ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
May 03, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from ____________ to ____________

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**95-4502084**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

(Address of principal executive offices) (Zip code)

(626) 578-0777

(Registrant s telephone number, including area code)

N/A

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

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

As of May 2, 2013, 63,837,404 shares of common stock, par value $.01 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

Alexandria Real Estate Equities, Inc.
Condensed Consolidated Balance Sheets

(In thousands)

(Unaudited)

	March 31, 2013	December 31, 2012
Assets		
Investments in real estate, net	$ 6,375,182	$ 6,424,578
Cash and cash equivalents	87,001	140,971
Restricted cash	30,008	39,947
Tenant receivables	9,261	8,449
Deferred rent	170,100	170,396
Deferred leasing and financing costs, net	159,872	160,048
Investments	123,543	115,048
Other assets	135,952	90,679
Total assets	$ 7,090,919	$ 7,150,116
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$ 730,714	$ 716,144
Unsecured senior notes payable	549,816	549,805
Unsecured senior line of credit	554,000	566,000
Unsecured senior bank term loans	1,350,000	1,350,000
Accounts payable, accrued expenses, and tenant security deposits	367,153	423,708
Dividends payable	43,955	41,401
Total liabilities	3,595,638	3,647,058
Commitments and contingencies		
Redeemable noncontrolling interests	14,534	14,564
Alexandria Real Estate Equities, Inc. s stockholders equity:		
Series D Convertible Preferred Stock	250,000	250,000
Series E Preferred Stock	130,000	130,000
Common stock	633	632
Additional paid-in capital	3,075,860	3,086,052
Accumulated other comprehensive loss	(22,890)	(24,833)
Alexandria Real Estate Equities, Inc. s stockholders equity	3,433,603	3,441,851
Noncontrolling interests	47,144	46,643
Total equity	3,480,747	3,488,494
Total liabilities, noncontrolling interests, and equity	$ 7,090,919	$ 7,150,116

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

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Alexandria Real Estate Equities, Inc.
Condensed Consolidated Statements of Income

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,			
		2013		2012
Revenues:				
Rental	$	111,776	$	101,201
Tenant recoveries		35,611		31,882
Other income		2,993		2,628
Total revenues		150,380		135,711
Expenses:				
Rental operations		45,224		40,453
General and administrative		11,648		10,357
Interest		18,020		16,226
Depreciation and amortization		46,065		41,786
Loss on early extinguishment of debt				623
Total expenses		120,957		109,445
Income from continuing operations		29,423		26,266
Income from discontinued operations, net		814		4,645
Gain on sale of land parcel				1,864
Net income		30,237		32,775
Net income attributable to noncontrolling interests		982		711
Dividends on preferred stock		6,471		7,483
Preferred stock redemption charge				5,978
Net income attributable to unvested restricted stock awards		342		235
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$	22,442	$	18,368
Earnings per share attributable to Alexandria Real Estate Equities, Inc. s common stockholders basic and diluted:				
Continuing operations	$	0.35	$	0.22
Discontinued operations, net		0.01		0.08
Earnings per share basic and diluted	$	0.36	$	0.30

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

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Alexandria Real Estate Equities, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income	$ 30,237	$ 32,775
Other comprehensive income:		
Unrealized gains (losses) on marketable securities:		
Unrealized holding gains arising during the period	316	674
Reclassification adjustment for gains included in net income	(272)	(924)
Unrealized gains (losses) on marketable securities, net	44	(250)
Unrealized gains on interest rate swaps:		
Unrealized interest rate swap losses arising during the period	(133)	(4,073)
Reclassification adjustment for amortization of interest expense included in net income	4,308	5,775
Unrealized gains on interest rate swap agreements, net	4,175	1,702
Foreign currency translation (losses) gains	(2,360)	9,959
Total other comprehensive income	1,859	11,411
Comprehensive income	32,096	44,186
Less: comprehensive income attributable to noncontrolling interests	(898)	(699)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$ 31,198	$ 43,487

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

Alexandria Real Estate Equities, Inc.

Condensed Consolidated Statement of Changes in Stockholders Equity and Noncontrolling Interests

(Dollars in thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc. s Stockholders Equity										
	Series D Convertible Preferred Stock	Series E Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance as of December 31, 2012	$ 250,000	$ 130,000	63,244,645	$ 632	$ 3,086,052	$	$ (24,833)	$ 46,643	$ 3,488,494	$ 14,564
Net income						29,255		714	29,969	268
Unrealized loss on marketable securities							44		44	
Unrealized gain on interest rate swap agreements							4,175		4,175	
Foreign currency translation loss							(2,276)	(84)	(2,360)	
Contributions by noncontrolling interests										
Distributions to noncontrolling interests								(129)	(129)	(298)
Issuances pursuant to stock plan			72,651	1	5,269				5,270	
Dividends declared on common stock						(38,245)			(38,245)	
Dividends declared on preferred stock						(6,471)			(6,471)	
Distributions in excess of earnings					(15,461)	15,461				
Balance as of March 31, 2013	$ 250,000	$ 130,000	63,317,296	$ 633	$ 3,075,860	$	$ (22,890)	$ 47,144	$ 3,480,747	$ 14,534

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

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

	Three Months Ended March 31, 2013	2012
Operating Activities		
Net income	$ 30,237	$ 32,775
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,995	43,405
Loss on early extinguishment of debt		623
Gain on sale of land parcel		(1,864)
Loss on sale of real estate	340	
Amortization of loan fees and costs	2,386	2,643
Amortization of debt premiums/discounts	115	179
Amortization of acquired above and below market leases	(830)	(800)
Deferred rent	(6,198)	(8,796)
Stock compensation expense	3,349	3,293
Equity in loss related to investments		26
Gain on sales of investments	(446)	(1,999)
Loss on sales of investments	386	1
Changes in operating assets and liabilities:		
Restricted cash	1,506	862
Tenant receivables	(818)	(1,237)
Deferred leasing costs	(11,757)	(7,011)
Other assets	(7,302)	(2,411)
Accounts payable, accrued expenses, and tenant security deposits	(10,722)	(10,004)
Net cash provided by operating activities	47,241	49,685
Investing Activities		
Proceeds from sale of properties	80,203	
Additions to properties	(139,245)	(120,585)
Purchase of properties		(19,946)
Change in restricted cash related to construction projects	(17)	(1,400)
Distribution from unconsolidated real estate entity		22,250
Contributions to unconsolidated real estate entity	(2,074)	(3,914)
Additions to investments	(10,363)	(5,438)
Proceeds from investments	1,972	4,785
Net cash used in investing activities	(69,524)	(124,248)

