ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-K
January 31, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange
7.00% Series D Cumulative Convertible Preferred Stock	New York Stock Exchange
6.45% Series E Cumulative Redeemable Preferred Stock	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. 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 ý	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

The aggregate market value of the shares of Common Stock held by non-affiliates of registrant was approximately $7.9 billion based on the closing price for such shares on the New York Stock Exchange on June 30, 2016.

As of January 17, 2017, 88,875,683 shares of common stock were outstanding.

Documents Incorporated by Reference

Part III of this annual report on Form 10-K incorporates certain information by reference from the registrant's definitive proxy statement to be filed within 120 days of the end of the fiscal year covered by this annual report on Form 10-K in connection with the registrant's annual meeting of stockholders to be held on or about May 9, 2017.

INDEX TO FORM 10-K

ALEXANDRIA REAL ESTATE EQUITIES, INC.

	PART I	Page
ITEM 1.	BUSINESS	1
ITEM 1A.	RISK FACTORS	6
ITEM 1B.	UNRESOLVED STAFF COMMENTS	36
ITEM 2.	PROPERTIES	37
ITEM 3.	LEGAL PROCEEDINGS	59
ITEM 4.	MINE SAFETY DISCLOSURES	59
	PART II	
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES	60
ITEM 6.	SELECTED FINANCIAL DATA	61
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	63
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	116
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	118
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	118
ITEM 9A.	CONTROLS AND PROCEDURES	118
ITEM 9B.	OTHER INFORMATION	120
	PART III	
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE	120
ITEM 11.	EXECUTIVE COMPENSATION	120
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	120
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	120
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	121
	PART IV	
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	122

GLOSSARY

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

ASU	Accounting Standards Update
ATM	At the Market
BBA	British Bankers' Association
BPS	Basis Points
CIP	Construction in Progress
EPS	Earnings per Share
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
GAAP	U.S. Generally Accepted Accounting Principles
HVAC	Heating, Ventilation, and Air Conditioning
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IRS	Internal Revenue Service
JV	Joint Venture
LEED®	Leadership in Energy and Environmental Design
LIBOR	London Interbank Offered Rate
NAREIT	National Association of Real Estate Investment Trusts
NYSE	New York Stock Exchange
REIT	Real Estate Investment Trust
RSF	Rentable Square Feet/Foot
SEC	Securities and Exchange Commission
SF	Square Feet/Foot
SoMa	South of Market submarket of San Francisco
U.S.	United States
VIE	Variable Interest Entity

PART I

Certain information and statements included in this annual report on Form 10-K, 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 description of risks and uncertainties in “Item 1A. Risk Factors” in this annual report on Form 10-K. Additional information regarding risk factors that may affect us is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K. Readers of our annual report on Form 10-K should also read our SEC and other publicly filed documents for further discussion regarding such factors.

As used in this annual report on Form 10-K, references to the “Company,” “Alexandria,” “we,” “us,” and “our” refer to Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries. The following discussion should be read in conjunction with the consolidated financial statements and the accompanying notes under Item 15 in this annual report on Form 10-K.

ITEM 1. BUSINESS

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 an urban office REIT uniquely focused on collaborative life science and technology campuses in AAA innovation cluster locations. We consider AAA locations to be highly desirable for tenancy by life science and technology entities because of their close proximity to concentrations of specialized skills, knowledge, institutions, and related businesses. Such locations are generally characterized by high barriers to entry for new landlords, high barriers to exit for tenants, and a limited supply of available space. Founded in 1994, Alexandria pioneered this niche and has since established a significant market presence in key locations, including Greater Boston, San Francisco, New York City, San Diego, Seattle, Maryland, and Research Triangle Park.

Alexandria develops dynamic urban cluster campuses and vibrant ecosystems that enable and inspire the world’s most brilliant minds and innovative companies to create life-changing scientific and technological breakthroughs. We believe in the utmost professionalism, humility, and teamwork. Alexandria manages its properties through fully integrated regional teams with unparalleled real estate, life science, and technology expertise. We are known for our high-quality and diverse tenant base. Our tenants include multinational pharmaceutical companies; public and private biotechnology companies; life science product and service, medical device companies; digital health, and technology companies; academic and medical research institutions; U.S. government research agencies; non-profit companies; and venture capital firms. Alexandria has a longstanding and proven track record of developing Class A properties clustered in urban life science and technology campuses that provide our innovative tenants with highly dynamic and collaborative environments that enhance their ability to successfully recruit and retain world-class talent and inspire productivity, efficiency, creativity, and success. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value. For additional information on Alexandria, please visit www.are.com.

As of December 31, 2016, Alexandria’s total market capitalization was $14.2 billion and our asset base in North America consisted of 25.2 million square feet, including 19.9 million RSF of operating properties and development and redevelopment of new Class A properties (under construction or pre-construction), and 5.3 million square feet of

future ground-up development projects. These operating properties and development projects include nine properties that are held by consolidated real estate joint ventures and one property that is held by an unconsolidated real estate joint venture. Additional information regarding our consolidated and unconsolidated real estate joint ventures is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K. The occupancy percentage of our operating properties in North America was 96.6% as of December 31, 2016. Our 10-year average occupancy rate of operating properties as of December 31, 2016, was 95.3%. Investment-grade tenants represented 49% of our annual rental revenue in effect as of December 31, 2016. The comparability of financial data from period to period is affected by the timing of our property acquisition, development, and redevelopment activities. Additional information regarding risk factors that may affect us is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K.

Business objective and strategies

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

The following chart summarizes the growth in annual rental revenue in effect as of December 31, 2016, compared to December 31, 2008, in our key cluster submarkets since 2008:

Our tenant base is broad and diverse within the life science and technology industries and reflects our focus on regional, national, and international tenants with substantial financial and operational resources. For a more detailed description of our properties and tenants, refer to “Item 2. Properties” in this annual report on Form 10-K. We have an experienced Board of Directors and are led by an executive and senior management team with extensive experience in the real estate, life science, and technology industries.

Acquisitions

We seek to identify and acquire high-quality properties in our target cluster markets. Critical evaluation of prospective property acquisitions is an essential component of our acquisition strategy. When evaluating acquisition opportunities, we assess a full range of matters relating to the prospective property or properties, including:

- Proximity to centers of innovation and technological advances;
- Location of the property and our strategy in the relevant market;
- Quality of existing and prospective tenants;
- Condition and capacity of the building infrastructure;
- Quality and generic characteristics of the improvements;
- Physical condition of the structure and common area improvements;
- Opportunities available for leasing vacant space and for re-tenanting or renewing occupied space;
- Availability of and/or ability to add appropriate tenant amenities;
- Availability of land for future ground-up development of new space;
- Opportunities to redevelop existing space and generate higher rent;
- The property’s unlevered yields; and
- Our ability to increase the property’s long-term financial returns.

Development

A key component of our business model is our value-creation development projects. Our development strategy is primarily to pursue selective projects with significant pre-leasing where we expect to achieve appropriate investment returns and generally match a source of funds for this use. Our value-creation development projects focus on high-quality, generic, and reusable office/laboratory or tech office space to meet the real estate requirements of our diverse group of tenants.

Redevelopment

Another key component of our business model is our value-creation redevelopment of existing office, warehouse, or shell space into high-quality, generic, and reusable space that can be leased at higher rates. Our redevelopment strategy generally includes significant pre-leasing of certain projects prior to the commencement of redevelopment.

