ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
November 04, 2014

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, 2014

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 17, 2014, 72,007,833 shares of common stock, par value $.01 per share, were outstanding.

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GLOSSARY

Abbreviations or acronyms frequently used in this document:

ABR	Annualized Base Rent
ACKS	The Alexandria Center™ at Kendall Square in the Greater Boston Area
AFFO	Adjusted Funds from Operations
ASU	Accounting Standards Update
bps	Basis Points
CIP	Construction in Progress
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
EPS	Earnings per Share
FASB	Financial Accounting Standards Board
FFO	Funds from Operations
GAAP	U.S. Generally Accepted Accounting Principles
HVAC	Heating, Ventilation, and Air Conditioning
JV	Joint Venture
LEED	Leadership in Energy and Environmental Design
LIBOR	London Interbank Offered Rate
NAREIT	National Association of Real Estate Investment Trusts
NOI	Net Operating Income
REIT	Real Estate Investment Trust
RSF	Rentable Square Feet
SEC	Securities and Exchange Commission
SoMa	South of Market submarket of the San Francisco Bay Area
TI	Tenant Improvement
U.S.	United States
VIE	Variable Interest Entity

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2014	December 31, 2013
Assets		
Investments in real estate	$7,197,630	$6,776,914
Cash and cash equivalents	67,023	57,696
Restricted cash	24,245	27,709
Tenant receivables	10,830	9,918
Deferred rent	225,506	190,425
Deferred leasing and financing costs	199,835	192,658
Investments	177,577	140,288
Other assets	117,668	134,156
Total assets	$8,020,314	$7,529,764
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$636,825	$708,831
Unsecured senior notes payable	1,747,290	1,048,230
Unsecured senior line of credit	142,000	204,000
Unsecured senior bank term loans	975,000	1,100,000
Accounts payable, accrued expenses, and tenant security deposits	504,535	435,342
Dividends payable	57,549	54,420
Total liabilities	4,063,199	3,550,823
Commitments and contingencies		
Redeemable noncontrolling interests	14,348	14,444
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	714	712
Additional paid-in capital	3,523,195	3,572,281
Accumulated other comprehensive loss	(28,711)	(36,204)
Alexandria’s stockholders’ equity	3,875,198	3,916,789
Noncontrolling interests	67,569	47,708
Total equity	3,942,767	3,964,497
Total liabilities, noncontrolling interests, and equity	$8,020,314	$7,529,764

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental	$137,718	$116,052	$403,280	$342,071
Tenant recoveries	45,572	38,691	128,198	110,125
Other income	2,325	3,572	6,725	10,132
Total revenues	185,615	158,315	538,203	462,328
Expenses:				
Rental operations	57,423	47,684	162,283	139,147
General and administrative	12,609	11,666	39,669	35,769
Interest	20,555	16,171	57,111	50,169
Depreciation and amortization	58,388	48,866	166,123	141,039
Loss on early extinguishment of debt	525	1,432	525	1,992
Total expenses	149,500	125,819	425,711	368,116
Income from continuing operations	36,115	32,496	112,492	94,212
(Loss) income from discontinued operations	(180)	(43)	(489)	1,043
Gain on sales of land parcels	8	—	805	772
Net income	35,943	32,453	112,808	96,027
Dividends on preferred stock	(6,471)	(6,472)	(19,414)	(19,414)
Net income attributable to noncontrolling interests	(1,340)	(960)	(3,842)	(2,922)
Net income attributable to unvested restricted stock awards	(506)	(442)	(1,285)	(1,187)
Net income attributable to Alexandria's common stockholders	$27,626	$24,579	$88,267	$72,504
EPS attributable to Alexandria's common stockholders – basic and diluted:				
Continuing operations	$0.39	$0.35	$1.25	$1.06
Discontinued operations	—	—	(0.01)	0.02
EPS – basic and diluted	$0.39	$0.35	$1.24	$1.08
Dividends declared per share of common stock	$0.72	$0.68	$2.14	$1.93

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$35,943	$32,453	$112,808	$96,027
Other comprehensive (loss) income:				
Unrealized (losses) gains on marketable securities:				
Unrealized holding (losses) gains arising during the period	(2,454)	(37)	13,591	323
Reclassification adjustment for losses (gains) included in net income	111	(250)	517	(480)
Unrealized (losses) gains on marketable securities, net	(2,343)	(287)	14,108	(157)
Unrealized gains on interest rate swap agreements:				
Unrealized interest rate swap gains (losses) arising during the period	1,206	(676)	(2,708)	(704)
Reclassification adjustment for amortization of interest expense included in net income	1,129	3,904	5,742	12,046
Unrealized gains on interest rate swap agreements, net	2,335	3,228	3,034	11,342
Unrealized losses on foreign currency translation:				
Unrealized foreign currency translation losses during the period	(12,259)	(3,404)	(9,450)	(26,461)
Reclassification adjustment for gains included in net income	(199)	—	(199)	—
Unrealized losses on foreign currency translation, net	(12,458)	(3,404)	(9,649)	(26,461)
Total other comprehensive (loss) income	(12,466)	(463)	7,493	(15,276)
Comprehensive income	23,477	31,990	120,301	80,751
Less: comprehensive income attributable to noncontrolling interests	(1,340)	(933)	(3,842)	(2,839)
Comprehensive income attributable to Alexandria's common stockholders	$22,137	$31,057	$116,459	$77,912

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

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

	Alexandria Real Estate Equities, Inc.’s Stockholders’ Equity									
	Series D 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, 2013	$250,000	$130,000	71,172,197	$712	$3,572,281	$—	$(36,204)	$47,708	$3,964,497	$14,444
Net income	—	—	—	—	—	108,966	—	3,045	112,011	797
Total other comprehensive income	—	—	—	—	—	—	7,493	—	7,493	—
Contributions by noncontrolling interests	—	—	—	—	—	—	—	19,410	19,410	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(2,594)	(2,594)	(893)
Issuances pursuant to stock plan	—	—	199,628	2	15,031	—	—	—	15,033	—
Dividends declared on common stock	—	—	—	—	—	(153,669)	—	—	(153,669)	—
Dividends declared on preferred stock	—	—	—	—	—	(19,414)	—	—	(19,414)	—
Distributions in excess of earnings	—	—	—	—	(64,117)	64,117	—	—	—	—
Balance as of September 30, 2014	$250,000	$130,000	71,371,825	$714	$3,523,195	$—	$(28,711)	$67,569	$3,942,767	$14,348

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

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

	Nine Months Ended September 30,	
	2014	2013
Operating Activities		
Net income	$112,808	$96,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166,123	142,677
Loss on early extinguishment of debt	525	1,992
Gain on sales of land parcels	(805)	(772)
Loss on sales of real estate	—	121
Amortization of loan fees and costs	8,090	7,300
Amortization of debt premiums/discounts	100	383
Amortization of acquired above and below market leases	(2,191)	(2,490)
Deferred rent	(35,511)	(20,007)
Stock compensation expense	9,372	11,541
Investment gains	(9,481)	(4,716)
Investment losses	8,725	529
Changes in operating assets and liabilities:		
Restricted cash	—	1,243
Tenant receivables	(939)	(271)
Deferred leasing costs	(25,910)	(37,190)
Other assets	(12,228)	(11,428)
Accounts payable, accrued expenses, and tenant security deposits	36,446	51,437
Net cash provided by operating activities	255,124	236,376
Investing Activities		
Proceeds from sales of properties	28,378	101,815
Additions to properties	(345,074)	(450,140)
Purchase of properties	(97,785)	(24,537)
Deposits for property acquisitions	(7,292)	—
Change in restricted cash related to construction projects	6,694	5,711
Investment in unconsolidated real estate JVs	(67,525)	(13,881)
Additions to investments	(35,484)	(22,835)
Proceeds from sales of investments	13,883	12,750
Proceeds from repayment of notes receivable	29,866	—
Net cash used in investing activities	$(474,339)	$(391,117)

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

	Nine Months Ended September 30, 2014	2013
Financing Activities		
Borrowings from secured notes payable	$108,626	$26,319
Repayments of borrowings from secured notes payable	(228,909)	(34,120)
Proceeds from issuance of unsecured senior notes payable	698,908	498,561
Principal borrowings from unsecured senior line of credit	890,000	319,000
Repayments of borrowings from unsecured senior line of credit	(952,000)	(871,000)
Repayment of unsecured senior bank term loan	(125,000)	(250,000)
Repurchase of unsecured senior convertible notes	—	(384)
Change in restricted cash related to financings	375	923
Deferred financing costs paid	(7,989)	(16,247)
Proceeds from common stock offering	—	535,686
Dividends paid on common stock	(150,540)	(120,367)
Dividends paid on preferred stock	(19,414)	(19,414)
Contributions by noncontrolling interests	19,410	—
Distributions to noncontrolling interests	(2,594)	(2,100)
Distributions to redeemable noncontrolling interests	(893)	—
Net cash provided by financing activities	229,980	66,857
Effect of foreign exchange rate changes on cash and cash equivalents	(1,438)	752
Net increase (decrease) in cash and cash equivalents	9,327	(87,132)
Cash and cash equivalents at beginning of period	57,696	140,971
Cash and cash equivalents at end of period	$67,023	$53,839
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, net of interest capitalized	$33,783	$34,281
Non-Cash Investing Activities		
Note receivable issued in connection with sale of real estate	$—	$38,820
Assumption of secured notes payable in connection with purchase of properties	$(48,329)	$—

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," "ARE," "Alexandria," "we," "our," and "us" refe
Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries.