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Financing Activities		
Borrowings from secured notes payable	$ 17,215	$
Repayments of borrowings from secured notes payable	(2,749)	(2,688)
Proceeds from issuance of unsecured senior notes payable		544,649
Principal borrowings from unsecured senior line of credit	179,000	248,000
Repayments of borrowings from unsecured senior line of credit	(191,000)	(451,000)
Repayment of unsecured senior bank term loan		(250,000)
Repurchase of unsecured senior convertible notes		(83,801)
Proceeds from issuance of Series E Preferred Stock		124,868
Change in restricted cash related to financings	8,656	(15,955)
Deferred financing costs paid	(46)	(5,300)
Proceeds from exercise of stock options		112
Dividends paid on common stock	(35,687)	(30,386)
Dividends paid on preferred stock	(6,471)	(7,089)
Distributions to redeemable noncontrolling interests		(315)
Contributions by noncontrolling interests		625
Distributions to noncontrolling interests	(427)	(369)
Net cash (used in) provided by financing activities	(31,509)	71,351
Effect of foreign exchange rate changes on cash and cash equivalents	(178)	2,034
Net decrease in cash and cash equivalents	(53,970)	(1,178)
Cash and cash equivalents at beginning of period	140,971	78,539
Cash and cash equivalents at end of period	$ 87,001	$ 77,361
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, net of interest capitalized	$ 9,964	$ 11,976
Non-Cash Investing Activities		
Note receivable from sale of real estate	$ 38,820	$
Change in accrued capital expenditures	$ (37,045)	$ 9,396

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

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

1. Background

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

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

2. Basis of presentation

We have prepared the accompanying interim condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission (SEC). In our opinion, the interim condensed consolidated financial statements presented herein reflect all adjustments that are necessary to fairly present the interim condensed consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2012.

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

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

Use of estimates

The preparation of condensed 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 condensed consolidated financial statements; and the amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Reclassifications

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

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2. Basis of presentation (continued)

Investments in real estate, net, and discontinued operations

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

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

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

A property is classified as held for sale when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the property; (2) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (3) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (4) the sale of the property is probable and is expected to be completed within one year; (5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all of these criteria have been met, the property is classified as held for sale ; if (1) the operations and cash flows of the property have been or will be eliminated from the ongoing operations, and (2) we will not have any significant continuing involvement in the operations of the property after the sale, then its operations, including any interest expense directly attributable to it, are classified as discontinued operations in our condensed consolidated statements of income, and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. Depreciation of assets ceases upon designation of a property as held for sale.

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2. Basis of presentation (continued)

Impairment of long-lived assets

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

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

Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. All of our investments in actively traded public companies are considered available for sale and are reflected in the accompanying condensed consolidated balance sheets at fair value. Fair value has been determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of comprehensive income. The classification of each investment is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of each investment sold is determined by the specific identification method, with net realized gains or losses classified in other income in the accompanying condensed consolidated statements of income. Investments in privately held entities are generally accounted for under the cost method when our interest in the entity is so minor that we have virtually no influence over the entity s operating and financial policies. Certain investments in privately held entities are accounted for under the equity method when our interest in the entity is not deemed so minor that we have virtually no influence over the entity s operating and financial policies. Under the equity method of accounting, we recognize our investment initially at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. Additionally, we limit our ownership percentage in the voting stock of each individual entity to less than 10%. As of March 31, 2013, and December 31, 2012, our ownership percentage in the voting stock of each individual entity was less than 10%.

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

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2. Basis of presentation (continued)

Income taxes

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

We recognize tax benefits of uncertain tax positions only if it is more likely than not that the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. The measurement of a tax benefit for an uncertain tax position that meets the more likely than not threshold is based on a cumulative probability model under which the largest amount of tax benefit recognized is the amount with a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority having full knowledge of all the relevant information. As of March 31, 2013, there were no unrecognized tax benefits. We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

Interest expense and penalties, if any, would be recognized in the first period during which the interest or penalty would begin accruing, according to the provisions of the relevant tax law at the applicable statutory rate of interest. We did not incur any material tax-related interest expense or penalties for the three months ended March 31, 2013 and 2012.

Interest income

Interest income was approximately $1.3 million and $0.6 million during the three months ended March 31, 2013 and 2012, respectively. Interest income is classified in other income in the accompanying condensed consolidated statements of income.

Recognition of rental income and tenant recoveries

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

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

Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes, and other expenses recoverable from client tenants. Tenant receivables are expected to be collected within one year. We maintain an allowance for estimated losses that may result from the inability of our client tenants to make payments required under the terms of the lease and for tenant recoveries due. If a client tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of uncollectible rent and deferred rent receivables arising from the straight-lining of rent. As of March 31, 2013, and December 31, 2012, we had no allowance for estimated losses.

As of March 31, 2013, approximately 94% of our leases (on a rentable square footage basis) were triple net leases, requiring client tenants to pay substantially all real estate taxes, insurance, utilities, common area expenses, and other operating expenses (including increases thereto) in addition to base rent. Approximately 96% of our leases (on a rentable square footage basis) contained effective annual rent escalations that were either fixed or based on a consumer price index or another index. Additionally, approximately 92% of our leases (on a rentable square footage basis) provided for the recapture of certain capital expenditures.

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3. Investments in real estate

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

	March 31, 2013	December 31, 2012
Land (related to rental properties)	$ 516,957	$ 522,664
Buildings and building improvements	4,955,207	4,933,314
Other improvements	163,864	189,793
Rental properties	5,636,028	5,645,771
Less: accumulated depreciation	(849,891)	(875,035)
Rental properties, net	4,786,137	4,770,736
Construction in progress (CIP)/current value-added projects:		
Active development in North America	579,273	431,578
Investment in unconsolidated real estate entity	30,730	28,656
Active redevelopment in North America	141,470	199,744
Generic infrastructure/building improvement projects in North America	62,869	80,599
Active development and redevelopment in Asia	101,357	101,602
	915,699	842,179
Subtotal	5,701,836	5,612,915
Land/future value-added projects:		
Land subject to sale negotiations	45,378	
Land undergoing preconstruction activities (additional CIP) in North America	305,300	433,310
Land held for future development in North America	231,130	296,039
Land held for future development/land undergoing preconstruction activities (additional CIP) in Asia	83,735	82,314
	673,346	811,663
Investments in real estate, net	$ 6,375,182	$ 6,424,578