Balance sheet and financial strategy

We seek to maximize balance sheet liquidity and flexibility, cash flows, and cash available for distribution to our stockholders through the ownership, operation, management, and selective acquisition, development, and redevelopment of office/laboratory and tech office properties, as well as management of our balance sheet. In particular, we seek to maximize balance sheet liquidity and flexibility, cash flows, and cash available for distribution by:

- Maintaining access to diverse sources of capital, including operating cash flows after dividends, incremental debt, asset sales, and other capital such as the sale of equity or joint venture capital;
- Maintaining significant liquidity through borrowing capacity under our unsecured senior line of credit, available commitments under secured construction loans, marketable securities, and cash and cash equivalents;
- Minimizing the amount of near-term debt maturities in a single year;
- Maintaining low to modest leverage;
- Minimizing variable interest rate risk;
- Generating high-quality, strong, and increasing operating cash flows;
- Selectively selling real estate assets, including land parcels and non-core/“core-like” operating assets, and investing the proceeds into our highly leased value-creation development projects;
- Allocating capital to Class A properties located in world-class collaborative life science and technology campuses in AAA urban innovation clusters;
- Maintaining geographic diversity in stable-value urban intellectual centers of innovation;
- Selectively acquiring high-quality office/laboratory and tech office properties in our target urban innovation cluster submarkets at prices that enable us to realize attractive returns;
- Selectively developing properties in our target urban innovation cluster submarkets;
- Selectively redeveloping existing office, warehouse, or shell space, or newly acquired properties, into high-quality, generic, and reusable space that can be leased at higher rental rates in our target urban innovation cluster submarkets;
- Renewing existing tenant space at higher rental rates to the extent possible;
- Minimizing tenant improvement costs;
- Improving investment returns through the leasing of vacant space and the replacing of existing tenants with new tenants at higher rental rates;
- Maintaining solid occupancy while maintaining high lease rental rates;
- Realizing contractual rental rate escalations; and
- Implementing effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures.

Competition

In general, other office/laboratory and tech office properties are located in close proximity to our properties. The amount of rentable space available in any market could have a material effect on our ability to rent space and on the rents that we can earn. In addition, we compete for investment opportunities with other REITs, insurance companies, pension and investment funds, private equity entities, partnerships, developers, investment companies, owners/occupants, and foreign investors. Many of these entities have substantially greater financial resources than we do and may be able to invest more than we can or accept more risk than we are willing to accept. These entities may be less sensitive to risks with respect to the creditworthiness of a tenant or the geographic concentration of their investments. In addition, as a result of their financial resources, our competitors may offer more free rent concessions, lower rental rates, or higher tenant improvement allowances in order to attract tenants. These leasing incentives could hinder our ability to maintain or raise rents and attract or retain tenants. Competition may also reduce the number of suitable investment opportunities available to us or may increase the bargaining power of property owners seeking to sell. Competition in acquiring existing properties and land, both from institutional capital sources and from other REITs, has been very strong over the past several years. However, we believe we have differentiated ourselves from our competitors, as we are the first and only publicly traded urban office REIT to focus primarily on the office/laboratory real estate niche, with world-class collaborative life science and technology campuses in AAA innovation cluster locations, and we have many of the most important relationships in the life science industry.

Financial information about our reportable segment

Refer to Note 2 – "Basis of Presentation and Summary of Significant Accounting Policies" to our consolidated financial statements under Item 15 in this annual report on Form 10-K for information about our one reportable segment.

Regulation

General

Properties in our markets are subject to various laws, ordinances, and regulations, including regulations relating to common areas. We believe we have the necessary permits and approvals to operate each of our properties.

Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990 (the "ADA") to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to incur substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and make alterations as appropriate in this respect.

Environmental matters

Under various environmental protection laws, a current or previous owner or operator of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property and may be required to investigate and clean up contamination located on or emanating from that property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. Previous owners may have used some of our properties for industrial and other purposes, so those properties may contain some level of environmental contamination. The

presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability or may materially adversely affect our ability to sell, lease, or develop the real estate or to borrow using the real estate as collateral.

Some of our properties may have asbestos-containing building materials. Environmental laws require that asbestos-containing building materials be properly managed and maintained and may impose fines and penalties on building owners or operators for failure to comply with these requirements. These laws may also allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

In addition, some of our tenants routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities or

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from previous uses of those properties. Environmental liabilities could also affect a tenant's ability to make rental payments to us. We require our tenants to comply with these environmental laws and regulations.

Independent environmental consultants have conducted Phase I or similar environmental site assessments on the properties in our portfolio. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties and do not generally include soil samplings, subsurface investigations, or an asbestos survey. To date, these assessments have not revealed any material environmental liability that we believe would have a material adverse effect on our business, assets, or results of operations. Nevertheless, it is possible that the assessments on our properties have not revealed all environmental conditions, liabilities, or compliance concerns that may have arisen after the review was completed or may arise in the future; and future laws, ordinances, or regulations may impose additional material environmental liability.

Insurance

We carry comprehensive liability, all-risk property, and rental loss insurance with respect to our properties. We select policy specifications and insured limits that we believe to be appropriate given the relative risk of loss, the cost of the coverage, and industry practice. In our opinion, the properties in our portfolio are currently adequately insured. In addition, we have obtained earthquake insurance for certain properties located in the vicinity of known active earthquake zones. We also carry environmental insurance and title insurance on our properties. We generally obtain our title insurance policies when we acquire the property, with each policy covering an amount equal to the initial purchase price of each property. Accordingly, any of our title insurance policies may be in an amount less than the current value of the related property.

Available information

Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, including any amendments to the foregoing reports, are available, free of charge, through our corporate website at www.are.com as soon as is reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The current charters of our Board of Directors' Audit, Compensation, and Nominating & Governance Committees, along with our corporate governance guidelines and Business Integrity Policy and Procedures for Reporting Non-Compliance (the "Business Integrity Policy"), are also available on our corporate website. Additionally, any amendments to, and waivers of, our Business Integrity Policy that apply to our Chief Executive Officer and Chief Financial Officer will be available free of charge on our corporate website in accordance with applicable SEC and NYSE requirements. Written requests should be sent to Alexandria Real Estate Equities, Inc., 385 East Colorado Boulevard, Suite 299, Pasadena, California 91101, Attention: Investor Relations. Further, a copy of this annual report on Form 10-K is located at the SEC's Conventional Reading Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information on the operation of the Conventional Reading Room can be obtained by calling the SEC at 1-800-SEC-0330. The public may also download these materials from the SEC's website at www.sec.gov.

Employees

As of December 31, 2016, we had 285 employees. We believe that we have good relations with our employees. We have adopted a Business Integrity Policy that applies to all of our employees. Its receipt and review by each employee is documented and verified annually.

ITEM 1A. RISK FACTORS

Forward-looking statements

The following risk factors may adversely affect our overall business, financial condition, results of operations, cash flows, ability to make distributions to our stockholders, access to capital, or the market price of our common stock, as further described in each risk factor below. In addition to the information set forth in this annual report on Form 10-K, one should carefully review and consider the information contained in our other reports and periodic filings that we make with the SEC. Those risk factors could materially affect our overall business, financial condition, results of operations, cash flows, ability to make distributions to our stockholders, access to capital, or the market price of our common stock. The risks that we describe in our public filings are not the only risks that we face. Additional risks and uncertainties not presently known to us, or that we currently consider immaterial, also may materially adversely affect our business, financial condition, and results of operations.

Operating factors

We may be unable to identify and complete acquisitions and successfully operate acquired properties.

We continually evaluate the market of available properties and may acquire properties when opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them may be exposed to the following significant risks:

- We may be unable to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded REITs and institutional investment funds;
- Even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price or result in other less favorable terms;
- Even if we enter into agreements for the acquisition of properties, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;
- We may be unable to complete an acquisition because we cannot obtain debt and/or equity financing on favorable terms or at all;
- We may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- We may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of operating properties or portfolios of properties, into our existing operations;
- Acquired properties may be subject to reassessment, which may result in higher-than-expected property tax payments;
- Market conditions may result in higher-than-expected vacancy rates and lower-than-expected rental rates; and
- We may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities, such as liabilities for the cleanup of undisclosed environmental contamination; claims by tenants, vendors, or other persons dealing with the former owners of the properties; and claims for indemnification by general partners, directors, officers, and others indemnified by the former owners of the properties.