Alexandria Real Estate Equities, Inc. (NYSE:ARE), with a total market capitalization of $9.1 billion as of September 30, 2014, and an asset base of 31.6 million square feet, including 18.5 million RSF of operating and current value-creation projects, as well as an additional 13.1 million square feet in future ground-up development projects, is the largest and leading REIT uniquely focused on Class A assets in collaborative science and technology campuses located in urban innovation clusters. Alexandria pioneered this niche in 1994 and has since established a dominant market presence in AAA locations including Greater Boston, the San Francisco Bay Area, New York City, San Diego, Seattle, Maryland, and Research Triangle Park. Alexandria is known for its high-quality and diverse client tenant base. Alexandria is the Landlord of Choice to the Life Science Industry®, and approximately 53% of its total ABR results from investment-grade client tenants. Alexandria has a longstanding and proven track record of developing Class A assets clustered in urban collaborative science and technology campuses that provide its client tenants with a highly collaborative, 24/7 live/work/play ecosystems, as well as the critical ability to successfully recruit and retain best-in-class talent. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value. For additional information on Alexandria, please visit www.are.com.

Our asset base consisted of the following, as of September 30, 2014:

	Square Feet
Operating properties	16,373,416
Development properties	1,941,186
Redevelopment properties	143,777
Total operating and current value-creation projects	18,458,379
Near-term value-creation projects in North America (CIP)	1,926,331
Future value-creation projects	10,983,108
Land under sales contract	250,000
Total	31,617,818

Investment-grade client tenants represented approximately 53% of our total ABR;
Approximately 95% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index;
Approximately 95% of our leases (on an RSF basis) were triple net leases, requiring client tenants to pay substantially all real estate taxes, insurance, utilities, common area, and other operating expenses (including increases thereto) in addition to base rent, and;
Approximately 93% of our leases (on an RSF basis) provided for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement, and parking lot resurfacing) that we believe would typically be borne by the landlord in traditional office leases.

Any references to the number of buildings, square footage, number of leases, occupancy, and any amounts derived from these values in the notes to the consolidated financial statements are unaudited and outside the scope of our independent registered public accounting firm's review of our interim consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

2. Basis of presentation

We have prepared the accompanying interim consolidated financial statements in accordance with GAAP and in conformity with the rules and regulations of the SEC. In our opinion, the interim consolidated financial statements presented herein reflect all adjustments that are necessary to fairly present the interim consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

Consolidation

The accompanying consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated. In certain circumstances, we may enter into joint venture arrangements with outside partners. On a quarterly basis, we evaluate each JV arrangement under the VIE model and if the entity is determined not to be a VIE, then we evaluate the entity under the voting model to determine if the entity should be consolidated.

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

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

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

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

As of September 30, 2014, we have two joint ventures that do not meet the requirements for consolidation and are accounted for under the equity method of accounting. See Note 3 – Investments in Real Estate, to our consolidated financial statements (unaudited) appearing elsewhere in this quarterly report on Form 10-Q for further information on our unconsolidated real estate entities.

Reclassifications

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

Use of estimates

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

2. Basis of presentation (continued)

Investments in real estate, net, and discontinued operations

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

The values allocated to buildings and building improvements, land improvements, tenant improvements, and equipment are depreciated on a straight-line basis using the shorter of the term of the respective ground lease and up to 40 years for buildings and building improvements, an estimated life of 20 years for land improvements, the respective lease term for TIs, and the estimated useful life for equipment. 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, predevelopment, or construction of a project. Capitalization of development, redevelopment, predevelopment, and construction costs is required while activities are ongoing to prepare an asset for its intended use. Fluctuations in our development, redevelopment, predevelopment, and construction activities could result in significant changes to total expenses and net income. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Should development, redevelopment, predevelopment, or construction activities cease, interest, property taxes, insurance, and certain other costs would no longer be eligible for capitalization and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

A property is classified as “held for sale” when all of the following criteria for a plan of sale have been met:
(i) management, having the authority to approve the action, commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale of the property is probable (including the removal of significant contingencies or the fulfillment of significant conditions precedent to the sale) and is expected to be completed within one year; (v) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) actions necessary to complete the plan of

sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all of these criteria have been met, the property is classified as "held for sale," and if (i) the operations and cash flows of the property have been or will be eliminated from the ongoing operations, and (ii) 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."

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

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

Investments

We hold equity investments in certain publicly traded companies and investments in certain privately held entities primarily involved in the 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 realized gains or losses classified in other income in the accompanying consolidated statements of income. Investments in privately held entities and limited partnerships 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 and limited partnerships 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 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 interest of each individual entity to less than 10%. As of September 30, 2014, and December 31, 2013, our ownership percentage in the voting interest of each individual entity was less than 10%.

We monitor each of our investments throughout the year for new developments, including operating results, results of clinical trials, capital-raising events, and merger and acquisition activities. Individual investments are evaluated for impairment when changes in conditions may indicate an impairment exists. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, available financing, prospects for favorable or unfavorable clinical trial results, new product initiatives, and new collaborative agreements. If there are no identified events or changes in circumstances that 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 charge to current earnings.

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 2009 through 2013.

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 may maintain an allowance for estimated losses that may result from the inability of our client tenants to make payments required under the terms of the lease and for tenant recoveries due. If a client tenant fails to make contractual payments beyond any allowance, we may recognize additional expense for uncollectible accounts in future periods equal to the amount of uncollectible rent and tenant recoveries, and deferred rent receivables arising from the straight-lining of rent. As of September 30, 2014, and December 31, 2013, we had no allowance for uncollectible receivables.

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, (iv) monitoring the timeliness of lease payments, and (v) periodically meeting with our client tenants’ senior management. 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 research team is responsible for assessing and monitoring their credit quality and any material changes in credit quality.

Interest and other income

Interest and other income was $2.0 million and $1.2 million during the three months ended September 30, 2014 and 2013, respectively. Interest and other income was $3.8 million and $3.5 million during the nine months ended September 30, 2014 and 2013, respectively. Interest and other income is included in other income in the accompanying consolidated statements of income.

2. Basis of presentation (continued)

Impact of recently issued accounting standards

In April 2014, the FASB issued an ASU on the reporting of discontinued operations which raises the threshold for disposals to qualify as discontinued operations. Under this ASU, a discontinued operation is (i) a component of an entity or group of components that has been disposed of by sale, that has been disposed of other than by sale, or that is classified as “held for sale” and represents a strategic shift that has had or will have a major effect on an entity’s operations and financial results or (ii) an acquired business or non-profit activity that is classified as “held for sale” on the date of the acquisition. A strategic shift that has or will have a major effect on an entity’s operations and financial results could include the disposal of (i) a major line of business, (ii) a major geographic area, (iii) a major equity method investment, or (iv) other major parts of an entity. Under current GAAP, an entity is prohibited from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after the disposal. This ASU eliminates these criteria and is effective for public companies during the interim and annual periods, beginning after December 15, 2014. We are required to adopt this ASU no later than January 1, 2015, and may early adopt this ASU during interim periods, as applicable. We expect the adoption of this ASU to result in fewer real estate sales qualifying for classification as discontinued operations in our consolidated financial statements.

In May 2014, the FASB issued an ASU that replaces substantially all industry-specific revenue recognition requirements and converges areas under this topic with International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The ASU also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. Other major provisions in this ASU include capitalizing and amortizing certain contract costs, ensuring the time value of money is considered in the applicable transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The ASU is effective for reporting periods beginning after December 15, 2016, and early adoption is prohibited. The ASU does not apply to lease contracts accounted for under current GAAP. We are currently evaluating the impact of the adoption of this ASU will have on our financial position and results of operations.

3. Investments in real estate

Our investments in real estate consisted of the following as of September 30, 2014, and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Rental properties	$6,849,966	$6,442,208
CIP/current value-creation projects:		
Current development in North America	532,053	511,838
Current redevelopment in North America	32,661	8,856
Current development in Asia	35,602	60,928
	600,316	581,622
Near-term value-creation projects in North America (CIP):		
50, 60, and 100 Binney Street	313,379	284,672
Other projects	90,843	97,617
	404,222	382,289
Future value-creation projects:		
North America	221,572	176,063
Asia	78,319	77,251
	299,891	253,314
Land under sales contract	12,236	22,943
Near-term and future value-creation projects	716,349	658,546
Gross investments in real estate	8,166,631	7,682,376
Less: accumulated depreciation	(1,083,169)	(952,106)
Equity method of accounting – unconsolidated JV	114,168	46,644
Investments in real estate	$7,197,630	$6,776,914

Acquisitions

In January 2014, we acquired 3545 Cray Court, a 116,556 RSF laboratory/office property located in the Torrey Pines submarket of San Diego, for $64.0 million. The property was 100% occupied on the date of acquisition. In connection with the acquisition, we assumed a $40.7 million non-recourse secured note payable with a contractual interest rate of 4.66% and a maturity date in January 2023.

In March 2014, we acquired 225 Second Avenue, a vacant 112,500 RSF office property located in the Route 128 submarket of Greater Boston, for $16.3 million. In May 2014, we leased 100% of the project to accommodate the expansion requirements of an existing tenant. The property is undergoing conversion into laboratory/office space through redevelopment.

In March 2014, we acquired 4025/4031/4045 Sorrento Valley Boulevard, three adjacent buildings aggregating 42,566 RSF located in the Sorrento Valley submarket of San Diego, for a total purchase price of $12.4 million. These properties were 100% occupied on the date of acquisition. In connection with the acquisition, we assumed a $7.6 million non-recourse secured note payable with a contractual interest rate of 5.74% and a maturity date in April 2016.