Land held for future development represents real estate we plan to develop in the future but on which, as of each period presented, no construction or preconstruction activities were ongoing. As a result, interest, property taxes, insurance, and other costs are expensed as incurred. As of March 31, 2013, and December 31, 2012, we held land in North America supporting an aggregate of 3.8 million and 4.7 million rentable square feet of future ground-up development, respectively. Additionally, as of March 31, 2013, and December 31, 2012, we held land undergoing preconstruction activities in North America totaling 1.9 million and 2.9 million rentable square feet, respectively. Land undergoing preconstruction activities (consisting of Building Information Modeling [BIM or 3-D virtual modeling], design development and construction drawings, sustainability and energy optimization review, budgeting, planning for future site and infrastructure work, and other activities prior to commencement of vertical construction of aboveground shell and core improvements) is also classified as construction in progress. Our objective with preconstruction is to reduce the time it takes to deliver projects to prospective client tenants. Project costs are capitalized as a cost of the project during periods when activities necessary to prepare an asset for its intended use are in progress. We generally will not commence ground-up development of any parcels undergoing preconstruction activities without first securing pre-leasing for such space. If vertical aboveground construction is not initiated at completion of preconstruction activities, the land parcel will be classified as land held for future development. The largest project primarily included in land undergoing preconstruction consists of our 1.2 million developable square feet at Alexandria Center at Kendall Square in East Cambridge, Massachusetts.

Real estate asset sales

During the three months ended March 31, 2013, we sold six properties in three separate transactions for aggregate consideration of approximately $124.3 million, at a net loss of approximately $0.3 million, which included an aggregate gain of approximately $0.1 million on the sale of two properties in the Suburban Washington, D.C. market, an aggregate loss of approximately $0.4 million on sale of three properties in the Greater Boston market, and no gain or loss on the sale of a property in the Seattle market.

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4. Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. Investments in available for sale securities with gross unrealized losses as of March 31, 2013, 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 we have not recognized other-than-temporary impairment related to available for sale securities as of March 31, 2013. As of March 31, 2013, and December 31, 2012, there were no unrealized losses in our investments in privately held entities.

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

	March 31, 2013	December 31, 2012
Available-for-sale securities, cost basis	$ 1,607	$ 1,236
Gross unrealized gains	1,547	1,561
Gross unrealized losses	(29)	(88)
Available-for-sale securities, at fair value	3,125	2,709
Investments accounted for under cost method	120,412	112,333
Investments accounted for under equity method	6	6
Total investments	$ 123,543	$ 115,048

The following table outlines our net investment income, which is classified in other income in the accompanying condensed consolidated statements of income for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Equity in loss related to equity method investments	$	$ (26)
Gross realized gains	446	1,999
Gross realized losses	(386)	(1)
Net investment income	$ 60	$ 1,972
Amount reclassified from accumulated other comprehensive income to realized gains, net	$ 272	$ 924

5. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt and their respective principal maturities, as of March 31, 2013 (in thousands):

	Fixed Rate/Hedged Variable Rate	Unhedged Variable Rate	Total Consolidated	Percentage of Total	Weighted Average Interest Rate at End of Period (1)	Weighted Average Remaining Term (Years)
Secured notes payable (2)	$ 620,076	$ 110,638	$ 730,714	22.9%	5.56%	2.8
Unsecured senior notes payable (2)	549,816		549,816	17.3	4.61	9.0
Unsecured senior line of credit (3)		554,000	554,000	17.4	1.40	4.1
2016 Unsecured Senior Bank Term Loan (4)	750,000		750,000	23.6	2.39	3.3
2017 Unsecured Senior Bank Term Loan (5)	250,000	350,000	600,000	18.8	3.68	3.8
Total debt	$ 2,169,892	$ 1,014,638	$ 3,184,530	100.0%	3.57%	4.4
Percentage of total debt	68%	32%	100%			

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

(2) Represents amounts net of unamortized premiums/discounts.

(3) Total commitments available for borrowing aggregate $1.5 billion under our unsecured senior line of credit. As of March 31, 2013, we had approximately $0.9 billion available for borrowing under our unsecured senior line of credit. Weighted average remaining term assumes we exercise our sole option to extend the stated maturity date of April 30, 2016, by six months, twice, to April 30, 2017.

(4) Assumes we exercise our sole option to extend the stated maturity date of June 30, 2015, by one year, to June 30, 2016.

(5) Assumes we exercise our sole option to extend the stated maturity date of January 31, 2016, by one year, to January 31, 2017.

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5. Secured and unsecured senior debt (continued)

The following table summarizes fixed rate/hedged variable and unhedged variable rate debt and their respective principal maturities, as of March 31, 2013 (dollars in thousands):

Debt	Stated Rate	Effective Interest Rate (1)	Maturity Date	2013	2014	2015	2016	2017	Thereafter	Total
Secured notes payable										
Suburban Washington, D.C.	6.36%	6.36%	9/1/13	$ 25,946	$	$	$	$	$	$ 25,946
Greater Boston	5.26	5.59	4/1/14	2,898	208,683					211,581
Suburban Washington, D.C.	2.19	2.19	4/20/14		76,000					76,000
San Diego	6.05	4.88	7/1/14	95	6,458					6,553
San Diego	5.39	4.00	11/1/14	119	7,495					7,614
Seattle	6.00 (2)	6.00	11/18/14	180	240					420
Suburban Washington, D.C.	5.64	4.50	6/1/15	87	138	5,788				6,013
San Francisco Bay Area	LIBOR+1.50	1.74	7/1/15(3)			34,218				34,218
Greater Boston, San Francisco Bay Area, and San Diego	5.73	5.73	1/1/16	1,205	1,713	1,816	75,501			80,235
Greater Boston, San Diego, and Greater NYC	5.82	5.82	4/1/16	657	931	988	29,389			31,965
San Francisco Bay Area	6.35	6.35	8/1/16	1,734	2,487	2,652	126,715			133,588
San Diego, Suburban Washington, D.C., and Seattle	7.75	7.75	4/1/20	1,018	1,453	1,570	1,696	1,832	108,469	116,038
San Francisco Bay Area	6.50	6.50	6/1/37	16	17	18	19	20	773	863
Average/Total	5.50%	5.56		33,955	305,615	47,050	233,320	1,852	109,242	731,034
$1.5 billion unsecured senior line of credit	LIBOR+1.20% (4)	1.40	4/30/17(5)					554,000		554,000
2016 Unsecured Senior Bank Term Loan	LIBOR+1.75%	2.39	6/30/16(6)				750,000			750,000
2017 Unsecured Senior Bank Term Loan	LIBOR+1.50%	3.68	1/31/17(7)					600,000		600,000
Unsecured senior notes payable (8)	4.60%	4.61	4/1/22		250				550,000	550,250
Average/Subtotal		3.57		33,955	305,865	47,050	983,320	1,155,852	659,242	3,185,284
Unamortized discounts				(350)	(78)	(12)	(44)	(47)	(223)	(754)
Average/Total		3.57%		$ 33,605	$ 305,787	$ 47,038	$ 983,276	$ 1,155,805	$ 659,019	$ 3,184,530
Balloon payments				$ 25,757	$ 297,330	$ 39,946	$ 980,029	$ 1,154,000	$ 653,791	$ 3,150,853
Principal amortization				7,848	8,457	7,092	3,247	1,805	5,228	33,677
Total consolidated debt				$ 33,605	$ 305,787	$ 47,038	$ 983,276	$ 1,155,805	$ 659,019	$ 3,184,530
Fixed rate/hedged variable rate debt				$ 33,425	$ 229,547	$ 12,820	$ 983,276	$ 251,805	$ 659,019	$ 2,169,892
Unhedged variable rate debt				180	76,240	34,218		904,000		1,014,638
Total consolidated debt				$ 33,605	$ 305,787	$ 47,038	$ 983,276	$ 1,155,805	$ 659,019	$ 3,184,530

