%
Percentage of leases containing annual rent escalations	95%
Percentage of leases providing for the recapture of capital expenditures	92%

The following chart presents our total RSF leased by renewed/re-leased space and development/redevelopment/previously vacant space:

Summary of Lease Expirations

The following table summarizes information with respect to the lease expirations at our properties as of September 30, 2013:

Year of Lease Expiration	Number of Leases Expiring	RSF of Expiring Leases	Percentage of Aggregate Total RSF	Annualized Base Rent of Expiring Leases (per RSF)
2013	23 (1)	297,336 (1)	2.1%	$32.98
2014	97	1,052,398	7.4%	$30.01
2015	77	1,383,686	9.7%	$31.86
2016	77	1,199,576	8.4%	$32.44
2017	68	1,758,948	12.4%	$26.32
2018	45	1,412,524	9.9%	$40.11
2019	26	909,270	6.4%	$35.79
2020	21	875,332	6.2%	$38.40
2021	18	714,240	5.0%	$34.61
2022	16	606,839	4.3%	$29.16
Thereafter	39	2,974,099	20.9%	$40.58

(1) Excludes 11 month-to-month leases for approximately 21,254 RSF.

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The following tables present information by market with respect to our lease expirations as of September 30, 2013, for the remainder of this year and all of next year:

Market	2013 RSF of Expiring Leases: Leased	Negotiating/ Anticipating	Targeted for Redevelopment	Remaining Expiring Leases	Total	Annualized Base Rent of Expiring Leases (per RSF)
Greater Boston	37,394	—	—	19,958	57,352	$37.59
San Francisco Bay Area	3,941	17,702	—	3,657	25,300	16.50
San Diego	—	—	—	34,013	34,013	29.51
Greater New York City	—	—	—	1,191	1,191	123.48
Suburban Washington, D.C.	64,606	54,906 (1)	—	49,437	168,949	33.91
Seattle	—	2,636	—	—	2,636	61.92
Research Triangle Park	—	4,575	—	—	4,575	29.10
Canada	—	—	—	—	—	—
Non-cluster markets	—	1,000	—	—	1,000	25.20
Asia	—	—	—	2,320	2,320	12.95 (2)
Total	105,941	80,819	—	110,576	297,336 (3)	$32.98

Market	2014 RSF of Expiring Leases: Leased	Negotiating/ Anticipating	Targeted for Redevelopment	Remaining Expiring Leases	Total	Annualized Base Rent of Expiring Leases (per RSF)
Greater Boston	7,087	105,195	—	170,823	283,105	$42.07
San Francisco Bay Area	50,904	120,171	—	158,895	329,970	27.41
San Diego	—	—	67,015 (4)	17,412	84,427	16.87
Greater New York City	—	48,281	—	42,487	90,768	38.65
Suburban Washington, D.C.	—	3,073	—	65,579	68,652	20.39
Seattle	—	9,020	—	15,116	24,136	38.89
Research Triangle Park	6,498	10,527	—	29,050	46,075	21.11
Canada	—	—	—	81,870	81,870	21.35
Non-cluster markets	—	—	—	15,817	15,817	19.99
Asia	—	18,800	—	8,778	27,578	11.55 (2)
Total	64,489	315,067	67,015	605,827	1,052,398	$30.01
Percentage of expiring leases	6 %	30 %	6 %	58 %	100 %	

(1) Represents the square footage of 5 Research Court. We expect the tenant of this property to extend its lease of 54,906 RSF beyond the 2013 lease expiration date. This property consists of non-laboratory space and upon rollover will likely undergo conversion into laboratory space through redevelopment.

(2) Expirations relate to two properties with an average investment of $101 per RSF.

(3) Excludes 11 month-to-month leases for approximately 21,254 RSF.

(4) Represents the square footage of 10121 Barnes Canyon Road, which was acquired in 3Q13 and will undergo redevelopment upon rollover in the first quarter of 2014.