In April 2014, we acquired 510 Townsend Street, a land parcel supporting approximately 300,000 gross square feet, in SoMa for a purchase price of $50.0 million. We are in the process of perfecting entitlements and marketing for lease, and, subject to market conditions, we plan to commence construction as soon as possible in 2015.

3. Investments in real estate (continued)

See discussion of the acquisition of 1455/1515 Third Street below under "Investments in Unconsolidated Real Estate Entities."

Current development and redevelopment projects

As of September 30, 2014, we had seven ground-up development projects in process in North America aggregating 1,636,424 RSF, including two unconsolidated JV development projects. We also had two projects undergoing redevelopment in North America aggregating 143,777 RSF.

Investments in unconsolidated real estate entities

We account for investments in JVs described below under the equity method of accounting. See our consolidation policy described in Note 2 – Basis of Presentation.

360 Longwood Avenue

We are currently developing a building aggregating 413,536 RSF in the Longwood Medical Area of the Greater Boston market through an unconsolidated JV. The cost at completion for this unconsolidated JV real estate project is approximately $350.0 million. The project is currently 37% occupied by Dana-Farber Cancer Institute, Inc. and this space was placed into operations in late September 2014. The JV has a construction loan with commitments aggregating $213.2 million, with $143.5 million outstanding as of September 30, 2014. The remaining cost to complete the development is expected to be funded primarily from the remaining commitments of $69.7 million under the construction loan. The construction loan bears interest at LIBOR+3.75%, with a floor of 5.25%, and has a maturity date of April 1, 2019, inclusive of two separate options to extend the stated maturity date of April 1, 2017 by one year.

We have a 27.5% interest in this unconsolidated JV that we account for under the equity method of accounting. Our investment under the equity method of accounting was $48.5 million as of September 30, 2014.

1455/1515 Third Street

In September 2014, Alexandria and Uber Technologies, Inc. ("Uber") entered into a JV agreement and acquired two land parcels supporting 422,980 RSF at 1455/1515 Third Street in the Mission Bay submarket of the San Francisco Bay Area for a total purchase price of $125.0 million. We have a 51.0% interest and Uber has a 49% interest in this unconsolidated JV. We account for our investment in this JV under the equity method of accounting. Our investment under the equity method of accounting was $65.6 million as of September 30, 2014.

This JV is currently developing two buildings aggregating 422,980 RSF. We are in the process of finalizing the design and construction budget with our partner and we expect to provide the total estimated cost at completion once we complete our planning in the near term. The project is 100% pre-leased to Uber on a 15-year lease.

Land undergoing predevelopment activities (CIP)

Land undergoing predevelopment activities is classified as CIP and is undergoing activities prior to commencement of construction of aboveground building improvements. We generally will not commence ground-up development of any parcels undergoing predevelopment activities without first securing pre-leasing for such space, except when there is significant market demand. If aboveground construction is not initiated at completion of predevelopment activities, the land parcel will be classified as land held for 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 and reusable infrastructure to accommodate single and multi-tenancy. As of September 30, 2014, we held land undergoing predevelopment activities in North America aggregating 1.9 million RSF. The largest project included in land undergoing predevelopment activities consists of substantially all of our 1.1 million square feet at ACKS located in East Cambridge, Massachusetts.

3. Investments in real estate (continued)

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

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

Site and infrastructure construction costs, including belowground site work, utility connections, land grading, drainage, egress and regress access points, foundation, and other costs to prepare the site for construction of aboveground building improvements. For example, site and infrastructure costs for the 1.1 million RSF primarily related to 50, 60, and 100 Binney Street at ACKS are classified as predevelopment prior to commencement of vertical construction.

Land held for development

Land held for development represents real estate we plan to develop in the future, but for which, as of each period presented, no construction or predevelopment activities were ongoing. As a result, interest, property taxes, insurance, and other costs are expensed as incurred. As of September 30, 2014, we had land held for development in North America supporting an aggregate of 3.4 million RSF of ground-up development.

Dispositions

During the nine months ended September 30, 2014, we sold four land parcels for aggregate consideration of $29.4 million and recognized gains aggregating $805 thousand, which included a gain of $797 thousand on the sale of one parcel in the Seattle market, and a gain of $8 thousand on the sale of three parcels in non-cluster markets. These gains are classified in gain on sales of land parcels in the accompanying consolidated statements of income.

4. Investments

We hold investments in certain publicly traded companies and privately held entities, including limited partnerships, involved primarily in life science and related industries. Our investments in publicly traded companies are accounted for as “available for sale” securities and are carried at their fair values. Investments in “available for sale” securities with gross unrealized losses as of September 30, 2014, had been in a continuous unrealized loss position for less than 12 months. We have the ability and intent to hold these investments for a reasonable period of time sufficient for the recovery of our investment. We believe that these unrealized losses are temporary, and accordingly have not recognized other-than-temporary impairments related to “available for sale” securities as of September 30, 2014. As of September 30, 2014, and December 31, 2013, there were no unrealized losses in our investments in privately held entities, including limited partnerships.

The following table summarizes our investments as of September 30, 2014, and December 31, 2013 (in thousands):

	September 30, 2014		December 31, 2013	
“Available-for-sale” marketable equity securities, cost basis	$15,119		$2,879	
Unrealized gains	17,150	[1]	2,177	
Unrealized losses	(1,452	)	(587	)
“Available-for-sale” marketable equity securities, at fair value	30,817		4,469	
Investments accounted for under cost method	146,760		135,819	
Total investments	$177,577		$140,288	

(1) The increase in our investments during the nine months ended September 30, 2014, includes an increase in unrealized gains of approximately $13.6 million related to our investments in publicly traded life science companies. These unrealized gains are a component of our comprehensive income, within our stockholders’ equity, and have not been recognized in the accompanying consolidated statement of income for the nine months ended September 30, 2014.

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

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014		2013	2014		2013	
Investment gains	$3,256		$2,050	$9,481		$4,716	
Investment losses	(3,485	)	—	(8,725	)	(529	)
Investment (loss) income	$(229	)	$2,050	$756		$4,187	

5. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt as of September 30, 2014 (dollars in thousands):

	Fixed Rate/Hedged Variable Rate	Unhedged Variable Rate	Total Consolidated	Percentage of Total Debt		Weighted Average Interest Rate at End of Period [1]		Weighted Average Remaining Term (in years)
Secured notes payable	$406,125	$230,700	$636,825	18.2	%	4.67	%	2.9
Unsecured senior notes payable	1,747,290	—	1,747,290	49.9		3.98		8.6
	—	142,000	142,000	4.1		1.25		4.3

$1.5 billion unsecured senior line of credit										
2016 Unsecured Senior Bank Term Loan	350,000		25,000		375,000		10.7		1.42	1.8
2019 Unsecured Senior Bank Term Loan	600,000		—		600,000		17.1		2.05	4.3
Total/weighted average	$3,103,415		$397,700		$3,501,115		100.0	%	3.39 %	5.9
Percentage of total debt	89	%	11	%	100	%				

(1) Represents the weighted average 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.

5. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding indebtedness and respective principal maturities as of September 30, 2014 (dollars in thousands):

Debt	Stated Rate	Weighted Average Interest Rate[1]	Maturity Date[2]	Principal Payments Remaining for the Period Ending December 31, 2014	2015	2016	2017	2018	Thereafter	Total
Secured notes payable										
Seattle	6.00 %	6.00 %	11/18/14	$60	$—	$—	$—	$—	$—	$60
Maryland	5.64	4.50	6/1/15	34	5,777	—	—	—	—	5,811
San Francisco Bay Area	L+1.50	1.66	7/1/15	—	46,596	—	—	—	—	46,596
Greater Boston, San Francisco Bay Area, and San Diego	5.73	5.73	1/1/16	440	1,816	75,501	—	—	—	77,757
Greater Boston, San Diego, and New York City	5.82	5.82	4/1/16	234	988	29,389	—	—	—	30,611
San Diego	5.74	3.00	4/15/16	42	175	6,916	—	—	—	7,133
San Francisco Bay Area	L+1.40	1.56	6/1/16	—	—	17,952	—	—	—	17,952
San Francisco Bay Area	6.35	6.35	8/1/16	619	2,652	126,715	—	—	—	129,986
Maryland	2.14	2.14	1/20/17	—	—	—	76,000	—	—	76,000
Greater Boston	L+1.35	1.50	8/23/17	—	—	—	90,092	—	—	90,092
San Diego, Maryland, and Seattle	7.75	7.75	4/1/20	374	1,570	1,696	1,832	1,979	106,490	113,941
San Diego	4.66	4.66	1/1/23	337	1,402	1,464	1,540	1,614	33,367	39,724
San Francisco Bay Area	6.50	6.50	6/1/37	—	18	19	20	22	751	830
Unamortized premiums				54	218	60	—	—	—	332
Secured notes payable average/subtotal	4.71 %	4.67		2,194	61,212	259,712	169,484	3,615	140,608	636,825
2016 Unsecured Senior Bank Term Loan	L+1.20 %	1.42	7/31/16	—	—	375,000	—	—	—	375,000
2019 Unsecured Senior Bank Term Loan	L+1.20 %	2.05	1/3/19	—	—	—	—	—	600,000	600,000
$1.5 billion unsecured senior line of credit	L+1.10 % [3]	1.25	1/3/19	—	—	—	—	—	142,000	142,000