(1) Represents the contractual interest rate as of the end of the period plus the impact of debt premiums/discounts and our interest rate swap agreements. The weighted average interest rate excludes bank fees and amortization of loan fees.
(2) Represents a loan assumed with the acquisition of a property. The interest rate is based upon 10-year U.S. treasury bills plus 3%, with a floor of 6% and a ceiling of 8.5%.
(3) We have two, one-year options to extend the stated maturity date of July 1, 2015 to July 1, 2017.
(4) In addition to the stated rate, we are subject to an annual facility fee of 0.25%.
(5) Assumes we exercise our sole option to extend the stated maturity date of April 30, 2016, by six months, twice, to April 30, 2017.
(6) Assumes we exercise our sole option to extend the stated maturity date of June 30, 2015, by one year, to June 30, 2016.
(7) Assumes we exercise our sole option to extend the stated maturity date of January 31, 2016, by one year, to January 31, 2017.
(8) Includes $550.0 million of our 4.60% unsecured senior notes payable due in April 2022, and $250,000 of our 8.00% unsecured senior convertible notes payable with a maturity date of April 15, 2014.

4.60% Unsecured senior notes payable

In February 2012, we completed a $550.0 million public offering of our unsecured senior notes payable at a stated interest rate of 4.60%. The unsecured senior notes payable were priced at 99.915% of the principal amount with a yield to maturity of 4.61% and are due April 1, 2022. The unsecured senior notes payable are unsecured obligations of the Company and are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P., a 100% owned subsidiary of the Company. The unsecured senior notes payable rank equally in right of payment with all other senior unsecured indebtedness. However, the unsecured senior notes payable are effectively subordinated to existing and future mortgages and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness) and to all existing and future preferred equity and liabilities, whether secured or unsecured, of the Company s subsidiaries, other than Alexandria Real Estate Equities, L.P. We used the net proceeds of this offering to prepay the outstanding principal balance of $250.0 million on our unsecured senior bank term loan (2012 Unsecured Senior Bank Term Loan) and to reduce the outstanding borrowings on our unsecured senior line of credit.

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5. Secured and unsecured senior debt (continued)

The requirements of the key financial covenants under our unsecured senior notes payable as of March 31, 2013, are as follows:

Covenant Ratios (1)	Requirement
Total Debt to Total Assets	Less than or equal to 60%
Consolidated EBITDA to Interest Expense	Greater than or equal to 1.5x
Unencumbered Total Asset Value to Unsecured Debt	Greater than or equal to 150%
Secured Debt to Total Assets	Less than or equal to 40%

(1) For a definition of the ratios used in the table above, refer to the indenture dated February 29, 2012 (Indenture), which governs the unsecured senior notes payable, which was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on February 29, 2012.

In addition, the terms of the Indenture, among other things, limit the ability of the Company, Alexandria Real Estate Equities, L.P., and the Company s other subsidiaries to (1) consummate a merger, or consolidate or sell all or substantially all of the Company s assets, and (2) incur certain secured or unsecured indebtedness.

Unsecured senior line of credit and unsecured senior bank term loans

In April 2012, we amended our $1.5 billion unsecured senior line of credit with Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc., and Citigroup Global Markets Inc. as joint lead arrangers, and certain lenders, to extend the maturity date of our unsecured senior line of credit, provide an accordion option for up to an additional $500.0 million, and reduce the interest rate for outstanding borrowings. The maturity date of the unsecured senior line of credit was extended to April 2017, assuming we exercise our sole right to extend the maturity date twice by an additional six months after each exercise. Borrowings under the unsecured senior line of credit bear interest at LIBOR or the base rate specified in the amended unsecured senior line of credit and unsecured senior bank term loan agreements, plus in either case a specified margin (the Applicable Margin). The Applicable Margin for LIBOR borrowings under the unsecured senior line of credit was set at 1.20%, down from the 2.40% in effect immediately prior to the modification. In addition to the Applicable Margin, our unsecured senior line of credit is subject to an annual facility fee of 0.25% based on the aggregate commitments outstanding. In connection with the modification of our unsecured senior line of credit in April 2012, we recognized a loss on early extinguishment of debt of approximately $1.6 million related to the write-off of a portion of unamortized loan fees.

In April 2012, we also amended our 2016 unsecured senior bank term loan (2016 Unsecured Senior Bank Term Loan) and 2017 unsecured senior bank term loan (2017 Unsecured Senior Bank Term Loan), conforming the financial covenants contained in our unsecured senior bank term loan agreements to those contained in our amended $1.5 billion unsecured senior line of credit.