The realization of any of the above risks could significantly and adversely affect our ability to meet our financial expectations, our financial condition, results of operations, and cash flows, our ability to make distributions to our stockholders, the market price of our common stock, and our ability to satisfy our debt service obligations.

We may suffer economic harm as a result of making unsuccessful acquisitions in new markets.

We may pursue selective acquisitions of properties in markets where we have not previously owned properties. These acquisitions may entail risks in addition to those we face in other acquisitions where we are familiar with the markets, such as the risk of not correctly anticipating conditions or trends in a new market and therefore not being able to generate profit from the acquired property. If this occurs, it could adversely affect our financial condition, results of operations, cash flows, ability to make distributions to our stockholders, and ability to satisfy our debt service obligations, and the market price of our common stock.

The acquisition of new properties or the development of new properties may give rise to difficulties in predicting revenue potential.

We may continue to acquire additional properties and/or land and may seek to develop our existing land holdings strategically as warranted by market conditions. These acquisitions and developments could fail to perform in accordance with expectations. If we fail to accurately estimate occupancy levels, rental rates, lease commencement dates, operating costs, or costs of improvements to bring an acquired property or a development property up to the standards established for our intended market position, the performance of the property may be below expectations. Acquired properties may have characteristics or deficiencies affecting their valuation or revenue potential that we have not yet discovered. We cannot assure our stockholders that the performance of properties acquired or developed by us will increase or be maintained under our management.

We may fail to obtain the financial results expected from development or redevelopment projects.
There are significant risks associated with development and redevelopment projects, including the possibility that:

- We may not complete development or redevelopment projects on schedule or within budgeted amounts;
- We may be unable to lease development or redevelopment projects on schedule or within budgeted amounts;
- We may encounter project delays or cancellations due to unavailability of necessary construction materials;
- We may expend funds on, and devote management's time to, development and redevelopment projects that we may not complete;
- We may abandon development or redevelopment projects after we begin to explore them, and as a result, we may lose deposits or fail to recover costs already incurred;
- Market and economic conditions may deteriorate, which can result in lower-than-expected rental rates;
- We may face higher operating costs than we anticipated for development or redevelopment projects, including insurance premiums, utilities, real estate taxes, and costs of complying with changes in government regulations;
- We may face higher requirements for capital improvements than we anticipated for development or redevelopment projects, particularly in older structures;
- We may be unable to proceed with development or redevelopment projects because we cannot obtain debt and/or equity financing on favorable terms or at all;
- We may fail to retain tenants that have pre-leased our development or redevelopment projects if we do not complete the construction of these properties in a timely manner or to the tenants' specifications;
- Tenants that have pre-leased our development or redevelopment projects may file for bankruptcy or become insolvent, adversely affecting the income produced by, and the value of; our properties or requiring us to change the scope of the project, potentially resulting in higher construction costs and lower financial returns;
- We may encounter delays, refusals, unforeseen cost increases, and other impairments resulting from third-party litigation or severe weather conditions;
- We may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy, and other required government permits and authorizations; and
- Development or redevelopment projects may have defects we do not discover through our inspection processes, including latent defects that may not reveal themselves until many years after we put a property in service.

The realization of any of the above risks could significantly and adversely affect our ability to meet our financial expectations, our financial condition, results of operations, and cash flows, our ability to make distributions to our stockholders, the market price of our common stock, and our ability to satisfy our debt service obligations.

We could default on leases for land on which some of our properties are located or held for future development.

If we default under the terms of a ground lease obligation, we may lose the ownership rights to the property subject to the lease. Upon expiration of a ground lease and all of its options, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase in rental expense could have a material adverse effect on our financial condition, results of operations, and cash flows, and our ability to

satisfy our debt service obligations and pay distributions to our stockholders, as well as the market price of our common stock. Refer to “Ground Lease Obligations” in the “Sources and Uses of Capital” section under Item 7 of this annual report on Form 10-K for additional information on our ground lease obligations.

We may not be able to operate properties successfully and profitably.

Our success depends in large part upon our ability to operate our properties successfully. If we are unable to do so, our business could be adversely affected. The ownership and operation of real estate is subject to many risks that may adversely affect our business and our ability to make payments to our stockholders, including the risks that:

- Our properties may not perform as we expect;
- We may have to lease space at rates below our expectations;
- We may not be able to obtain financing on acceptable terms; and
- We may underestimate the cost of improvements required to maintain or improve space to meet standards established for the market position intended for that property.

The realization of any of the above risks could significantly and adversely affect our ability to meet our financial expectations, our financial condition, results of operations, and cash flows, our ability to make distributions to our stockholders, the market price of our common stock, and our ability to satisfy our debt service obligations.

We may not be able to attain the expected return on our investments in real estate joint ventures.

As of December 31, 2016, we had several consolidated and unconsolidated real estate joint ventures in which we shared ownership and decision-making power with one or more parties. Our joint venture partners must agree in order for the applicable joint venture to take specific major actions, including budget approvals, acquisitions, sales of assets, debt financing, executing lease agreements, and vendor approvals. Under these joint venture arrangements, any disagreements between us and our partners may result in delayed decisions. Our inability to take unilateral actions that we believe are in our best interests may result in missed opportunities and an ineffective allocation of resources and could have an adverse effect on the financial performance of the joint venture and our operating results.

We may experience increased operating costs, which may reduce profitability to the extent that we are unable to pass those costs on to tenants.

Our properties are subject to increases in operating expenses, including insurance, property taxes, utilities, administrative costs, and other costs associated with security, landscaping, and repairs and maintenance of our properties. As of December 31, 2016, approximately 97% of our leases (on an RSF basis) were triple net leases, requiring 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. However, we cannot be certain that our tenants will be able to bear the full burden of these higher costs or that such increased costs will not lead them, or other prospective tenants, to seek space elsewhere. If operating expenses increase, the availability of other comparable space in the markets we operate in may hinder or limit our ability to increase our rents. Additionally, if operating expenses increase without a corresponding increase in revenues, our profitability could diminish and limit our ability to make distributions to our stockholders.

The cost of maintaining the quality of our properties may be higher than anticipated, which can result in reduced cash flows and profitability.

If our properties are not as attractive to current and prospective tenants in terms of rent, services, condition, or location as properties owned by our competitors, we could lose tenants or suffer lower rental rates. As a result, we may, from time to time, be required to make significant capital expenditures to maintain the competitiveness of our properties. However, there can be no assurances that any such expenditures would result in higher occupancy or higher rental rates or deter existing tenants from relocating to properties owned by our competitors.

Our inability to renew leases or re-lease space on favorable terms as leases expire may significantly affect our business.

Our revenues are derived primarily from rental payments and reimbursement of operating expenses under our leases. If tenants experience a downturn in their business or other types of financial distress, they may be unable to make timely payments under their leases. Also, if our tenants terminate early or decide not to renew their leases, we may not be able to re-lease the space. Even if tenants decide to renew or lease space, the terms of renewals or new leases, including the cost of any tenant improvements, concessions, and lease commissions, may be less favorable to us than current lease terms. Consequently, we could generate less cash flows from the affected properties than expected, which could negatively impact our business. We may have to divert cash flows generated by other properties to meet our debt service payments, if any, or to pay other expenses related to owning the affected properties.

The inability of a tenant to pay us rent could adversely affect our business.

Our revenues are derived primarily from rental payments and reimbursement of operating expenses under our leases. If our tenants, especially significant tenants, fail to make rental payments under their leases, our financial condition, cash flows, and ability to make distributions to our stockholders could be adversely affected.