Unsecured senior notes payable	2.75 %	2.79	1/15/20	—	—	—	—	—	400,000	400,000
Unsecured senior notes payable	4.60 %	4.61	4/1/22	—	—	—	—	—	550,000	550,000
Unsecured senior notes payable	3.90 %	3.94	6/15/23	—	—	—	—	—	500,000	500,000
Unsecured senior notes payable	4.50 %	4.51	7/30/29	—	—	—	—	—	300,000	300,000
Unamortized discounts				(79)	(326)	(337)	(350)	(362)	(1,256)	(2,710
Unsecured debt average/subtotal		3.11		(79)	(326)	374,663	(350)	(362)	2,490,744	2,864,290
Average/total		3.39%		$2,115	$60,886	$634,375	$169,134	$3,253	$2,631,352	$3,501,11
Balloon payments				$—	$52,336	$629,851	$166,092	$—	$2,622,238	$3,470,51
Principal amortization				2,115	8,550	4,524	3,042	3,253	9,114	30,598
Total consolidated debt				$2,115	$60,886	$634,375	$169,134	$3,253	$2,631,352	$3,501,11
Fixed-rate/hedged variable-rate debt				$2,055	$14,290	$591,423	$3,042	$3,253	$2,489,352	$3,103,41
Unhedged variable-rate debt				60	46,596	42,952	166,092	—	142,000	397,700
Total consolidated debt				$2,115	$60,886	$634,375	$169,134	$3,253	$2,631,352	$3,501,11

(1) Represents the weighted average 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) In addition to the stated rate, the unsecured senior line of credit is subject to an annual facility fee of 0.20%.

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5. Secured and unsecured senior debt (continued)

2.75% and 4.50% Unsecured senior notes payable

In July 2014, we completed an offering of $700 million unsecured senior notes payable at a weighted average interest rate of 3.50%. The offering consisted of $400 million of 2.75% unsecured senior notes (“2.75% Unsecured Senior Notes”) and $300 million of 4.50% unsecured senior notes (“4.50% Unsecured Senior Notes”). The 2.75% Unsecured Senior Notes were priced at 99.793% of the principal amount with a yield to maturity of 2.791% and are due on January 15, 2020. The 4.50% Unsecured Senior Notes were priced at 99.912% of the principal amount with a yield to maturity of 4.508% and are due on July 30, 2029. 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 subordinate 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 to reduce variable-rate debt, including the partial repayment of $125 million of our unsecured senior bank term loan due in 2016 (“2016 Unsecured Senior Bank Term Loan”) and to reduce the outstanding borrowings on our unsecured senior line by $569 million. In connection with the partial repayment of $125 million of our 2016 Unsecured Senior Bank Term Loan, we recognized a loss on early extinguishment of debt related to the write-off of unamortized loan fees totaling $525 thousand in July 2014.

Interest expense

The following table summarizes interest expense for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross interest	$32,680	$32,959	$92,551	$96,668
Capitalized interest	(12,125)	(16,788)	(35,440)	(46,499)
Interest expense	$20,555	$16,171	$57,111	$50,169

Repayment of secured note payable

In January 2014, we repaid a $208.7 million secured note payable related to Alexandria Technology Square® which bore interest at a rate of 5.59%. Our JV partner funded $20.9 million of the proceeds required to repay the secured note payable.

In April 2014, we repaid a $6.4 million secured note payable related to a San Diego property which bore interest at a rate of 4.88%.

In August 2014, we repaid a $7.4 million secured note payable related to a San Diego property which bore interest at a rate of 4.00%.

Secured construction loans

The following table summarizes our secured construction loans as of September 30, 2014 (dollars in thousands):

Market	Stated Rate	Maturity Date

					Outstanding Balance	Remaining Commitments	Total Aggregate Commitments
San Francisco Bay Area	L+1.50	%	7/1/15	(1)	$ 46,596	$ 8,404	$ 55,000
San Francisco Bay Area	L+1.40	%	6/1/16	(2)	17,952	18,048	36,000
Greater Boston	L+1.35	%	8/23/17	(3)	90,092	160,308	250,400
					$ 154,640	$ 186,760	$ 341,400

(1) We have two, one-year options to extend the stated maturity date to July 1, 2017, subject to certain conditions.
(2) We have two, one-year options to extend the stated maturity date to June 1, 2018, subject to certain conditions.
(3) We have a one-year option to extend the stated maturity date to August 23, 2018, subject to certain conditions.

6. Interest rate swap agreements

We use interest rate swap agreements to hedge the variable cash flows associated with certain of our existing LIBOR-based variable-rate debt, including our unsecured senior line of credit and unsecured senior bank term loans. The ineffective portion of the change in fair value of our interest rate swap agreements is required to be recognized directly in earnings. During the nine months ended September 30, 2014 and 2013, our interest rate swap agreements were 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate swap agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive loss. Amounts classified in accumulated other comprehensive loss are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. During the next 12 months, we expect to reclassify approximately $2.1 million in accumulated other comprehensive loss to interest expense as an increase to interest expense. As of September 30, 2014, and December 31, 2013, the fair values of our interest rate swap agreements aggregating an asset balance were classified in other assets, and those aggregating a liability balance were classified in accounts payable, accrued expenses, and tenant security deposits, based upon their respective fair values. Under our interest rate swap agreements, we have no collateral posting requirements.

As of September 30, 2014, the fair value of derivatives in a net liability position was $287 thousand. The Company has agreements with certain of its derivative counterparties that contain a provision wherein (i) the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness; or (ii) if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. If the Company had breached any of these provisions as of September 30, 2014, it could have been required to settle its obligations under the agreements at their termination value of $803 thousand.

We had the following outstanding interest rate swap agreements that were designated as cash flow hedges of interest rate risk as of September 30, 2014 (dollars in thousands):

Effective Date	Maturity Date	Number of Contracts	Weighted Average Interest Pay Rate [(1)]	Fair Value as of 9/30/14	Notional Amount in Effect as of 9/30/14	12/31/14	12/31/15	12/31/16
December 31, 2013	December 31, 2014	2	0.98%	$ (1,051)	$500,000	$—	$—	$—
December 31, 2013	March 31, 2015	2	0.23%	(110)	250,000	250,000	—	—
March 31, 2014	March 31, 2015	4	0.21%	(61)	200,000	200,000	—	—
December 31, 2014	March 31, 2016	3	0.53%	(23)	—	500,000	500,000	—
March 31, 2016	March 31, 2017	3	1.40%	958	—	—	—	500,000
Total				$ (287)	$950,000	$950,000	$500,000	$500,000

(1) In addition to the interest pay rate, borrowings outstanding as of September 30, 2014, under our unsecured senior bank term loans include an applicable margin of 1.20% and borrowings outstanding under our unsecured senior line of credit include an applicable margin of 1.10%.

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, 2014 and 2013.

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, 2014, and December 31, 2013 (in thousands):

		September 30, 2014		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
"Available-for-sale" securities	$30,817	$30,817	$—	$—
Interest rate swap agreements	$958	$—	$958	$—
Liabilities:				
Interest rate swap agreements	$1,245	$—	$1,245	$—

		December 31, 2013		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
"Available-for-sale" securities	$4,469	$4,469	$—	$—
Interest rate swap agreements	$2,870	$—	$2,870	$—
Liabilities:				
Interest rate swap agreements	$6,191	$—	$6,191	$—

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. See Note 6 – Interest Rate Swap Agreements, for further details on our interest rate swap agreements. The fair values of our secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were estimated using widely accepted valuation techniques, including discounted cash flow analyses of "significant other observable inputs" such as available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Because the valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate. Additionally, the use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

7. Fair value measurements (continued)

As of September 30, 2014, and December 31, 2013, the book and fair values of our “available-for-sale” marketable equity securities, interest rate swap agreements, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	September 30, 2014		December 31, 2013	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
“Available-for-sale” marketable equity securities	$30,817	$30,817	$4,469	$4,469
Interest rate swap agreements	$958	$958	$2,870	$2,870
Liabilities:				
Interest rate swap agreements	$1,245	$1,245	$6,191	$6,191
Secured notes payable	$636,825	$686,388	$708,831	$736,772
Unsecured senior notes payable	$1,747,290	$1,775,990	$1,048,230	$1,043,125
Unsecured senior line of credit	$142,000	$141,881	$204,000	$193,714
Unsecured senior bank term loans	$975,000	$974,424	$1,100,000	$1,099,897

8. Earnings per share (EPS)

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

The land parcels we sold during the three and nine months ended September 30, 2014 and 2013, 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, 2014 and 2013, we classified approximately $805 thousand and $772 thousand, respectively, as gain on sale of land parcel 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 EPS.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of EPS using the two-class method. Our Series D cumulative convertible preferred stock (“Series D Preferred Stock”) is not a participating security, and is not included in the computation of EPS using the two-class method. Under the two-class method, we allocate net income after preferred stock dividends, preferred stock redemption charge, and amounts attributable to noncontrolling interests to common stockholders and unvested restricted stock awards based on their respective participation rights to dividends declared (or accumulated) and undistributed earnings. Diluted EPS is computed using the weighted average shares of common stock outstanding determined for the basic EPS computation plus the effect of any dilutive securities, including the dilutive effect of stock options using the treasury stock method, during the period the securities were outstanding.