In February 2012, we recognized a loss on early extinguishment of debt of approximately $0.6 million related to the write-off of unamortized loan fees as a result of the early repayment of $250.0 million of our 2012 Unsecured Senior Bank Term Loan. The requirements of the key financial covenants under our unsecured senior line of credit and unsecured senior bank term loans as of March 31, 2013, are as follows:

Covenant Ratios (1)	Requirement
Leverage Ratio	Less than or equal to 60.0%
Fixed Charge Coverage Ratio	Greater than or equal to 1.50x
Secured Debt Ratio	Less than or equal to 40.0%
Unsecured Leverage Ratio	Less than or equal to 60.0%
Unsecured Interest Coverage Ratio	Greater than or equal to 1.75x

(1) For a definition of the ratios used in the table above, refer to the amended unsecured senior line of credit and unsecured senior bank term loan agreements, dated April 30, 2012, which were filed as exhibits to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2012.

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5. Secured and unsecured senior debt (continued)

In addition, the terms of the unsecured senior line of credit and unsecured senior bank term loan agreements, among other things, limit the ability of the Company, Alexandria Real Estate Equities, L.P., and the Company s subsidiaries to (1) consummate a merger, or consolidate or sell all or substantially all of the Company s assets, and (2) incur certain secured or unsecured indebtedness. Additionally, the terms of the unsecured senior line of credit and unsecured senior bank term loan agreements include a restriction that may limit our ability to pay dividends, including distributions with respect to common stock or other equity interests, during any time a default is continuing, except to enable us to continue to qualify as a REIT for federal income tax purposes. As of March 31, 2013, we were in compliance with all such covenants.

Unsecured senior convertible notes

The following tables summarize the balances, significant terms, and components of interest cost recognized (excluding amortization of loan fees and before the impact of capitalized interest) on our unsecured senior convertible notes (dollars in thousands):

	8.00% Unsecured Senior Convertible Notes			
	March 31, 2013		December 31, 2012	
Principal amount	$	250	$	250
Unamortized discount		(8)		(9)
Net carrying amount of liability component	$	242	$	241
Carrying amount of equity component	$	27	$	27
Number of shares on which the aggregate consideration to be delivered on conversion is determined		6,146		6,146
Issuance date	April 2009			
Stated interest rate	8.00%			
Effective interest rate at March 31, 2013	11.00%			
Conversion rate per $1,000 principal value of unsecured senior convertible notes, as adjusted, as of March 31, 2013	24.5836			

	8.00% Unsecured Senior Convertible Notes Three Months Ended March 31,			
	2013		2012	
Contractual interest	$	5	$	5
Amortization of discount on liability component		1		1
Total interest cost	$	6	$	6

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5. Secured and unsecured senior debt (continued)

The following table outlines our interest expense for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Gross interest	$ 32,041	$ 31,493
Capitalized interest	(14,021)	(15,266)
Interest expense (1)	$ 18,020	$ 16,227

(1) Includes interest expense related to and classified in income from discontinued operations in the accompanying condensed consolidated statements of income.

6. Interest rate swap agreements

During the three months ended March 31, 2013 and 2012, our interest rate swap agreements were used primarily to hedge the variable cash flows associated with certain of our existing LIBOR-based variable rate debt, including our unsecured senior line of credit and unsecured senior bank term loans. The ineffective portion of the change in fair value of our interest rate swap agreements is required to be recognized directly in earnings. During the three months ended March 31, 2013 and 2012, our interest rate swap agreements were 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. The effective portion of changes in the fair values of our interest rate swap agreements that are designated and that qualify as cash flow hedges is classified in accumulated other comprehensive loss.

The following table reflects the effective portion of the unrealized loss recognized in other comprehensive loss for our interest rate swaps related to the change in fair value for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Unrealized loss recognized in other comprehensive loss related to the effective portion of changes in the fair values of our interest rate swap agreements	$ (133)	$ (4,073)

Losses are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. During the next 12 months, we expect to reclassify approximately $14.0 million accumulated other comprehensive loss to interest expense as an increase to interest expense. The following table indicates the classification in the condensed consolidated statements of income and the effective portion of the loss reclassified from accumulated other comprehensive income into earnings for our cash flow hedge contracts for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Loss reclassified from accumulated other comprehensive income to earnings as an increase to interest expense (effective portion)	$ 4,308	$ 5,775

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6. Interest rate swap agreements (continued)

As of March 31, 2013, and December 31, 2012, the fair values of our interest rate swap agreements were classified in accounts payable, accrued expenses, and tenant security deposits based upon their respective fair values, aggregating a liability balance of approximately $16.5 million and $20.7 million, respectively, which included accrued interest and adjustments for non-performance risk, with the offsetting adjustment reflected as unrealized loss in accumulated other comprehensive loss in total equity. Under our interest rate swap agreements, we have no collateral posting requirements. We had the following outstanding interest rate swap agreements that were designated as cash flow hedges of interest rate risk as of March 31, 2013 (in thousands):

Transaction Date	Effective Date	Termination Date	Interest Pay Rate (1)	Fair Value as of March 31, 2013 (2)	Notional Amount in Effect as of March 31, 2013	Notional Amount in Effect as of December 31, 2013
December 2006	December 29, 2006	March 31, 2014	4.990%	$ (2,398)	$ 50,000	$ 50,000
October 2007	October 31, 2007	September 30, 2013	4.642%	(1,120)	50,000	
December 2006	November 30, 2009	March 31, 2014	5.015%	(3,616)	75,000	75,000
December 2006	November 30, 2009	March 31, 2014	5.023%	(3,622)	75,000	75,000
December 2011	December 31, 2012	December 31, 2013	0.640%	(791)	250,000	
December 2011	December 31, 2012	December 31, 2013	0.640%	(791)	250,000	
December 2011	December 31, 2012	December 31, 2013	0.644%	(399)	125,000	
December 2011	December 31, 2012	December 31, 2013	0.644%	(399)	125,000	
December 2011	December 31, 2013	December 31, 2014	0.977%	(1,676)		250,000
December 2011	December 31, 2013	December 31, 2014	0.976%	(1,674)		250,000
Total				$ (16,486)	$ 1,000,000	$ 700,000

(1) In addition to the interest pay rate, borrowings outstanding under our unsecured senior line of credit and unsecured senior bank term loans include an applicable margin currently ranging from 1.20% to 1.75%.
(2) Includes accrued interest and credit valuation adjustment.

7. Fair value measurements

Recurring 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: (1) quoted prices in active markets for identical assets or liabilities, (2) significant other observable inputs, and (3) significant unobservable inputs. Significant other observable inputs can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Significant unobservable inputs are typically based on an entity s own assumptions, since there is little, if any, related market activity. In instances in which the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers between the levels in the fair value hierarchy during the three months ended March 31, 2013 and 2012.