The bankruptcy or insolvency of a major tenant may also adversely affect the income produced by a property. If any of our tenants becomes a debtor in a case under the U.S. Bankruptcy Code, as amended, we cannot evict that tenant solely because of its bankruptcy. The bankruptcy court may authorize the tenant to reject and terminate its lease with us. Our claim against such a tenant for uncollectible future rent would be subject to a statutory limitation that might be substantially less than the remaining rent actually owed to us under the tenant's lease. Any shortfall in rent payments could adversely affect our cash flows and our ability to make distributions to our stockholders.

We could be held liable for damages resulting from our tenants' use of hazardous materials.

Many of our tenants engage in research and development activities that involve controlled use of hazardous materials, chemicals, and biological and radioactive compounds. In the event of contamination or injury from the use of these hazardous materials, we could be held liable for damages that result. This liability could exceed our resources and any recovery available through any applicable insurance coverage, which could adversely affect our ability to make distributions to our stockholders.

Together with our tenants, we must comply with federal, state, and local laws and regulations governing the use, manufacture, storage, handling, and disposal of hazardous materials and waste products. Failure to comply with these laws and regulations, or changes thereto, could adversely affect our business or our tenants' businesses and their ability to make rental payments to us.

Our properties may have defects that are unknown to us.

Although we thoroughly review the physical condition of our properties before they are acquired, and as they are developed and redeveloped, any of our properties may have characteristics or deficiencies unknown to us that could adversely affect the property's value or revenue potential.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs to remedy the problem.

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne

toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses, and bacteria. Indoor exposure to airborne toxins or irritants above certain levels may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants, and others if property damage or health concerns arise.

We may not be able to obtain additional capital to further our business objectives.

Our ability to acquire, develop, or redevelop properties depends upon our ability to obtain capital. The real estate industry has historically experienced periods of volatile debt and equity capital markets and/or periods of extreme illiquidity. A prolonged period in which we cannot effectively access the public equity or debt markets may result in heavier reliance on alternative financing sources to undertake new investments. An inability to obtain equity or debt capital on acceptable terms could delay or prevent us from acquiring, financing, and completing desirable investments and could otherwise adversely affect our business. Also, the issuance of additional shares of capital stock or interests in subsidiaries to fund future operations could dilute the ownership of our then-existing stockholders. Even as liquidity returns to the market, debt and equity capital may be more expensive than in prior years.

We may not be able to sell our properties quickly to raise money.

Investments in real estate are relatively illiquid compared to other investments. Accordingly, we may not be able to sell our properties when we desire or at prices acceptable to us in response to changes in economic or other conditions. In addition, the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), limits our ability to sell properties held for less than two years. These limitations on our ability to sell our properties may adversely affect our cash flows, our ability to repay debt, and our ability to make distributions to our stockholders.

Adverse changes in our credit ratings could negatively affect our financing ability.

Our credit ratings may affect the amount of capital we can access, as well as the terms and pricing of any debt we may incur. There can be no assurance that we will be able to maintain our current credit ratings. In the event that our current credit ratings are downgraded or removed, we would most likely incur higher borrowing costs and experience greater difficulty in obtaining additional financing, which would in turn have a material adverse impact on our financial condition, results of operations, cash flows, and liquidity.

We may not be able to refinance our debt, and/or our debt may not be assumable.

Due to the high volume of real estate debt financing in recent years, the real estate industry may require more funds to refinance debt maturities than are available from lenders. This potential shortage of available funds from lenders and stricter credit underwriting guidelines may limit our ability to refinance our debt as it matures or may adversely affect our financial condition, results of operations, cash flows, our ability to make distributions to our stockholders, and the market price of our common stock.

We may not be able to borrow additional amounts through the issuance of unsecured bonds, under our unsecured senior line of credit, or through unsecured senior bank term loans.

There is no assurance that we will be able to access the unsecured bond market on favorable terms. Our ability to borrow additional amounts through the issuance of unsecured bonds may be negatively impacted by periods of illiquidity in the bond market.

Aggregate unsecured borrowings under our unsecured senior line of credit and unsecured senior bank term loans require compliance with certain financial and non-financial covenants. Borrowings under our unsecured senior line of credit and unsecured senior bank term loans are funded by a group of banks. Our ability to borrow additional amounts under our unsecured senior line of credit and unsecured senior bank term loans may be negatively impacted by a decrease in cash flows from our properties, a default or cross-default under our unsecured senior line of credit and unsecured senior bank term loans, non-compliance with one or more loan covenants, and non-performance or failure of one or more lenders under our unsecured senior line of credit and unsecured senior bank term loans. In addition, we may not be able to refinance or repay outstanding borrowings on our unsecured senior line of credit or unsecured

senior bank term loans.

Our inability to borrow additional amounts on an unsecured basis could delay us in or prevent us from acquiring, financing, and completing desirable investments, which could adversely affect our business; and our inability to refinance or repay amounts under our unsecured senior line of credit or unsecured senior bank term loans may adversely affect our cash flows, ability to make distributions to our stockholders, financial condition, and results of operations.

If interest rates rise, our debt service costs will increase and the value of our properties may decrease.

Our unsecured senior line of credit, unsecured senior bank term loans, and certain other borrowings bear interest at variable rates, and we may incur additional variable-rate debt in the future. Increases in market interest rates would increase our interest expense under these debt instruments and would increase the costs of refinancing existing indebtedness or obtaining new debt. Additionally, increases in market interest rates may result in a decrease in the value of our real estate and a decrease the market price of our common stock. Accordingly, these increases could adversely affect our financial condition and our ability to make distributions to our stockholders.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

The interest rate hedge agreements we use to manage some of our exposure to interest rate volatility involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements. In addition, these arrangements may not be effective in reducing our exposure to changes in interest rates. These risk factors may lead to failure to hedge effectively against changes in interest rates and therefore could adversely affect our results of operations.

Our unsecured senior line of credit and unsecured senior bank term loans restrict our ability to engage in some business activities.

Our unsecured senior line of credit and unsecured senior bank term loans contain customary negative covenants and other financial and operating covenants that, among other things:

- Restrict our ability to incur additional indebtedness;
- Restrict our ability to make certain investments;
- Restrict our ability to merge with another company;
- Restrict our ability to make distributions to stockholders;
- Require us to maintain financial coverage ratios; and
- Require us to maintain a pool of qualified unencumbered assets.

Complying with these restrictions may prevent us from engaging in certain profitable activities and constrain our ability to effectively allocate capital. Failure to comply with these restrictions may result in our defaulting on these and other loans, which would likely have a negative impact on our operations, financial condition, and ability to make distributions to our stockholders.

Our debt service obligations may have adverse consequences on our business operations.

We use debt to finance our operations, including the acquisition, development, and redevelopment of properties. Our use of debt may have adverse consequences, including the following:

- Our cash flows from operations may not be sufficient to meet required payments of principal and interest;
- We may be forced to dispose of one or more of our properties, possibly on disadvantageous terms, to make payments on our debt;
- If we default on our debt obligations, the lenders or mortgagees may foreclose on our properties that secure those loans;
- A foreclosure on one of our properties could create taxable income without any accompanying cash proceeds to pay the tax;
- A default under a loan that has cross-default provisions may cause us to automatically default on another loan or interest rate hedge agreement;
- We may not be able to refinance or extend our existing debt;

- The terms of any refinancing or extension may not be as favorable as the terms of our existing debt;
- We may be subject to a significant increase in the variable interest rates on our unsecured senior line of credit, unsecured senior bank term loans, and certain other borrowings, which could adversely impact our cash flows and operations; and
- The terms of our debt obligations may require a reduction in our distributions to stockholders.