8. Earnings per share (EPS) (continued)

The table below is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Income from continuing operations	$36,115	$32,496	$112,492	$94,212
Gain on sales of land parcels	8	—	805	772
Dividends on preferred stock	(6,471)	(6,472)	(19,414)	(19,414)
Net income attributable to noncontrolling interests	(1,340)	(960)	(3,842)	(2,922)
Net income attributable to unvested restricted stock awards	(506)	(442)	(1,285)	(1,187)
Income from continuing operations attributable to Alexandria's common stockholders – basic and diluted	27,806	24,622	88,756	71,461
(Loss) income from discontinued operations	(180)	(43)	(489)	1,043
Net income attributable to Alexandria's common stockholders – basic and diluted	$27,626	$24,579	$88,267	$72,504
Weighted average shares of common stock outstanding – basic and diluted	71,195	70,900	71,121	67,040
EPS attributable to Alexandria's common stockholders – basic and diluted:				
Continuing operations	$0.39	$0.35	$1.25	$1.06
Discontinued operations	—	—	(0.01)	0.02
EPS – basic and diluted	$0.39	$0.35	$1.24	$1.08

For purposes of calculating diluted EPS, we did not assume conversion of our Series D Preferred Stock for the three and nine months ended September 30, 2014 and 2013, since the impact was antidilutive to EPS attributable to Alexandria's common stockholders from continuing operations during those periods.

9. Stockholders' equity

Dividends

In September 2014, we declared cash dividends on our common stock for the third quarter of 2014, aggregating $51.8 million, or $0.72 per share. In September 2014, we also declared cash dividends on our Series D Preferred Stock for the third quarter of 2014, aggregating approximately $4.4 million, or $0.4375 per share. Additionally, we declared cash dividends on our Series E cumulative redeemable preferred stock ("Series E Preferred Stock") for the third quarter of 2014, aggregating approximately $2.1 million, or $0.403125 per share. In October 2014, we paid the cash dividends on our common stock, Series D Preferred Stock, and Series E Preferred Stock for the third quarter of 2014.

9. Stockholders' equity (continued)

Accumulated other comprehensive loss

Accumulated other comprehensive loss attributable to Alexandria Real Estate Equities, Inc. 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, 2013	$1,590	$(3,321)	$(34,473)	$(36,204)
Other comprehensive income (loss) before reclassifications	13,591	(2,708)	(9,450)	1,433
Amounts reclassified from other comprehensive income (loss)	517	5,742	(199)	6,060
Net other comprehensive income (loss)	14,108	3,034	(9,649)	7,493
Balance as of September 30, 2014	$15,698	$(287)	$(44,122)	$(28,711)

Preferred stock and excess stock authorizations

Our charter authorizes the issuance of up to 100.0 million shares of preferred stock, of which 15.2 million shares were issued and outstanding as of September 30, 2014. In addition, 200.0 million shares of "excess stock" (as defined in our charter) are authorized, none of which were issued and outstanding as of September 30, 2014.

10. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities owned four projects as of September 30, 2014, and are included in our consolidated financial statements. Noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements.

The following table represents income from continuing operations and discontinued operations attributable to Alexandria Real Estate Equities, Inc., for the three and nine months ended September 30, 2014 and 2013, excluding the amounts attributable to these noncontrolling interests:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Income from continuing operations attributable to Alexandria Real Estate Equities, Inc.	34,775	31,536	108,650	91,290
(Loss) income from discontinued operations	(180)	(43)	(489)	1,043

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

11. Discontinued operations

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

	September 30, 2014	December 31, 2013
Properties "held for sale," net	$7,648	$7,644
Other assets	20	103
Total assets	7,668	7,747
Total liabilities	(172)	(266)
Net assets of discontinued operations	$7,496	$7,481

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Total revenues	$—	$319	$—	$4,658
Operating expenses	180	126	489	1,856
Total revenues less operating expenses from discontinued operations	(180)	193	(489)	2,802
Depreciation expense	—	236	—	1,638
Loss on sale of real estate	—	—	—	121
(Loss) income from discontinued operations [(1)]	$(180)	$(43)	$(489)	$1,043

(1) (Loss) income from discontinued operations includes the results of operations of four properties that were classified as "held for sale" as of September 30, 2014, as well as the results of operations (prior to disposition) and gain on sale of real estate attributable to seven properties sold during the period from January 1, 2013, to September 30, 2014. In October 2014, we completed the sale of one property which was classified as "held for sale" as of September 30, 2014.

12. 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" or the "Guarantor Subsidiary"), an indirectly 100% owned subsidiary of the Issuer. The Company's other subsidiaries, including, but not limited to, the subsidiaries that own substantially all of its real estate (collectively, the "Combined Non-Guarantor Subsidiaries") will not provide a guarantee of such securities, including the subsidiaries that are partially or 100% owned by the LP. The following condensed consolidating financial information presents the condensed consolidating balance sheets as of September 30, 2014, and December 31, 2013, and the condensed consolidating statements of income and comprehensive income for the three and nine months ended September 30, 2014 and 2013, and condensed consolidating cash flows for the nine months ended September 30, 2014 and 2013, for the Issuer, the Guarantor Subsidiary, the Combined Non-Guarantor Subsidiaries, as well as the eliminations necessary to arrive at the information for Alexandria Real Estate Equities, Inc. on a consolidated basis, and consolidated amounts. In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Issuer's interests in the Guarantor Subsidiary and the Combined Non-Guarantor Subsidiaries, (ii) the Guarantor Subsidiary's interests in the Combined Non-Guarantor Subsidiaries, and (iii) the Combined Non-Guarantor Subsidiaries' interests in the Guarantor Subsidiary, where applicable, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries have been eliminated, as shown in the column "Eliminations." All assets and liabilities have been allocated to the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries generally based on legal entity ownership.

12. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of September 30, 2014
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate	$—	$—	$7,197,630	$—	$7,197,630
Cash and cash equivalents	21,455	—	45,568	—	67,023
Restricted cash	70	—	24,175	—	24,245
Tenant receivables	—	—	10,830	—	10,830
Deferred rent	—	—	225,506	—	225,506
Deferred leasing and financing costs	37,486	—	162,349	—	199,835
Investments	—	8,147	169,430	—	177,577
Investments in and advances to affiliates	6,812,172	6,291,506	129,268	(13,232,946)	—
Other assets	19,244	—	98,424	—	117,668
Total assets	$6,890,427	$6,299,653	$8,063,180	$(13,232,946)	$8,020,314
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$—	$—	$636,825	$—	$636,825
Unsecured senior notes payable	1,747,290	—	—	—	1,747,290
Unsecured senior line of credit	142,000	—	—	—	142,000
Unsecured senior bank term loans	975,000	—	—	—	975,000
Accounts payable, accrued expenses, and tenant security deposits	93,679	—	410,856	—	504,535
Dividends payable	57,260	—	289	—	57,549
Total liabilities	3,015,229	—	1,047,970	—	4,063,199
Redeemable noncontrolling interests	—	—	14,348	—	14,348
Alexandria Real Estate Equities, Inc.'s stockholders' equity	3,875,198	6,299,653	6,933,293	(13,232,946)	3,875,198
Noncontrolling interests	—	—	67,569	—	67,569
Total equity	3,875,198	6,299,653	7,000,862	(13,232,946)	3,942,767
Total liabilities, noncontrolling interests, and equity	$6,890,427	$6,299,653	$8,063,180	$(13,232,946)	$8,020,314

12. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of December 31, 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	$—	$—	$6,776,914	$—	$6,776,914
Cash and cash equivalents	14,790	—	42,906	—	57,696
Restricted cash	55	—	27,654	—	27,709
Tenant receivables	—	—	9,918	—	9,918
Deferred rent	—	—	190,425	—	190,425
Deferred leasing and financing costs	36,901	—	155,757	—	192,658
Investments	—	10,868	129,420	—	140,288
Investments in and advances to affiliates	6,299,551	5,823,058	119,421	(12,242,030)	—
Other assets	20,226	—	113,930	—	134,156
Total assets	$6,371,523	$5,833,926	$7,566,345	$(12,242,030)	$7,529,764
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$—	$—	$708,831	$—	$708,831
Unsecured senior notes payable	1,048,230	—	—	—	1,048,230
Unsecured senior line of credit	204,000	—	—	—	204,000
Unsecured senior bank term loans	1,100,000	—	—	—	1,100,000
Accounts payable, accrued expenses, and tenant security deposits	48,373	—	386,969	—	435,342
Dividends payable	54,131	—	289	—	54,420
Total liabilities	2,454,734	—	1,096,089	—	3,550,823
Redeemable noncontrolling interests	—	—	14,444	—	14,444
Alexandria Real Estate Equities, Inc.'s stockholders' equity	3,916,789	5,833,926	6,408,104	(12,242,030)	3,916,789
Noncontrolling interests	—	—	47,708	—	47,708
Total equity	3,916,789	5,833,926	6,455,812	(12,242,030)	3,964,497
Total liabilities, noncontrolling interests, and equity	$6,371,523	$5,833,926	$7,566,345	$(12,242,030)	$7,529,764

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12. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended September 30, 2014
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	$—	$—	$137,718	$—	$137,718
Tenant recoveries	—	—	45,572	—	45,572
Other income	2,797	(1,264)	4,369	(3,577)	2,325
Total revenues	2,797	(1,264)	187,659	(3,577)	185,615
Expenses:					
Rental operations	—	—	57,423	—	57,423
General and administrative	11,369	—	4,817	(3,577)	12,609
Interest	15,307	—	5,248	—	20,555
Depreciation and amortization	1,408	—	56,980	—	58,388
Loss on early extinguishment of debt	525	—	—	—	525
Total expenses	28,609	—	124,468	(3,577)	149,500
(Loss) income from continuing operations before equity in earnings of affiliates	(25,812)	(1,264)	63,191	—	36,115
Equity in earnings of affiliates	60,415	58,381	1,127	(119,923)	—
Income from continuing operations	34,603	57,117	64,318	(119,923)	36,115
Loss from discontinued operations	—	—	(180)	—	(180)
Gain on sales of land parcels	—	—	8	—	8
Net income	34,603	57,117	64,146	(119,923)	35,943
Dividends on preferred stock	(6,471)	—	—	—	(6,471)
Net income attributable to noncontrolling interests	—	—	(1,340)	—	(1,340)
Net income attributable to unvested restricted stock awards	(506)	—	—	—	(506)
Net income attributable to Alexandria Real Estate Equities, Inc.’s common stockholders	$27,626	$57,117	$62,806	$(119,923)	$27,626