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7. Fair value measurements (continued)

The following tables set forth the assets and liabilities that we measure at fair value on a recurring basis by level within the fair value hierarchy as of March 31, 2013, and December 31, 2012 (in thousands):

	March 31, 2013			
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Marketable securities	$ 3,125	$ 3,125	$	$
Liabilities:				
Interest rate swap agreements	$ 16,486	$	$ 16,486	$

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

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

As of March 31, 2013, and December 31, 2012, the book and fair values of our marketable securities, interest rate swap agreements, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	March 31, 2013		December 31, 2012	
	Book Value	Fair Value	Book Value	Fair Value
Marketable securities	$ 3,125	$ 3,125	$ 2,709	$ 2,709
Interest rate swap agreements	$ (16,486)	$ (16,486)	$ (20,661)	$ (20,661)

Secured notes payable	$	(730,714)	$	(799,242)	$	(716,144)	$	(788,455)
Unsecured senior notes payable	$	(549,816)	$	(588,743)	$	(549,805)	$	(593,350)
Unsecured senior line of credit	$	(554,000)	$	(554,000)	$	(566,000)	$	(567,196)
Unsecured senior bank term loans	$	(1,350,000)	$	(1,358,228)	$	(1,350,000)	$	(1,405,124)

Fair value measurements for other than on a recurring basis

See discussion under Note 3, Investments in Real Estate, Net Impairment of Real Estate Assets.

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8. Earnings per share

We use income from continuing operations attributable to Alexandria Real Estate Equities, Inc. s common stockholders as the control number in determining whether potential common shares, including potential common shares issuable upon conversion of our 8.00% unsecured senior convertible notes (8.00% Unsecured Senior Convertible Notes), are dilutive or antidilutive to earnings per share. Pursuant to the presentation and disclosure literature on gains or losses on sales or disposals by REITs and earnings per share required by the SEC and the Financial Accounting Standards Board, gains or losses on sales or disposals by a REIT that do not qualify as discontinued operations are classified below income from discontinued operations in the condensed consolidated statements of income and included in the numerator for the computation of earnings per share for income from continuing operations.

The land parcels we sold during the three months ended March 31, 2012 did not meet the criteria for classification as discontinued operations because the land parcels did not have significant operations prior to disposition. Accordingly, for the three months ended March 31, 2012, we classified approximately $1.9 million as gain on sales of land parcels below income from discontinued operations, net, in the accompanying condensed consolidated statements of income, and included the gain in income from continuing operations attributable to Alexandria Real Estate Equities, Inc. s common stockholders in the control number, or numerator for computation of earnings per share.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of earnings per share using the two-class method. Our Series D convertible preferred stock (Series D Convertible Preferred Stock) and our 8.00% Unsecured Senior Convertible Notes are not participating securities, and are not included in the computation of earnings per share using the two-class method. Under the two-class method, we allocate net income after preferred stock dividends, preferred stock redemption charge, and amounts attributable to noncontrolling interests to common stockholders and unvested restricted stock awards based on their respective participation rights to dividends declared (or accumulated) and undistributed earnings. Diluted earnings per share is computed using the weighted average shares of common stock outstanding determined for the basic earnings per share computation plus the effect of any dilutive securities, including the dilutive effect of stock options using the treasury stock method.

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8. Earnings per share (continued)

The table below is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three months ended March 31, 2013 and 2012 (dollars in thousands, except per share amounts):

	Three Months Ended March 31, 2013	2012
Income from continuing operations	$ 29,423	$ 26,266
Gain on sale of land parcel		1,864
Net income attributable to noncontrolling interests	(982)	(711)
Dividends on preferred stock	(6,471)	(7,483)
Preferred stock redemption charge		(5,978)
Net income attributable to unvested restricted stock awards	(342)	(235)
Income from continuing operations attributable to Alexandria Real Estate Equities, Inc. s common stockholders basic and diluted	21,628	13,723
Income from discontinued operations, net	814	4,645
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders basic and diluted	$ 22,442	$ 18,368
Weighted average shares of common stock outstanding basic	63,161,319	61,507,807
Dilutive effect of stock options		1,160
Weighted average shares of common stock outstanding diluted	63,161,319	61,508,967
Earnings per share attributable to Alexandria Real Estate Equities, Inc. s common stockholders basic and diluted:		
Continuing operations	$ 0.35	$ 0.22
Discontinued operations, net	0.01	0.08
Earnings per share basic and diluted	$ 0.36	$ 0.30

For purposes of calculating diluted earnings per share, we did not assume conversion of our 8.00% Unsecured Senior Convertible Notes for the three months ended March 31, 2013 and 2012, since the impact was antidilutive to earnings per share attributable to Alexandria Real Estate Equities, Inc. s common stockholders from continuing operations during those periods.

For purposes of calculating diluted earnings per share, we did not assume conversion of our Series D Convertible Preferred Stock for the three months ended March 31, 2013 and 2012, since the impact was antidilutive to earnings per share attributable to Alexandria Real Estate Equities, Inc. s common stockholders from continuing operations during those periods.

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

The following table shows income from continuing and discontinued operations attributable to Alexandria Real Estate Equities, Inc. for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Income from continuing operations	$ 29,423	$ 26,266
Gain on sale of land parcel		1,864
Less: net income attributable to noncontrolling interests	(982)	(711)
Income from continuing operations attributable to Alexandria Real Estate Equities, Inc.	28,441	27,419
Income from discontinued operations, net	814	4,645
Less: net income from discontinued operations attributable to noncontrolling interests		
Net income attributable to Alexandria Real Estate Equities, Inc.	$ 29,255	$ 32,064

10. Stockholders equity

At the market common stock offering program

In June 2012, we established an at the market common stock offering program under which we may sell, from time to time, up to an aggregate of $250.0 million of our common stock through our sales agents, BNY Mellon Capital Markets, LLC and Credit Suisse Securities (USA) LLC, during a three-year period. Net proceeds from the sales were used to pay down the outstanding balance on our unsecured senior line of credit or other borrowings, and for general corporate purposes. As of March 31, 2013, approximately $150.0 million of our common stock remained available for issuance under the at the market common stock offering program.

Dividends

In March 2013, we declared cash dividends for the first quarter of 2013 on our common stock aggregating approximately $38.2 million, or $0.60 per share. In March 2013, we also declared cash dividends for the first quarter of 2013 on our Series D Convertible Preferred Stock aggregating approximately $4.4 million, or $0.4375 per share. Additionally, we declared cash dividends for the third quarter of 2012 on our Series E Preferred Stock aggregating approximately $2.1 million, or $0.403125 per share. In April 2013, we paid the cash dividends for the third quarter of 2012 on our common stock, Series D Convertible Preferred Stock, and Series E Preferred Stock.