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Location of properties

The locations of our properties are diversified among a number of life science cluster markets. The following table sets forth, as of September 30, 2013, the total RSF and annualized base rent of our properties in each of our existing markets (dollars in thousands):

Market	Rentable Square Feet Operating	Development	Redevelopment	Total	% Total		Number of Properties	Annualized Base Rent (dollars in thousands)		
Greater Boston	3,424,500	801,806	—	4,226,306	25	%	37	$135,515	29	%
San Francisco Bay Area	2,540,731	330,030	—	2,870,761	17	%	26	96,793	21	%
San Diego	2,691,277	—	68,423	2,759,700	16	%	35	86,664	19	%
Greater New York City	494,656	418,638	—	913,294	5	%	6	32,047	7	%
Suburban Washington, D.C.	2,155,346	—	—	2,155,346	13	%	29	49,151	11	%
Seattle	746,516	—	—	746,516	4	%	10	29,398	6	%
Research Triangle Park	1,023,763	—	—	1,023,763	6	%	15	20,360	4	%
Canada	1,103,507	—	—	1,103,507	6	%	5	9,327	2	%
Non-cluster markets	60,178	—	—	60,178	—	%	2	854	—%	
North America	14,240,474	1,550,474	68,423	15,859,371	92	%	165	460,109	99	%
Asia	658,670	642,238	44,660	1,345,568	8	%	9	4,669	1	%
Continuing operations	14,899,144	2,192,712	113,083	17,204,939	100	%	174	$464,778	100	%
Properties “held for sale”	51,273	—	—	51,273	—	%	2			
Total	14,950,417	2,192,712	113,083	17,256,212	100	%	176			

Summary of occupancy percentages

The following table sets forth the occupancy percentage for our operating assets and our assets under redevelopment in each of our existing markets as of September 30, 2013; June 30, 2013; and September 30, 2012:

	Operating Properties						Operating and Redevelopment Properties					
Market	9/30/13		6/30/13		9/30/12		9/30/13		6/30/13		9/30/12	
Greater Boston	96.3	%	95.5	%	94.3	%	96.3	%	94.7	%	84.3	%
San Francisco Bay Area	96.1		97.3		98.0		96.1		95.9		95.7	
San Diego	95.0		94.2		95.2		92.7		91.7		93.3	
Greater New York City	98.4		98.4		95.0		98.4		98.4		95.0	
Suburban Washington, D.C.	93.7		92.3		89.4		93.7		89.4		85.7	
Seattle	90.1	(1)	93.1	(1)	96.3		90.1		89.9		89.6	
	92.0	(2)	91.4		95.5		92.0		91.4		95.5	

Research Triangle Park												
Canada	96.8		96.8		92.7		96.8		96.8		92.7	
Non-cluster markets	91.7		54.0		51.4		91.7		54.0		51.4	
North America	95.0		94.6		94.2		94.5		92.9		90.0	
Asia	63.9		68.1		68.1		59.8		59.8		57.2	
Continuing operations	93.5	%	93.3	%	93.0	%	92.8	%	91.2	%	88.3	%

(1) Decrease primarily attributable to the delivery of 39,661 vacant RSF from our redevelopment project at 1551 Eastlake Avenue in 2Q13 and the delivery of 26,020 vacant RSF from our redevelopment project at 1616 Eastlake Avenue in 3Q13. Excluding these deliveries, the occupancy percentage of Seattle operating properties was 98.8% as of September 30, 2013, and 98.5% as of June 30, 2013.

(2) We anticipate an increase in occupancy during the fourth quarter of 2013.