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12. 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	$—	$—	$116,052	$—	$116,052
Tenant recoveries	—	—	38,691	—	38,691
Other income	2,802	(1)	3,966	(3,195)	3,572
Total revenues	2,802	(1)	158,709	(3,195)	158,315
Expenses:					
Rental operations	—	—	47,684	—	47,684
General and administrative	10,140	—	4,721	(3,195)	11,666
Interest	10,238	—	5,933	—	16,171
Depreciation and amortization	1,473	—	47,393	—	48,866
Loss on early extinguishment of debt	1,432	—	—	—	1,432
Total expenses	23,283	—	105,731	(3,195)	125,819
(Loss) income from continuing operations before equity in earnings of affiliates	(20,481)	(1)	52,978	—	32,496
Equity in earnings of affiliates	51,975	48,477	959	(101,411)	—
Income from continuing operations	31,494	48,476	53,937	(101,411)	32,496
Loss from discontinued operations	(1)	—	(42)	—	(43)
Net income	31,493	48,476	53,895	(101,411)	32,453
Dividends on preferred stock	(6,472)	—	—	—	(6,472)
Net income attributable to noncontrolling interests	—	—	(960)	—	(960)
Net income attributable to unvested restricted stock awards	(442)	—	—	—	(442)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$24,579	$48,476	$52,935	$(101,411)	$24,579

12. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Nine Months Ended September 30, 2014
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	$—	$—	$403,280	$—	$403,280
Tenant recoveries	—	—	128,198	—	128,198
Other income	8,632	(2,799)	11,534	(10,642)	6,725
Total revenues	8,632	(2,799)	543,012	(10,642)	538,203
Expenses:					
Rental operations	—	—	162,283	—	162,283
General and administrative	33,735	—	16,576	(10,642)	39,669
Interest	41,339	—	15,772	—	57,111
Depreciation and amortization	4,335	—	161,788	—	166,123
Loss on early extinguishment of debt	525	—	—	—	525
Total expenses	79,934	—	356,419	(10,642)	425,711
(Loss) income from continuing operations before equity in earnings of affiliates	(71,302)	(2,799)	186,593	—	112,492
Equity in earnings of affiliates	180,275	172,989	3,356	(356,620)	—
Income from continuing operations	108,973	170,190	189,949	(356,620)	112,492
Loss from discontinued operations	(7)	—	(482)	—	(489)
Gain on sales of land parcels	—	—	805	—	805
Net income	108,966	170,190	190,272	(356,620)	112,808
Dividends on preferred stock	(19,414)	—	—	—	(19,414)
Net income attributable to noncontrolling interests	—	—	(3,842)	—	(3,842)
Net income attributable to unvested restricted stock awards	(1,285)	—	—	—	(1,285)
Net income attributable to Alexandria Real Estate Equities, Inc.’s common stockholders	$88,267	$170,190	$186,430	$(356,620)	$88,267

12. 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	$—	$—	$342,071	$—	$342,071
Tenant recoveries	—	—	110,125	—	110,125
Other income	8,071	(142)	11,635	(9,432)	10,132
Total revenues	8,071	(142)	463,831	(9,432)	462,328
Expenses:					
Rental operations	—	—	139,147	—	139,147
General and administrative	32,573	—	12,628	(9,432)	35,769
Interest	32,048	—	18,121	—	50,169
Depreciation and amortization	4,394	—	136,645	—	141,039
Loss on early extinguishment of debt	1,992	—	—	—	1,992
Total expenses	71,007	—	306,541	(9,432)	368,116
(Loss) income from continuing operations before equity in earnings of affiliates	(62,936)	(142)	157,290	—	94,212
Equity in earnings of affiliates	155,694	144,660	2,858	(303,212)	—
Income from continuing operations	92,758	144,518	160,148	(303,212)	94,212
Income from discontinued operations	347	—	696	—	1,043
Gain on sales of land parcels	—	—	772	—	772
Net income	93,105	144,518	161,616	(303,212)	96,027
Dividends on preferred stock	(19,414)	—	—	—	(19,414)
Net income attributable to noncontrolling interests	—	—	(2,922)	—	(2,922)
Net income attributable to unvested restricted stock awards	(1,187)	—	—	—	(1,187)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$72,504	$144,518	$158,694	$(303,212)	$72,504

12. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended September 30, 2014
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$34,603	$57,117	$64,146	$(119,923)	$35,943
Other comprehensive income (loss):					
Unrealized losses on marketable securities:					
Unrealized holding losses arising during the period	—	(310)	(2,144)	—	(2,454)
Reclassification adjustment for losses included in net income	—	—	111	—	111
Unrealized losses on marketable securities, net	—	(310)	(2,033)	—	(2,343)
Unrealized gains on interest rate swap agreements:					
Unrealized interest rate swap gains arising during the period	1,206	—	—	—	1,206
Reclassification adjustment for amortization of interest expense included in net income	1,129	—	—	—	1,129
Unrealized gains on interest rate swap agreements, net	2,335	—	—	—	2,335
Unrealized losses on foreign currency translation:					
Unrealized foreign currency translation losses during the period	—	—	(12,259)	—	(12,259)
Reclassification adjustment for gains included in net income	—	—	(199)	—	(199)
Unrealized losses on foreign currency translation, net	—	—	(12,458)	—	(12,458)
Total other comprehensive income (loss)	2,335	(310)	(14,491)	—	(12,466)
Comprehensive income	36,938	56,807	49,655	(119,923)	23,477
Less: comprehensive income attributable to noncontrolling interests	—	—	(1,340)	—	(1,340)
Comprehensive income attributable to Alexandria’s common stockholders	$36,938	$56,807	$48,315	$(119,923)	$22,137

12. 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 (loss):					
Unrealized losses on marketable securities:					
Unrealized holding (losses) gains arising during the period	—	(796)	759	—	(37)
Reclassification adjustment for losses (gains) included in net income	—	519	(769)	—	(250)
Unrealized losses on marketable securities, net	—	(277)	(10)	—	(287)
Unrealized gains on interest rate swap agreements:					
Unrealized interest rate swap losses 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 swap agreements, 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

12. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Nine Months Ended September 30, 2014
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 108,966	$ 170,190	$ 190,272	$ (356,620)	$ 112,808
Other comprehensive income:					
Unrealized gains on marketable securities:					
Unrealized holding gains arising during the period	—	—	13,591	—	13,591
Reclassification adjustment for losses included in net income	—	—	517	—	517
Unrealized gains on marketable securities, net	—	—	14,108	—	14,108
Unrealized gains on interest rate swap agreements:					
Unrealized interest rate swap losses arising during the period	(2,708)	—	—	—	(2,708)
Reclassification adjustment for amortization of interest expense included in net income	5,742	—	—	—	5,742
Unrealized gains on interest rate swap agreements, net	3,034	—	—	—	3,034
Unrealized losses on foreign currency translation:					
Unrealized foreign currency translation losses during the period	—	—	(9,450)	—	(9,450)
Reclassification adjustment for gains included in net income	—	—	(199)	—	(199)
Unrealized losses on foreign currency translation, net	—	—	(9,649)	—	(9,649)
Total other comprehensive income	3,034	—	4,459	—	7,493
Comprehensive income	112,000	170,190	194,731	(356,620)	120,301
Less: comprehensive income attributable to noncontrolling interests	—	—	(3,842)	—	(3,842)
Comprehensive income attributable to Alexandria's common stockholders	$ 112,000	$ 170,190	$ 190,889	$ (356,620)	$ 116,459

12. 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 (loss):					
Unrealized (losses) gains on marketable securities:					
Unrealized holding (losses) gains arising during the period	—	(391)	714	—	323
Reclassification adjustment for losses (gains) included in net income	—	144	(624)	—	(480)
Unrealized (losses) gains on marketable securities, net	—	(247)	90	—	(157)
Unrealized gains on interest rate swap agreements:					
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 swap agreements, net	11,342	—	—	—	11,342
Foreign currency translation losses	—	—	(26,461)	—	(26,461)
Total other comprehensive income (loss)	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

12. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Nine Months Ended September 30, 2014
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Net income	$ 108,966	$ 170,190	$ 190,272	$ (356,620)	$ 112,808
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Depreciation and amortization	4,335	—	161,788	—	166,123
Loss on early extinguishment of debt	525	—	—	—	525
Gain on sale of land parcel	—	—	(805)	—	(805)
Amortization of loan fees and costs	5,424	—	2,666	—	8,090
Amortization of debt premiums/discounts	152	—	(52)	—	100
Amortization of acquired above and below market leases	—	—	(2,191)	—	(2,191)
Deferred rent	—	—	(35,511)	—	(35,511)
Stock compensation expense	9,372	—	—	—	9,372
Equity in income related to subsidiaries	(180,275)	(172,989)	(3,356)	356,620	—
Investment gains	—	(3)	(9,478)	—	(9,481)
Investment losses	—	2,802	5,923	—	8,725
Changes in operating assets and liabilities:					
Restricted cash	(15)	—	15	—	—
Tenant receivables	—	—	(939)	—	(939)
Deferred leasing costs	(80)	—	(25,830)	—	(25,910)
Other assets	(5,263)	—	(6,965)	—	(12,228)
Accounts payable, accrued expenses, and tenant security deposits	50,210	—	(13,764)	—	36,446
Net cash (used in) provided by operating activities	(6,649)	—	261,773	—	255,124
Investing Activities					
Proceeds from sale of properties	—	—	28,378	—	28,378
Additions to properties	—	—	(345,074)	—	(345,074)
Purchase of properties	—	—	(97,785)	—	(97,785)
Deposits for property acquisitions	—	—	(7,292)	—	(7,292)
Change in restricted cash related to construction projects	—	—	6,694	—	6,694
Investment in unconsolidated real estate entity	—	—	(67,525)	—	(67,525)
Investments in subsidiaries	(322,228)	(291,300)	(12,150)	625,678	—
Additions to investments	—	—	(35,484)	—	(35,484)

Proceeds from sales of investments	—	—	13,883	—	13,883
Proceeds from repayment of notes receivable	—	—	29,866	—	29,866
Net cash used in investing activities	$ (322,228)	$ (291,300)	$ (486,489)	$ 625,678	$ (474,339)

12. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)
for the Nine Months Ended September 30, 2014
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Financing Activities					
Borrowings from secured notes payable	$ —	$ —	$ 108,626	$ —	$ 108,626
Repayments of borrowings from secured notes payable	—	—	(228,909)	—	(228,909)
Proceeds from issuance of unsecured senior notes payable	698,908	—	—	—	698,908
Principal borrowings from unsecured senior line of credit	890,000	—	—	—	890,000
Repayments of borrowings from unsecured senior line of credit	(952,000)	—	—	—	(952,000)
Repayment of unsecured senior bank term loan	(125,000)	—	—	—	(125,000)
Transfer to/from parent company	103	291,300	334,275	(625,678)	—
Change in restricted cash related to financings	—	—	375	—	375
Deferred financing costs paid	(6,515)	—	(1,474)	—	(7,989)
Dividends paid on common stock	(150,540)	—	—	—	(150,540)
Dividends paid on preferred stock	(19,414)	—	—	—	(19,414)
Contributions by noncontrolling interests	—	—	19,410	—	19,410
Distributions to noncontrolling interests	—	—	(2,594)	—	(2,594)
Distributions to redeemable noncontrolling interests	—	—	(893)	—	(893)
Net cash provided by financing activities	335,542	291,300	228,816	(625,678)	229,980
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	(1,438)	—	(1,438)
Net increase in cash and cash equivalents	6,665	—	2,662	—	9,327
Cash and cash equivalents at beginning of period	14,790	—	42,906	—	57,696
Cash and cash equivalents at end of period	$ 21,455	$ —	$ 45,568	$ —	$ 67,023
Supplemental Disclosure of Cash Flow Information					
Cash paid during the period for interest, net of interest capitalized	$ 20,089	$ —	$ 13,694	$ —	$ 33,783
Non-Cash Investing Activities					
	$ —	$ —	$ (48,329)	$ —	$ (48,329)

Assumption of secured notes payable in connection with purchase of properties

12. 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 (used in) 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 related to subsidiaries	(155,694)	(144,660)	(2,858)	303,212	—
Investment gains	—	(152)	(4,564)	—	(4,716)
Investment losses	—	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 (used in) provided by 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
Investment in 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 sales of investments	—	1,594	11,156	—	12,750
Net cash used in investing activities	$ (112,632)	$ (168,439)	$ (410,091)	$ 300,045	$ (391,117)

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12. 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 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 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					
	$ 29,820	$ —	$ 9,000	$ —	$ 38,820

Note receivable issued in connection with sale of real estate

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

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

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

This list of risks and uncertainties is not exhaustive. Additional information regarding risk factors that may affect us is included under "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the fiscal year ended December 31, 2013. Readers of this quarterly report on Form 10-Q should also read our other documents filed publicly with the SEC for further discussion regarding such factors.

Overview

We are a Maryland corporation formed in October 1994 that has elected to be taxed as a REIT for federal income tax purposes. We are the largest and leading REIT uniquely focused on Class A collaborative science and technology campuses in urban innovation clusters, with a total market capitalization of $9.1 billion as of September 30, 2014, and an asset base of 31.6 million square feet, including 18.5 million RSF of operating and current value-creation projects, as well as an additional 13.1 million square feet in future ground-up development projects. We pioneered this niche in 1994 and have since established a dominant market presence in AAA locations including Greater Boston, the San Francisco Bay Area, New York City, San Diego, Seattle, Maryland, and Research Triangle Park. We are known for our high-quality and diverse client tenant base, and approximately 53% of our total ABR results from investment-grade client tenants (a REIT industry-leading percentage). We have a longstanding and proven track record of developing Class A assets clustered in urban science and technology campuses that provide client tenants with highly collaborative, 24/7 live/work/play ecosystems, as well as the critical ability to successfully recruit and retain best-in-class talent and enhance productivity. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value.

Executive summary

Our third quarter results highlight our disciplined approach to balance sheet management and capital allocation into our science and technology campuses in urban innovation clusters, combined with continued solid internal growth. We are pleased with the execution of our very successful $700 million bond offering at a weighted average interest rate of 3.50% and a maturity of 9.6 years. This bond offering strategically focused on laddering and extending debt maturities and provided growth capital for our significantly pre-leased value-creation development pipeline. The announcement of our Mission Bay acquisition of the 1455/1515 Third Street land parcels and our strategic JV with Uber in September 2014 reinforces Alexandria's strong emphasis on capital allocation in the core of one of the most desirable urban cluster submarkets. This iconic campus environment, ideally situated within the cross-section of science and technology in the highly collaborative, innovative, and urban Mission Bay ecosystem and adjacent to the planned Golden State Warriors' new sports complex, provides our tenants a unique advantage for the recruitment and retention of world-class talent. Our high-quality asset base continued to deliver accelerating growth in rental rates, occupancy, and significant earnings growth through the completion of pre-leased value-creation projects.

Results

- Net income attributable to Alexandria's common stockholders – diluted:
  - $27.6 million, or $0.39 per share, for the three months ended September 30, 2014, compared to $24.6 million, or $0.35 per share, for the three months ended September 30, 2013
  - $88.3 million, or $1.24 per share, for the nine months ended September 30, 2014, compared to $72.5 million, or $1.08 per share, for the nine months ended September 30, 2013
- FFO attributable to Alexandria's common stockholders – diluted, as adjusted:
  - $1.21 per share for the three months ended September 30, 2014, up 14.2%, compared to $1.06 per share for the three months ended September 30, 2013
  - $3.57 per share for the nine months ended September 30, 2014, up 10.5%, compared to $3.23 per share for the nine months ended September 30, 2013
  - $86.1 million for the three months ended September 30, 2014, up $11.1 million or 14.8%, compared to $75.0 million for the three months ended September 30, 2013
  - $253.7 million for the nine months ended September 30, 2014, up $37.0 million, or 17.1%, compared to $216.6 million for the nine months ended September 30, 2013

Core operating metrics

- Total revenues:
  - $185.6 million for the three months ended September 30, 2014, up $27.3 million, or 17.2%, compared to $158.3 million for the three months ended September 30, 2013
  - $538.2 million for the nine months ended September 30, 2014, up $75.9 million, or 16.4%, compared to $462.3 million for the nine months ended September 30, 2013
- NOI:
  - $128.2 million for the three months ended September 30, 2014, up $17.6 million, or 15.9%, compared to $110.6 million for the three months ended September 30, 2013
  - $375.9 million for the nine months ended September 30, 2014, up $52.7 million, or 16.3%, compared to $323.2 million for the nine months ended September 30, 2013
- Same property NOI growth:
  - Up 5.0% and 5.9% (cash basis) for the three months ended September 30, 2014, compared to the three months ended September 30, 2013
  - Up 4.5% and 5.2% (cash basis) for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013
- Leasing activity during the three months ended September 30, 2014:
  - Executed leases for 871,416 RSF
  - 18.6% and 5.6% (cash basis) rental rate growth on lease renewals and re-leasing of space
- Leasing activity during the nine months ended September 30, 2014:
  - Executed leases for 2,187,173 RSF
  - 14.1% and 6.2% (cash basis) rental rate growth on lease renewals and re-leasing of space
- Occupancy for properties in North America, as of September 30, 2014:
  - 97.3% occupancy for operating properties, up 230 bps from September 30, 2013
  - 96.3% occupancy for operating and redevelopment properties, up 180 bps from September 30, 2013
- Operating margins solid at 70% for the nine months ended September 30, 2014
- 53% of total ABR from investment-grade client tenants

External growth: value-creation projects and acquisitions

Value-creation projects

- Development and redevelopment value-creation projects were 85% leased or under negotiations
- Key deliveries of 100% leased value-creation projects during the three months ended September 30, 2014:
- 154,100 RSF to the Dana-Farber Cancer Institute, Inc., at 360 Longwood Avenue in our Longwood Medical Area submarket
- 107,250 RSF to Amgen Inc. at 269 East Grand Avenue in our South San Francisco submarket
- 85,417 RSF to The Regents of the University of California and Medivation, Inc., at 499 Illinois Street in our Mission Bay submarket
- Key commencements of 100% pre-leased value-creation development projects during the three months ended September 30, 2014:
- 422,980 RSF at 1455/1515 Third Street, an unconsolidated JV project with Uber, in our Mission Bay submarket; 100% pre-leased to Uber under a 15-year lease
- 149,663 RSF at 5200 Illumina Way – Building 6 in our University Town Center submarket; 100% pre-leased to Illumina, Inc.
- Non-income-producing assets (CIP and land) are expected to decrease from 17% as of September 30, 2014, to 13% of our gross real estate by the first quarter of 2015, driven by the completion and delivery of high-value, pre-leased development and redevelopment projects

Acquisitions

- In September 2014, Alexandria and Uber formed a JV and acquired key land parcels at 1455/1515 Third Street in the Mission Bay submarket of San Francisco, for the ground-up development of two Class A buildings aggregating 422,980 RSF. Alexandria holds a 51% interest in the JV. Additionally, Alexandria executed a 15-year lease with Uber for 100% of the project. The purchase price of the land parcels, including 423 parking structure spaces, foundation piles, plans and permits, was $125.0 million, with 49% funded by Uber. The land parcels are fully entitled, including Proposition M office allocation approvals. The timing of revenue recognition for this lease may begin from the third quarter of 2016 to the first quarter of 2017, subject to completion of the design and budget of the buildings.