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 gain on interest rate swap agreements	Unrealized loss on foreign currency translation	Total
Balance as of December 31, 2012	$ 1,473	$ (20,661)	$ (5,645)	$ (24,833)
Other comprehensive income (loss) before reclassifications	316	(133)	(2,276)	(2,093)
Amounts reclassified from other comprehensive income	(272)	4,308		4,036
Net other comprehensive income (loss)	44	4,175	(2,276)	1,943
Balance as of March 31, 2013	$ 1,517	$ (16,486)	$ (7,921)	$ (22,890)

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10. Stockholders equity (continued)

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

Preferred stock and excess stock authorizations

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock, of which 15,200,000 shares were issued and outstanding as of March 31, 2013. In addition, 200,000,000 shares of excess stock (as defined in our charter) are authorized, none of which were issued and outstanding as of March 31, 2013.

11. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities owned 10 properties and two development parcels as of March 31, 2013, and are included in our condensed consolidated financial statements. Noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements.

Certain of our noncontrolling interests have the right to require us to redeem their ownership interests in the respective entities. We classify these ownership interests in the entities as redeemable noncontrolling interests outside of total equity in the accompanying condensed consolidated balance sheets. Redeemable noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements. If the carrying amount of a redeemable noncontrolling interest is less than the maximum redemption value at the balance sheet date, such amount is adjusted to the maximum redemption value. Subsequent declines in the redemption value are recognized only to the extent that previous increases have been recognized. As of March 31, 2013, and December 31, 2012, our redeemable noncontrolling interest balances were approximately $14.5 million and $14.6 million, respectively. Our remaining noncontrolling interests, aggregating approximately $47.1 million and $46.6 million as of March 31, 2013, and December 31, 2012, respectively, do not have rights to require us to purchase their ownership interests and are classified in total equity in the accompanying condensed consolidated balance sheets.

12. Discontinued operations

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

	March 31, 2013	December 31, 2012
Properties held for sale, net	$ 7,562	$ 76,440
Other assets	574	4,546
Total assets	8,136	80,986
Total liabilities	(149)	(3,233)
Net assets of discontinued operations	$ 7,987	$ 77,753

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Total revenues	$ 3,496	$ 9,308
Operating expenses	1,412	3,043
Total revenues less operating expenses	2,084	6,265
Interest expense		1
Depreciation expense	930	1,619
Loss on sale of real estate	340	
Income from discontinued operations, net	$ 814	$ 4,645

Income from discontinued operations, net, for the three months ended March 31, 2013, includes the results of operations of three operating properties that were classified as held for sale as of March 31, 2013, and the results of operations and gain related to the sale of six properties sold during the three months ended March 31, 2013. Income from discontinued operations, net, for the three months ended March 31, 2012, includes the results of operations of nine operating properties that were classified as held for sale as of March 31, 2013. For additional discussion regarding real estate asset sales, see discussion under Note 3, Investments in Real Estate, Net.

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13. Condensed consolidating financial information

Alexandria Real Estate Equities, Inc. (the Issuer) has sold certain debt securities registered under the Securities Act, as amended, that are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P. (the LP), an indirectly 100% owned subsidiary of the Issuer. The Company s other subsidiaries, including, but not limited to, the subsidiaries that own substantially all of its real estate (collectively, the Combined Non-Guarantor Subsidiaries) will not provide a guarantee of such securities, including the subsidiaries that are partially or 100% owned by the LP. The following condensed consolidating financial information presents the condensed consolidating balance sheets as of March 31, 2013, and December 31, 2012, and the condensed consolidating statements of income, comprehensive income, and cash flows for the three months ended March 31, 2013 and 2012, for the Issuer, the guarantor subsidiary (the LP), the Combined Non-Guarantor Subsidiaries, the eliminations necessary to arrive at the information for Alexandria 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 (1) the Issuer s interests in the Guarantor Subsidiary and the Combined Non-Guarantor Subsidiaries, (2) the Guarantor Subsidiary s interests in the Combined Non-Guarantor Subsidiaries, and (3) the Combined Non-Guarantor Subsidiaries interests in the Guarantor Subsidiary, where applicable, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries have been eliminated, as shown in the column Eliminations. All assets and liabilities have been allocated to the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries generally based on legal entity ownership.

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13. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet

as of March 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, net	$	$	$ 6,375,182	$	$ 6,375,182
Cash and cash equivalents	39,012		47,989		87,001
Restricted cash	45		29,963		30,008
Tenant receivables	52		9,209		9,261
Deferred rent			170,100		170,100
Deferred leasing and financing costs, net	29,093		130,779		159,872
Investments		12,306	111,237		123,543
Investments in and advances to affiliates	5,896,678	5,434,845	110,924	(11,442,447)	
Intercompany note receivable	3,042			(3,042)	
Other assets	18,415		117,698	(161)	135,952
Total assets	$ 5,986,337	$ 5,447,151	$ 7,103,081	$ (11,445,650)	$ 7,090,919
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$	$	$ 730,714	$	$ 730,714
Unsecured senior notes payable	549,816				549,816
Unsecured senior line of credit	554,000				554,000
Unsecured senior bank term loans	1,350,000				1,350,000
Accounts payable, accrued expenses, and tenant security deposits	55,257		312,057	(161)	367,153
Dividends payable	43,661		294		43,955
Intercompany note payable			3,042	(3,042)	
Total liabilities	2,552,734		1,046,107	(3,203)	3,595,638
Redeemable noncontrolling interests			14,534		14,534
Alexandria Real Estate Equities, Inc. s stockholders equity	3,433,603	5,447,151	5,995,296	(11,442,447)	3,433,603
Noncontrolling interests			47,144		47,144
Total equity	3,433,603	5,447,151	6,042,440	(11,442,447)	3,480,747
Total liabilities, noncontrolling interests, and equity	$ 5,986,337	$ 5,447,151	$ 7,103,081	$ (11,445,650)	$ 7,090,919