If our revenues are less than our expenses, we may have to borrow additional funds, and we may not be able to make distributions to our stockholders.

If our properties do not generate revenues sufficient to meet our operating expenses, including our debt service obligations and capital expenditures, we may have to borrow additional amounts to cover fixed costs and cash flow needs. This could adversely affect our ability to make distributions to our stockholders. Factors that could adversely affect the revenues we generate from, and the values of, our properties include:

- National, local, and worldwide economic conditions;
- Competition from other properties;
- Changes in the life science and technology industries;
- Real estate conditions in our target markets;
- Our ability to collect rent payments;
- The availability of financing;
- Changes to the financial and banking industries;
- Changes in interest rate levels;
- Vacancies at our properties and our ability to re-lease space;
- Changes in tax or other regulatory laws;
- The costs of compliance with government regulation;
- The lack of liquidity of real estate investments; and
- Increases in operating costs.

In addition, if a lease at a property is not a triple net lease, we will have greater exposure to increases in expenses associated with operating that property. Significant expenditures, such as mortgage payments, real estate taxes, insurance, and maintenance costs, are generally fixed and do not decrease when revenues at the related property decrease.

If we fail to effectively manage our debt obligations, we could become highly leveraged, and our debt service obligations could increase to unsustainable levels.

Our organizational documents do not limit the amount of debt that we may incur. Therefore, if we fail to prudently manage our capital structure, we could become highly leveraged. This would result in an increase in our debt service obligations that could adversely affect our cash flows and our ability to make distributions to our stockholders. Higher leverage could also increase the risk of default on our debt obligations.

Market volatility may negatively affect our business.

The capital and credit markets have experienced volatility for several years. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial and/or operating strength. If market disruption and volatility worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our business, financial condition, and results of operations. Disruptions, uncertainty, or volatility in the capital markets may also limit our access to capital from financial institutions on favorable terms, or altogether, and our ability to raise capital through the issuance of equity securities could be adversely affected by causes beyond our control through extraordinary disruptions in the global economy and financial systems or through other events.

Failure to meet market expectations for our financial performance would likely adversely affect the market price and volatility of our stock.

Our expected financial results may not be achieved, and actual results may differ materially from our expectations. This may be a result of various factors, including, but not limited to:

- The status of the economy;
- The status of capital markets, including availability and cost of capital;
- Changes in financing terms available to us;
- Negative developments in the operating results or financial condition of tenants, including, but not limited to, their ability to pay rent;
- Our ability to re-lease space at similar rates as vacancies occur;
- Our ability to reinvest sale proceeds in a timely manner at rates similar to the rate at which assets are sold;

- Regulatory approval and market acceptance of the products and technologies of tenants;
- Liability or contract claims by or against tenants;
- Unanticipated difficulties and/or expenditures relating to future acquisitions;
- Environmental laws affecting our properties;
- Changes in rules or practices governing our financial reporting; and
- Other legal and operational matters, including REIT qualification and key management personnel recruitment and retention.

Failure to meet market expectations, particularly with respect to funds from operations per share, earnings estimates, operating cash flows, and revenues, would likely result in a decline and/or increased volatility in the market price of our common stock or other outstanding securities.

The price per share of our stock may fluctuate significantly.

The market price per share of our common stock may fluctuate significantly in response to many factors, including, but not limited to:

- The availability and cost of debt and/or equity capital;
- The condition of our balance sheet;
- Actual or anticipated capital requirements;
- The condition of the financial and banking industries;
- Actual or anticipated variations in our quarterly operating results or dividends;
- The amount and timing of debt maturities and other contractual obligations;
- Changes in our funds from operations or projections;
- The publication of research reports and articles about us, our tenants, the real estate industry, or the life science and technology industries;
- The general reputation of REITs and the attractiveness of their equity securities in comparison to other debt or equity securities (including securities issued by other real estate-based companies);
- General stock and bond market conditions, including changes in interest rates on fixed-income securities, that may lead prospective stockholders to demand a higher annual yield from future dividends;
- Changes in our analyst ratings;
- Changes in our corporate credit rating or credit ratings of our debt or other securities;
- Changes in market valuations of similar companies;
- Adverse market reaction to any additional debt we incur in the future;
- Additions or departures of key management personnel;
- Actions by institutional stockholders;
- Speculation in the press or investment community;
- Terrorist activity adversely affecting the markets in which our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;
- Government regulatory action and changes in tax laws;
- The realization of any of the other risk factors included in this annual report on Form 10-K; and
- General market and economic conditions.

Many of the factors listed above are beyond our control. These factors may cause the market price of shares of our common stock to decline, regardless of our financial condition, results of operations, business, or prospects.

Possible future sales of shares of our common stock could adversely affect its market price.

We cannot predict the effect, if any, of future sales of shares of our common stock on the market price of our common stock from time to time. Sales of substantial amounts of capital stock (including the conversion or redemption of

preferred stock), or the perception that such sales may occur, could adversely affect prevailing market prices for our common stock. Refer to “Other Sources” in the “Sources and Uses of Capital” section under Item 7 in this annual report on Form 10-K.

We have reserved a number of shares of common stock for issuance to our directors, officers, and employees pursuant to our Amended and Restated 1997 Stock Award and Incentive Plan (sometimes referred to herein as our “equity incentive plan”). We have filed a registration statement with respect to the issuance of shares of our common stock pursuant to grants under our equity incentive plan. In addition, any shares issued under our equity incentive plan will be available for sale in the public market from time to time

without restriction by persons who are not our "affiliates" (as defined in Rule 144 adopted under the Securities Act of 1933). Affiliates will be able to sell shares of our common stock subject to restrictions under Rule 144.

The conversion rights of our convertible preferred stock may be detrimental to holders of common stock.

Subject to certain conditions, we may, at our option, be able to cause some or all of our 7.00% Series D cumulative convertible preferred stock ("Series D Convertible Preferred Stock") to automatically convert to common stock. Holders of our Series D Convertible Preferred Stock, at their option, may, at any time and from time to time, convert some or all of their outstanding shares to common stock.

The conversion of our Series D Convertible Preferred Stock into our common stock would dilute the ownership of our then-existing common stockholders and could adversely affect the market price of our common stock or impair our ability to raise capital through the sale of additional equity securities. Any adjustments that increase the conversion rate of our Series D Convertible Preferred Stock would increase its dilutive effect. Further, the conversion rights by the holders of our Series D Convertible Preferred Stock might be triggered in situations in which we need to conserve our cash reserves, in which event, our election, under certain conditions, to repurchase such Series D Convertible Preferred Stock in lieu of converting it into common stock might adversely affect us and our stockholders.

Our distributions to stockholders may decline at any time.

We may not continue our current level of distributions to our stockholders. Our Board of Directors will determine future distributions based on a number of factors, including:

- The amount of cash provided by operating activities available for distribution;
- Our financial condition and capital requirements;
- Any decision to reinvest funds rather than to distribute such funds;
- Our capital expenditures;
- The annual distribution requirements under the REIT provisions of the Internal Revenue Code;
- Restrictions under Maryland law; and
- Other factors our Board of Directors deems relevant.

A reduction in distributions to stockholders may negatively impact our stock price.

Distributions on our common stock may be made in the form of cash, stock, or a combination of both.

As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders. Typically, we generate cash for distributions through our operations, the disposition of assets, or the incurrence of additional debt. Our Board of Directors may determine in the future to pay dividends on our common stock in cash, in shares of our common stock, or in a combination of cash and shares of our common stock. For example, we may declare dividends payable in cash or stock at the election of each stockholder, subject to a limit on the aggregate cash that could be paid. Any such dividend would be distributed in a manner intended to count in full toward the satisfaction of our annual distribution requirements and to qualify for the dividends paid deduction. While the IRS privately has ruled that such a dividend would so qualify if certain requirements are met, no assurances can be provided that the IRS would not assert a contrary position in the future. Moreover, a reduction in the cash yield on our common stock may negatively impact our stock price.