Balance sheet

- In August 2014, Standard & Poor’s Rating Services raised its credit outlook for the Company to Positive from Stable, reflecting continued and further expected improvement in key credit metrics and growth in cash flows. The improvement in the outlook is driven primarily by the near-term completion and delivery of significant RSF of pre-leased value-creation development projects, the lengthening of the weighted average remaining maturity of outstanding debt, and the reduction in unhedged variable-rate debt. As of September 30, 2014, the weighted average remaining maturity of outstanding debt was 5.9 years and our unhedged variable-rate debt as a percentage of total debt was 11%. The Company's credit profile has steadily improved since receipt of its initial credit rating in July 2011.
- We expect our EBITDA to grow significantly in 2015. This growth in EBITDA, plus cash flows from operating activities, after dividends, is expected to allow us to borrow additional debt in 2015 on a leverage neutral basis and allocate $500 million to $600 million of capital to fund value-creation development projects.
- In July 2014, we completed an offering of $700 million unsecured senior notes payable, consisting of the following:
- $400 million of 2.75% unsecured senior notes payable due in 2020
- $300 million of 4.50% unsecured senior notes payable due in 2029
- Weighted average interest rate of 3.50%

- Average maturity of 9.6 years
- Net proceeds of $694 million were used to reduce variable-rate debt consisting of:
- $569 million reduction of borrowings outstanding on our unsecured senior line of credit
- $125 million partial repayment of our 2016 Unsecured Senior Bank Term Loan; we recognized a loss on the early extinguishment of debt related to the write-off of unamortized loan fees totaling $0.5 million, or $0.01 per share

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LEED statistics and other awards

- As of September 30, 2014, 30 LEED certified projects aggregating 4.6 million RSF were complete and 29 additional LEED projects aggregating 5.0 million square feet were in process.
- In August 2014, our ground-up development of the West Tower at the Alexandria Center™ for Life Science in New York City, at 430 East 29th Street in our Manhattan submarket, achieved LEED Gold certification.
- In August 2014, our 225 Binney Street property at ACKS, a recently certified LEED Gold development project, was awarded the 2014 Best Projects Award by the Engineering News-Record New England for the best office/retail/mixed-use development in the region.
- In August 2014, our Alexandria Center™ for Life Science at Campus Pointe in San Diego, a LEED Platinum property, was awarded an Orchid Award for Landscape Architecture by the San Diego Architectural Foundation, for its renovation of a commercial building into a suburban infill project.

Operating summary

Core operations

Our primary business objective is to maximize long-term asset value based on a multifaceted platform of internal and external growth. The key elements of our strategy are (i) keeping a consistent focus on Class A collaborative science and technology campuses in urban innovation clusters adjacent to or in close proximity to leading science and technology institutions that drive innovation and growth within each cluster; (ii) utilizing our deep real estate relationships and world-class platform and network in order to develop, acquire, and lease real estate focused on science and technology tenants; (iii) drawing upon our broad and meaningful science relationships to attract new and leading client tenants; and (iv) maintaining a solid and flexible capital structure to enable stable growth.

The following table presents information regarding our asset base and value-creation projects as of September 30, 2014, and December 31, 2013:

	September 30, 2014	December 31, 2013
RSF summary:		
Operating properties	16,373,416	15,534,238
Development properties	1,941,186	1,826,919
Redevelopment properties	143,777	99,873
RSF of total properties	18,458,379	17,461,030
Near-term value-creation projects in North America (CIP)	1,926,331	2,951,929
Future value-creation projects	10,983,108	10,321,792
Land under sales contract	250,000	200,000
Total	31,617,818	30,934,751
Number of properties	194	184
Occupancy – operating	94.9 %	94.4 %
Occupancy – operating and redevelopment	94.0 %	93.8 %
ABR per occupied RSF	$37.23	$35.90

Leasing

Leasing activity for the nine months ended September 30, 2014, was considerable in light of the low level of contractual lease expirations in 2014 (see "Summary of Lease Expirations" below):

- Executed a total of 146 leases, with a weighted average lease term of 7.4 years, for 2,187,173 RSF, including 826,022 RSF related to our development or redevelopment projects;
- Achieved rental rate increases for renewed/re-leased space of 14.1% and 6.2% (on a cash basis); and
- Increased the occupancy rate for operating properties in North America by 230 bps to 97.3% as of September 30, 2014, compared to 95.0% as of September 30, 2013.

Approximately 59% of the 146 leases executed during the nine months ended September 30, 2014, did not include concessions for free rent. Tenant concessions/free rent averaged approximately 2.9 months with respect to the 2,187,173 RSF leased during the nine months ended September 30, 2014.

The following table summarizes our leasing activity at our properties:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Including Straight-line Rent	Cash Basis	Including Straight-line Rent	Cash Basis	Including Straight-line Rent	Cash Basis
Leasing activity:						
Renewed/re-leased space [(1)]						
Rental rate changes	18.6%	5.6%	14.1%	6.2%	16.2%	4.0%
New rates	$36.42	$36.40	$41.05	$41.51	$32.00	$31.04
Expiring rates	$30.70	$34.47	$35.97	$39.07	$27.53	$29.84
Rentable square footage	169,248		1,129,082		1,838,397	
Number of leases	25		99		120	
TIs/lease commissions per square foot	$6.78		$8.57		$8.65	
Average lease terms	2.3 years		3.3 years		5.2 years	
Developed/redeveloped/previously vacant space leased						
New rates	$45.19	$39.15	$41.84	$37.18	$44.63	$41.86
Rentable square footage	702,168		1,058,091		1,806,659	
Number of leases	19		47		92	
TIs/lease commissions per square foot	$13.07		$13.86		$19.16	
Average lease terms	13.8 years		11.8 years		10.0 years	
Leasing activity summary (totals):						
New rates	$43.49	$38.61	$41.43	$39.42	$38.26	$36.40
Rentable square footage	871,416		2,187,173		3,645,056	
Number of leases	44		146		212	
TIs/lease commissions per square foot	$11.85		$11.13		$13.86	
Average lease terms	11.6 years		7.4 years		7.6 years	

Lease expirations [1]						
Expiring rates	$29.75	$33.55	$34.11	$36.99	$27.74	$30.16
Rentable square footage	198,961		1,279,634		2,127,190	
Number of leases	34		117		151	

(1) Leasing activity and lease expirations exclude month to month leases. The respective leasing activity was 19 month-to-month leases for 92,087 RSF at September 30, 2014, and 13 month-to-month leases for 22,172 RSF at December 31, 2013.

Summary of lease expirations

The following table summarizes information with respect to the lease expirations at our properties as of September 30, 2014:

Year of Lease Expiration	Number of Leases Expiring	RSF of Expiring Leases	Percentage of Aggregate Total RSF	ABR of Expiring Leases (per RSF)
2014	16 [(1)]	222,245 [(1)]	1.4 %	$31.78
2015	87	1,156,406	7.4 %	$28.24
2016	88	1,386,496	8.9 %	$34.81
2017	83	1,684,354	10.8 %	$28.39
2018	63	1,586,679	10.1 %	$40.19
2019	54	1,306,795	8.3 %	$36.15
2020	33	1,144,822	7.3 %	$37.21
2021	31	1,125,173	7.2 %	$38.90
2022	17	633,004	4.0 %	$29.45
2023	21	1,076,027	6.9 %	$35.40
Thereafter	41	3,302,422	21.1 %	$44.61

(1) Excludes 19 month-to-month leases for 92,087 RSF.

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The following tables present information by market with respect to our lease expirations as of September 30, 2014, for the remainder of 2014 and all of 2015:

Market	2014 RSF of Expiring Leases					ABR of Expiring Leases (per RSF)
	Leased	Negotiating/ Anticipating	Targeted for Redevelopment	Remaining Expiring Leases	Total [1]	
Greater Boston	51,270	—	—	13,111	64,381	$36.01
San Francisco Bay Area	—	2,894	—	—	2,894	34.23
New York City	49,550	—	—	21,712	71,262	31.05
San Diego	—	—	—	—	—	—
Seattle	5,991	—	—	900	6,891	N/A
Maryland	—	—	—	67,012 [2]	67,012	28.30
Research Triangle Park	—	—	—	249	249	N/A
Non-cluster markets	—	—	—	5,487		