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13. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet

as of December 31, 2012

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate, net	$ 38,616	$	$ 6,385,962	$	$ 6,424,578
Cash and cash equivalents	98,567	1,914	40,490		140,971
Restricted cash	52		39,895		39,947
Tenant receivables	1		8,448		8,449
Deferred rent	1,876		168,520		170,396
Deferred leasing and financing costs, net	31,373		128,675		160,048
Investments		12,591	102,457		115,048
Investments in and advances to affiliates	5,833,368	5,358,882	110,101	(11,302,351)	
Intercompany note receivable	3,021			(3,021)	
Other assets	17,613		73,066		90,679
Total assets	$ 6,024,487	$ 5,373,387	$ 7,057,614	$ (11,305,372)	$ 7,150,116
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$	$	$ 716,144	$	$ 716,144
Unsecured senior notes payable	549,805				549,805
Unsecured senior line of credit	566,000				566,000
Unsecured senior bank term loans	1,350,000				1,350,000
Accounts payable, accrued expenses, and tenant security deposits	75,728		347,980		423,708
Dividends payable	41,103		298		41,401
Intercompany notes payable			3,021	(3,021)	
Total liabilities	2,582,636		1,067,443	(3,021)	3,647,058
Redeemable noncontrolling interests			14,564		14,564
Alexandria Real Estate Equities, Inc. s stockholders equity	3,441,851	5,373,387	5,928,964	(11,302,351)	3,441,851
Noncontrolling interests			46,643		46,643
Total equity	3,441,851	5,373,387	5,975,607	(11,302,351)	3,488,494
Total liabilities, noncontrolling interests, and equity	$ 6,024,487	$ 5,373,387	$ 7,057,614	$ (11,305,372)	$ 7,150,116

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13. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income

for the Three Months Ended March 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
Revenues:					
Rental	$	$	$ 111,776	$	$ 111,776
Tenant recoveries			35,611		35,611
Other income (loss)	2,567	(66)	3,600	(3,108)	2,993
Total revenues	2,567	(66)	150,987	(3,108)	150,380
Expenses:					
Rental operations	33		45,191		45,224
General and administrative	10,247		4,509	(3,108)	11,648
Interest	11,720		6,300		18,020
Depreciation and amortization	1,473		44,592		46,065
Total expenses	23,473		100,592	(3,108)	120,957
(Loss) income from continuing operations before equity in earnings of affiliates	(20,906)	(66)	50,395		29,423
Equity in earnings of affiliates	49,807	47,239	960	(98,006)	
Income from continuing operations	28,901	47,173	51,355	(98,006)	29,423
Income from discontinued operations, net	354		460		814
Net income	29,255	47,173	51,815	(98,006)	30,237
Net income attributable to noncontrolling interests			982		982
Dividends on preferred stock	6,471				6,471
Net income attributable to unvested restricted stock awards	342				342
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$ 22,442	$ 47,173	$ 50,833	$ (98,006)	$ 22,442

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13. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income

for the Three Months Ended March 31, 2012

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	$	$	$ 101,201	$	$ 101,201
Tenant recoveries			31,882		31,882
Other income	2,536	585	2,882	(3,375)	2,628
Total revenues	2,536	585	135,965	(3,375)	135,711
Expenses:					
Rental operations			40,453		40,453
General and administrative	9,497		4,235	(3,375)	10,357
Interest	10,569		5,657		16,226
Depreciation and amortization	1,018		40,768		41,786
Loss on early extinguishment of debt	623				623
Total expenses	21,707		91,113	(3,375)	109,445
(Loss) income from continuing operations before equity in earnings of affiliates	(19,171)	585	44,852		26,266
Equity in earnings of affiliates	50,008	45,699	914	(96,621)	
Income from continuing operations	30,837	46,284	45,766	(96,621)	26,266
Income from discontinued operations, net	1,227		3,418		4,645
Gain on sale of land parcel			1,864		1,864
Net income	32,064	46,284	51,048	(96,621)	32,775
Net income attributable to noncontrolling interests			711		711
Dividends on preferred stock	7,483				7,483
Preferred stock redemption charge	5,978				5,978
Net income attributable to unvested restricted stock awards	235				235
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$ 18,368	$ 46,284	$ 50,337	$ (96,621)	$ 18,368

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13. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income

for the Three Months Ended March 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
Net income	$ 29,255	$ 47,173	$ 51,815	$ (98,006)	$ 30,237
Other comprehensive income:					
Unrealized gains on marketable securities:					
Unrealized holding gains arising during the period		(8)	324		316
Reclassification adjustment for gains included in net income		38	(310)		(272)
Unrealized gains on marketable securities, net		30	14		44
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(133)				(133)
Reclassification adjustment for amortization of interest expense included in net income	4,308				4,308
Unrealized gains on interest rate swaps, net	4,175				4,175
Foreign currency translation losses			(2,360)		(2,360)
Total other comprehensive income	4,175	30	(2,346)		1,859
Comprehensive income	33,430	47,203	49,469	(98,006)	32,096
Less: comprehensive income attributable to noncontrolling interests			(898)		(898)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$ 33,430	$ 47,203	$ 48,571	$ (98,006)	$ 31,198

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13. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income

for the Three Months Ended March 31, 2012

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 32,064	$ 46,284	$ 51,048	$ (96,621)	$ 32,775
Other comprehensive income:					
Unrealized gains (losses) on marketable securities:					
Unrealized holding gains arising during the period		31	643		674
Reclassification adjustment for gains included in net income		(11)	(913)		(924)
Unrealized gains (losses) on marketable securities, net		20	(270)		(250)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(4,073)				(4,073)
Reclassification adjustment for amortization of interest expense included in net income	5,775				5,775
Unrealized gains on interest rate swaps, net	1,702				1,702
Foreign currency translation gain			9,959		9,959
Total other comprehensive income	1,702	20	9,689		11,411
Comprehensive income	33,766	46,304	60,737	(96,621)	44,186
Less: comprehensive income attributable to noncontrolling interests			(699)		(699)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$ 33,766	$ 46,304	$ 60,038	$ (96,621)	$ 43,487

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13. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows

for the Three Months Ended March 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
Operating Activities					
Net income	$ 29,255	$ 47,173	$ 51,815	$ (98,006)	$ 30,237
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	1,473		45,522		46,995
Loss on sale of real estate			340		340
Amortization of loan fees and costs	1,680		706		2,386
Amortization of debt premiums/discounts	11		104		115
Amortization of acquired above and below market leases			(830)		(830)
Deferred rent			(6,198)		(6,198)
Stock compensation expense	3,349				3,349
Equity in income related to subsidiaries	(49,807)	(47,239)	(960)	98,006	
Gain on sales of investments		(121)	(325)		(446)
Loss on sales of investments					