We have certain ownership interests outside the U.S. that may subject us to risks different from or greater than those associated with our domestic operations.

We have three operating properties in Canada and two operating properties in China. Acquisition, development, redevelopment, ownership, and operating activities outside the U.S. involve risks that are different from those we face with respect to our domestic properties and operations. These risks include, but are not limited to:

- Adverse effects of changes in exchange rates for foreign currencies;
- Challenges and/or taxation with respect to the repatriation of foreign earnings or repatriation of proceeds from the sale of one or more of our foreign investments;
- Changes in foreign political, regulatory, and economic conditions, including nationally, regionally, and locally;
- Challenges in managing international operations;

- Challenges in hiring or retaining key management personnel;
- Challenges of complying with a wide variety of foreign laws and regulations, including those relating to real estate, corporate governance, operations, taxes, employment, and legal proceedings;
- Differences in lending practices;
- Differences in languages, cultures, and time zones;
- Changes in applicable laws and regulations in the U.S. that affect foreign operations;
- Changes in tax and local regulations with potentially adverse tax consequences and penalties; and
- Foreign ownership and transfer restrictions.

In addition, our foreign investments are subject to taxation in foreign jurisdictions based on local tax laws and regulations and on existing international tax treaties. We have invested in foreign markets under the assumption that our future earnings in each of those countries will be taxed at the current prevailing income tax rates. There are no guarantees that foreign governments will continue to honor existing tax treaties that we have relied upon for our foreign investments or that the current income tax rates in those countries will not increase significantly, thus impacting our ability to repatriate our foreign investments and related earnings.

Investments in international markets may also subject us to risks associated with establishing effective controls and procedures to regulate the operations of new offices and to monitor compliance with U.S. laws and regulations, including the Foreign Corrupt Practices Act and similar foreign laws and regulations. The Foreign Corrupt Practices Act and similar applicable anti-corruption laws prohibit individuals and entities from offering, promising, authorizing, or providing payments or anything of value, directly or indirectly, to government officials in order to obtain, retain, or direct business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially adversely affect our results of operations or the value of our international investments. In addition, if we fail to effectively manage our international operations, our overall financial condition, results of operations, and cash flows, and the market price of our common stock could be adversely affected.

Further, we may in the future enter into agreements with non-U.S. entities that are governed by the laws of, and are subject to dispute resolution rules of, another country or region. In some cases, such a country or region might not have a forum that provides us an effective or efficient means for resolving disputes that may arise under these agreements.

We are subject to risks and liabilities in connection with properties owned through partnerships, limited liability companies, and joint ventures.

Our organizational documents do not limit the amount of funds that we may invest in non-wholly owned partnerships, limited liability companies, or joint ventures. Partnership, limited liability company, or joint venture investments involve certain risks, including, but not limited to, the following:

- Upon bankruptcy of non-wholly owned partnerships, limited liability companies, or joint venture entities, we may become liable for the liabilities of the partnership, limited liability company, or joint venture;
- We may share certain approval rights over major decisions with third parties;
- We may be required to contribute additional capital if our partners fail to fund their share of any required capital contributions;
- Our partners, co-members, or joint venture partners might have economic or other business interests or goals that are inconsistent with our business interests or goals and that could affect our ability to lease or re-lease the property, operate the property, or maintain our qualification as a REIT;
- Our ability to sell the interest on advantageous terms when we so desire may be limited or restricted under the terms of our agreements with our partners; and
- We may not continue to own or operate the interests or assets underlying such relationships or may need to purchase such interests or assets at an above-market price to continue ownership.

We generally seek to maintain control of our partnerships, limited liability companies, and joint venture investments in a manner sufficient to permit us to achieve our business objectives. However, we may not be able to do so, and the occurrence of one or more of the events described above could adversely affect our financial condition, results of operations, cash flows, or our ability to make distributions to our stockholders, or the market price of our common stock.

Market and other external factors may adversely impact the valuation of equity investments.

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science and technology industries. The valuation of these investments is affected by many external factors beyond our control, including, but not limited to, market prices, market conditions, the effect of healthcare reform legislation, prospects for favorable or unfavorable clinical trial results, new product initiatives, the manufacturing and distribution of new products, product safety and efficacy issues, and new collaborative agreements. Unfavorable developments with respect to any of these factors may have an adverse impact on the valuation of our equity investments.

Market and other external factors may negatively impact the liquidity of our non-real estate investments.

We make and hold investments in privately held life science and technology companies. These investments may be illiquid, which could impede our ability to realize the value at which these investments are carried if we are required to dispose of them. The lack of liquidity of these investments may make it difficult for us to sell these investments on a timely basis and may impair the value of these investments. If we are required to liquidate all or a portion of these investments quickly, we may realize significantly less than the amounts at which we had previously valued these investments. Any sales of these non-real estate investments may result in our recognizing a loss on such sales.

We face risks associated with short-term liquid investments.

From time to time, we may have significant cash balances that we invested in a variety of short-term investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. These investments may include (either directly or indirectly) obligations (including certificates of deposit) of banks, money market funds, treasury bank securities, and other short-term securities. Investments in these securities and funds are not insured against loss of principal. Under certain circumstances, we may be required to redeem all or part of these securities or funds at less than par value. A decline in the value of our investments, or a delay or suspension of our right to redeem them, may have a material adverse effect on our results of operations or financial condition and our ability to pay our obligations as they become due.

We could incur significant costs due to the financial condition of our insurance carriers.

We insure our properties with insurance companies that we believe have a good rating at the time our policies are put into effect. The financial condition of one or more of the insurance companies that we hold policies with may be negatively impacted, which can result in their inability to pay on future insurance claims. Their inability to pay future claims may have a negative impact on our financial results. In addition, the failure of one or more insurance companies may increase the cost of renewing our insurance policies or increase the cost of insuring additional properties and recently developed or redeveloped properties.

Our insurance may not adequately cover all potential losses.

If we experience a loss at any of our properties that is not covered by insurance, that exceeds our insurance policy limits, or that is subject to a policy deductible, we could lose the capital invested in the affected property and, possibly, future revenues from that property. In addition, we could continue to be obligated on any mortgage indebtedness or other obligations related to the affected properties. We carry comprehensive liability, fire, extended coverage, and rental loss insurance with respect to our properties. We have obtained earthquake insurance for our properties that are located in the vicinity of active earthquake zones. We also carry environmental remediation insurance and have title insurance policies for our properties. We generally obtain our title insurance policies when we acquire the property; each policy covers an amount equal to the initial purchase price of each property. Accordingly, any of our title insurance policies may be in an amount less than the current value of the covered property.

Our tenants are also required to maintain comprehensive insurance, including liability and casualty insurance that is customarily obtained for similar properties. There are, however, certain types of losses that we and our tenants do not generally insure against because they are uninsurable or because it is not economical to insure against them. The availability of coverage against certain types of losses, such as from terrorism or toxic mold, has become more limited and, when available, carries a significantly higher cost. We cannot predict whether insurance coverage against terrorism or toxic mold will remain available for our properties because insurance companies may no longer offer coverage against such losses, or such coverage, if offered, may become prohibitively expensive. We have not had material losses from terrorism or toxic mold at any of our properties.

The loss of services of any of our senior officers could adversely affect us.

We depend upon the services and contributions of relatively few senior officers. The loss of services or contributions of any one of them may adversely affect our business, financial condition, and prospects. We use the extensive personal and business relationships that members of our management have developed over time with owners of office/laboratory and tech office properties and with major tenants in the life science and technology industries. We cannot assure our stockholders that our senior officers will remain employed with us.