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Client tenants

Our life science properties are leased to a diverse group of client tenants, with no single client tenant accounting for more than 6.9% of our annualized base rent. The following table sets forth information regarding leases with our 20 largest client tenants based upon annualized base rent as of September 30, 2013 (dollars in thousands):

	Client Tenant	Number of Leases	Remaining Lease Term in Years (1)	Aggregate Rentable Square Feet	Percentage of Aggregate Total Square Feet	Annualized Base Rent	Percentage of Aggregate Annualized Base Rent	Investment-Grade Ratings Fitch	Moody's	S&P
1	Novartis AG	13	3.4	636,967	3.7 %	$ 31,900	6.9 %	AA	Aa3	AA-
2	Illumina, Inc.	1	18.1	497,078	2.9	19,531	4.2	—	—	—
3	United States Government	10	7.4	399,633	2.3	18,132	3.9	AAA	Aaa	AA+
4	Bristol-Myers Squibb Company	6	4.4	419,624	2.4	15,840	3.4	A-	A2	A+
5	Eli Lilly and Company	6	9.5	290,132	1.7	15,564	3.3	A	A2	AA-
6	Biogen Idec Inc.	1	15.0	305,212	1.8	14,302	3.1	—	Baa2	A-
7	FibroGen, Inc.	1	10.1	234,249	1.4	14,197	3.1	—	—	—
8	Roche	3	4.6	348,918	2.0	13,867	3.0	AA	A1	AA
9	GlaxoSmithKline plc	5	5.8	208,394	1.2	10,173	2.2	A+	A1	A+
10	Amgen Inc.	3	9.5	294,373	1.7	9,682	2.1	BBB	Baa1	A
11	Celgene Corporation	3	7.8	250,586	1.5	9,361	2.0	—	Baa2	BBB+
12	Massachusetts Institute of Technology	4	3.9	185,403	1.1	8,496	1.8	—	Aaa	AAA
13	NYU-Neuroscience Translational Research Institute	2	10.3	86,756	0.5	8,012	1.7	—	Aa3	AA-
14	The Regents of the University of California	3	7.9	188,654	1.1	7,787	1.7	AA+	Aa1	AA
15	Alnylam Pharmaceuticals, Inc.	1	3.0	129,424	0.8	6,081	1.3	—	—	—
16	Gilead Sciences, Inc.	1	6.8	109,969	0.6	5,824	1.3	—	Baa1	A-
17	Pfizer Inc.	2	5.4	116,518	0.7	5,502	1.2	A+	A1	AA
18	Theravance, Inc. (2)	2	6.7	150,256	0.9	5,494	1.2	—	—	—
19	The Scripps Research Institute	2	3.1	101,775	0.6	5,200	1.1	AA-	Aa3	—
20	Bayer AG	3	7.3	169,154	1.0	4,762	1.0	A	A3	A-
	Total/weighted average	72	7.9	5,123,075	29.9 %	$ 229,707	49.5 %			

(1) Represents remaining lease term in years based on percentage of aggregate ABR in effect as of September 30, 2013.

(2) As of July 30, 2013, GlaxoSmithKline plc owned approximately 27% of the outstanding stock of Theravance, Inc.

The chart below shows client tenant business type by annualized base rent as of September 30, 2013:

Investment-Grade Client Tenants Represent 50% of Alexandria's Total Annualized Base Rent at 3Q13

Investment-Grade Client Tenants Represent 80% of ABR from our Top 20 Client Tenants at 3Q13

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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 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 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 life science industry, as well as in finance. This life science research team is responsible for assessing and monitoring the credit quality of our tenants and any material changes in credit quality. See "Update on our ground-up development at 75/125 Binney Street" located earlier within Item 2 of this Report and preceding "Operating Summary."

Investment in real estate, net

Our investments in real estate, net, consisted of the following as of September 30, 2013 (dollars in thousands):

	September 30, 2013		
	Book Value		Square Feet
Rental properties:			
Land (related to rental properties)	$542,511		
Buildings and building improvements	5,315,447		
Other improvements	170,078		
Rental properties	6,028,036		14,950,417
Less: accumulated depreciation	(915,494	)	
Rental properties, net	5,112,542		
CIP/current value-creation projects:			
Active development in North America	594,973		1,136,938
Investment in unconsolidated joint venture	42,537	(1)	413,536
Active redevelopment in North America	24,960		68,423
Active development and redevelopment in Asia	97,319		686,898