Competition for skilled personnel could increase labor costs.

We compete with various other companies in attracting and retaining qualified and skilled personnel. We depend on our ability to attract and retain skilled management personnel who are responsible for the day-to-day operations of our company. Competitive pressures may require that we enhance our pay and benefits package to compete effectively for such personnel. We may not be able to offset such additional costs by increasing the rates we charge tenants. If there is an increase in these costs or if we fail to attract and retain qualified and skilled personnel, our business and operating results could be adversely affected.

Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business, results of operations, financial condition, and stock price.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of internal control. Changes to our business will necessitate ongoing changes to our internal control systems and processes. Internal control over financial reporting may not prevent or detect misstatement because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, results of operations, and financial condition could be materially harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on the market price of our common stock.

If we failed to qualify as a REIT, we would be taxed at corporate rates and would not be able to take certain deductions when computing our taxable income.

If, in any taxable year, we failed to qualify as a REIT:

- We would be subject to federal and state income taxes on our taxable income at regular corporate rates;
- We would not be allowed a deduction for distributions to our stockholders in computing taxable income;
- We would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification, unless we were entitled to relief under the Internal Revenue Code; and
- We would no longer be required by the Internal Revenue Code to make distributions to our stockholders.

As a result of any additional tax liability, we might need to borrow funds or liquidate certain investments in order to pay the applicable tax. Accordingly, funds available for investment or distribution to our stockholders would be reduced for each of the years involved.

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code to our operations and financial results, and the determination of various factual matters and circumstances not entirely within our control. There are only limited judicial or administrative interpretations of these provisions. Although we believe that we have operated in a manner so as to qualify as a REIT, we cannot assure our stockholders

that we are or will remain so qualified.

In addition, although we are not aware of any pending tax legislation that would adversely affect our ability to operate as a REIT, new legislation, including legislation that may be introduced from time to time as a result of a change in administration of the U.S government, as well as regulations, administrative interpretations, or court decisions, could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is adverse to our stockholders.

We are dependent on third parties to manage the amenities at our properties.

We retain third-party managers to manage certain amenities at our properties, such as restaurants, conference centers, exercise facilities, and parking garages. Our income from our properties may be adversely affected if these parties fail to provide quality services and amenities with respect to our properties. While we monitor the performance of these third parties, we may have limited recourse if we believe they are not performing adequately. In addition, these third-party managers may operate, and in some cases may own or invest in, properties that compete with our properties, which may result in conflicts of interest. As a result, these third-party managers may have made, and may in the future make, decisions that are not in our best interests.

We may change our business policies without stockholder approval.

Our Board of Directors determines all of our material business policies, with management's input, including those related to our:

- Status as a REIT;
- Incurrence of debt and debt management activities;
- Selective acquisition, disposition, development, and redevelopment activities;
- Stockholder distributions; and
- Other policies, as appropriate.

Our Board of Directors may amend or revise these policies at any time without a vote of our stockholders. A change in these policies could adversely affect our business and our ability to make distributions to our stockholders.

There are limits on the ownership of our capital stock under which a stockholder may lose beneficial ownership of its shares and that may delay or prevent transactions that might otherwise be desired by our stockholders.

In order for a company to qualify as a REIT under the Internal Revenue Code, not more than 50% of the value of its outstanding stock may be owned, directly or constructively, by five or fewer individuals or entities (as set forth in the Internal Revenue Code) during the last half of a taxable year. Furthermore, shares of our company's outstanding stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

In order for us to maintain our qualification as a REIT, among other things, our charter provides for an ownership limit, which prohibits, with certain exceptions, direct or constructive ownership of shares of stock representing more than 9.8% of the combined total value of our outstanding shares of stock by any person, as defined in our charter. Our Board of Directors, in its sole discretion, may waive the ownership limit for any person. However, our Board of Directors may not grant such waiver if, after giving effect to such waiver, we would be "closely held" under Section 856(h) of the Internal Revenue Code. As a condition to waiving the ownership limit, our Board of Directors may require a ruling from the IRS or an opinion of counsel in order to determine our status as a REIT. Notwithstanding the receipt of any such ruling or opinion, our Board of Directors may impose such conditions or restrictions as it deems appropriate in connection with granting a waiver.

Our charter further prohibits transferring shares of our stock if such transfer would result in our being "closely held" under Section 856(h) of the Internal Revenue Code or would result in shares of our stock being owned by fewer than 100 persons.

The constructive ownership rules are complex and may cause shares of our common stock owned directly or constructively by a group of related individuals or entities to be constructively owned by one individual or entity. A transfer of shares to a person who, as a result of the transfer, violates these limits shall be void or these shares shall be

exchanged for shares of excess stock and transferred to a trust for the benefit of one or more qualified charitable organizations designated by us. In that case, the intended transferee will have only a right to share, to the extent of the transferee's original purchase price for such shares, in proceeds from the trust's sale of those shares and will effectively forfeit its beneficial ownership of the shares. These ownership limits could delay, defer, or prevent a transaction or a change in control that might involve a premium price for the holders of our common stock or that might otherwise be desired by such holders.

In addition to the ownership limit, certain provisions of our charter and bylaws may delay or prevent transactions that may be deemed to be desirable to our stockholders.

As authorized by Maryland law, our charter allows our Board of Directors to cause us to issue additional authorized but unissued shares of our common stock or preferred stock and to classify or reclassify unissued shares of common or preferred stock without any stockholder approval. Our Board of Directors could establish a series of preferred stock that could delay, defer, or prevent a transaction that might involve a premium price for our common stock or that might, for other reasons, be desired by our common stockholders, or a series of preferred stock that has a dividend preference that may adversely affect our ability to pay dividends on our common stock.

Our charter permits the removal of a director only upon a two-thirds majority of the votes entitled to be cast generally in the election of directors, and our bylaws require advance notice of a stockholder's intention to nominate directors or to present business for consideration by stockholders at an annual meeting of our stockholders. Our charter and bylaws also contain other provisions that may delay, defer, or prevent a transaction or change in control that involves a premium price for our common stock or that, for other reasons, may be desired by our stockholders.

Market and industry factors

We face substantial competition in our target markets.

The significant competition for business in our target markets could have an adverse effect on our operations. We compete for investment opportunities with:

- Other REITs;
- Insurance companies;
- Pension and investment funds;
- Private equity entities;
- Partnerships;
- Developers;
- Investment companies;
- Owners/occupants; and
- Foreign investors, including sovereign wealth funds.

Many of these entities have substantially greater financial resources than we do and may be able to pay more than we can or accept more risk than we are willing to accept. These entities may be less sensitive to risks with respect to the creditworthiness of a tenant or the geographic concentration of their investments. Competition may also reduce the number of suitable investment opportunities available to us or may increase the bargaining power of property owners seeking to sell.

Poor economic conditions in our markets could adversely affect our business.

Our properties are primarily located in the following markets:

- Greater Boston;
- San Francisco;
- New York City;
- San Diego;
- Seattle;
- Maryland; and
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Research Triangle Park.

As a result of our geographic concentration, we depend upon the local economic and real estate conditions in these markets. We are, therefore, subject to increased exposure (positive or negative) to economic, tax, and other competitive factors specific to markets in confined geographic areas. Our operations may also be affected if too many competing properties are built in any of these markets. An economic downturn in any of these markets could adversely affect our operations and our ability to make distributions to stockholders. We cannot assure our stockholders that these markets will continue to grow or remain favorable to the life science and technology industries.

Improvements to our properties are significantly more costly than improvements to traditional office space.

Many of our properties generally contain infrastructure improvements that are significantly more costly than improvements to other property types. Although we have historically been able to recover the additional investment in infrastructure improvements through higher rental rates, there is the risk that we will not be able to continue to do so in the future. Typical improvements include:

- Reinforced concrete floors;
- Upgraded roof loading capacity;
- Increased floor-to-ceiling heights;
- Heavy-duty HVAC systems;
- Enhanced environmental control technology;
- Significantly upgraded electrical, gas, and plumbing infrastructure; and
- Laboratory benches.

We are dependent on the life science and technology industries, and changes within these industries may adversely impact our revenues from lease payments and results of operations.

In general, our business strategy is to invest primarily in properties used by tenants in the life science and technology industries. Our business could be adversely affected if the life science and technology industries are impacted by an economic, financial, or banking crisis, or if the life science and technology industries migrate from the U.S. to other countries. Because of our industry focus, events within these industries may have a more pronounced effect on our results of operations and ability to make distributions to our stockholders than if we had more diversified investments. Also, some of our properties may be better suited for a particular life science and technology tenant and could require significant modification before we are able to re-lease space to another tenant. Generally, our properties may not be suitable for lease to traditional office tenants without significant expenditures on renovations.

Our ability to negotiate contractual rent escalations on future leases and to achieve increases in rental rates will depend upon market conditions and the demand for office/laboratory and tech office properties at the time the leases are negotiated and the increases are proposed.

It is common for businesses in the life science and technology industries to undergo mergers or consolidations. Mergers or consolidations of life science and technology entities in the future could reduce the RSF requirements of our tenants and prospective tenants, which may adversely impact our revenues from lease payments and results of operations.

Some of our current or future tenants may include high-tech companies in their startup or growth life cycle. Fluctuations in market confidence vested in these companies or adverse changes in economic conditions may have a disproportionate effect on operations of such companies. Deteriorations in the financial conditions of our tenants may result in our inability to collect rental payments from them and therefore may negatively impact our results of operations.

Our results of operations depend on our tenants' research and development efforts and their ability to obtain funding for these efforts.

Our tenant base includes entities in the pharmaceutical, biotechnology, medical device, life science, technology, and related industries; academic institutions; government institutions; and private foundations. Our tenants base their research and development budgets on several factors, including the need to develop new products, the availability of government and other funding, competition, and the general availability of resources.

Research and development budgets fluctuate due to changes in available resources, research priorities, general economic conditions, institutional and government budgetary limitations, and mergers and consolidations of entities. Our business could be adversely impacted by a significant decrease in research and development expenditures by either our tenants or the life science and technology industries.

Additionally, our tenants include research institutions whose funding is largely dependent on grants from government agencies, such as the National Institutes of Health, the National Science Foundation, and similar agencies or organizations. U.S. government funding of research and development is subject to the political process, which is often unpredictable. Other programs, such as Homeland Security or defense, could be viewed by the government as higher priorities. Additionally, proposals to reduce or eliminate budgetary deficits have sometimes included reduced allocations to the National Institutes of Health and other U.S.

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government agencies that fund research and development activities. Any shift away from funding of research and development or delays surrounding the approval of government budget proposals may adversely impact our tenants' operations, which in turn may impact their ability to make lease payments to us and thus adversely impact our results of operations.

Our life science tenants are subject to a number of risks unique to their industry, including (i) high levels of regulation, (ii) failures in the safety and efficacy of their products, (iii) significant funding requirements for product research and development, and (iv) changes in technology, patent expiration, and intellectual property protection. These risks, including the following, may adversely affect their ability to make rental payments to us or satisfy their other lease obligations and consequently may materially adversely affect our business, results of operations, financial condition, and stock price.

High levels of regulation

- Drugs that are developed and manufactured by some of our tenants require regulatory approval, including the approval of the U.S. Food and Drug Administration, prior to being made, marketed, sold, and used. The regulatory approval process to manufacture and market drugs is costly, typically takes several years, requires validation through clinical trials and the use of substantial resources, and is often unpredictable. A tenant may fail to obtain or may experience significant delays in obtaining these approvals. Even if the tenant obtains regulatory approvals, marketed products will be subject to ongoing regulatory review and potential loss of approvals.
- The ability of some of our tenants to commercialize any future products successfully will depend in part on the coverage and reimbursement levels set by government authorities, private health insurers, and other third-party payers. Additionally, reimbursements may decrease in the future.

Failures in the safety and efficacy of their products

- Some of our tenants developing potential products may find that their products are not effective, or even are harmful, when tested in humans.
- Some of our tenants depend upon the commercial success of certain products. Even if a product made by a tenant is successfully developed and proven safe and effective in human clinical trials, and the requisite regulatory approvals are obtained, subsequent discovery of safety issues with these products could cause product liability events, additional regulatory scrutiny and requirements for additional labeling, loss of approval, withdrawal of products from the market, and the imposition of fines or criminal penalties.
- A drug made by a tenant may not be well accepted by doctors and patients, or may be less effective or accepted than a competitor's drug, even if it is successfully developed.
- The negative results of safety signals arising from the clinical trials of the competitors of our tenants may prompt regulatory agencies to take actions that may adversely affect the clinical trials or products of our tenants.

Significant funding requirements for product research and development

- Some of our tenants require significant funding to develop and commercialize their products and technologies, which funding must be obtained from venture capital firms; private investors; the public markets; companies in the life science industry; or federal, state, and local governments. Such funding may become unavailable or difficult to obtain. The ability of each tenant to raise capital will depend on its financial and operating condition, viability of their products, and the overall condition of the financial, banking, and economic environment.
- Even with sufficient funding, some of our tenants may not be able to discover or identify potential drug targets in humans, or potential drugs for use in humans, or to create tools or technologies that are commercially useful in the discovery or identification of potential drug targets or drugs.
- Some of our tenants may not be able to successfully manufacture their drugs economically, even if such drugs are proven through human clinical trials to be safe and effective in humans.
- Marketed products also face commercialization risk, and tenants may never realize projected levels of product utilization or revenues.
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Negative news regarding the products, the clinical trials, or other business developments of our tenants may cause their stock price or credit profile to deteriorate.

Changes in technology, patent expiration, and intellectual property protection

- Our tenants sell products and services in an industry that is characterized by rapid and significant technological changes, frequent new product and service introductions and enhancements, evolving industry standards, and uncertainty over the implementation of new healthcare reform legislation, which may cause them to lose competitive positions and adversely affect their operations.
- Some of our tenants and their licensor require patent, copyright, or trade secret protection to develop, make, market, and sell their products and technologies. A tenant may be unable to commercialize its products or technologies if patents covering such products or technologies are not issued or are successfully challenged, narrowed, invalidated, or circumvented by third parties, or if the tenant fails to obtain licenses to the discoveries of third parties necessary to commercialize its products or technologies.
- Many of our tenants depend upon patents to provide exclusive marketing rights for their products. As their product patents expire, competitors of these tenants may be able to legally produce and market products similar to those products of our tenants, which could have a material adverse effect on their sales and results of operations.

We cannot assure our stockholders that our life science industry tenants will be able to develop, make, market, or sell their products and technologies due to the risks inherent in the life science industry. Any life science industry tenant that is unable to avoid, or sufficiently mitigate, the risks described above may have difficulty making rental payments to us or satisfying their other lease obligations to us. Such risks may also decrease the credit quality of our life science industry tenants or cause us to expend more funds and resources on the space leased by these tenants than we originally anticipated. The increased burden on our resources due to adverse developments relating to our life science industry tenants may cause us to achieve lower-than-expected yields on the space leased by these tenants. Negative news relating to our more significant life science industry tenants may also adversely impact our stock price.

Our technology industry tenants are subject to a number of risks unique to their industry, including (i) an uncertain regulatory environment, (ii) rapid technological changes, (iii) a dependency on the maintenance and security of the Internet infrastructure, (iv) significant funding requirements for product research and development, and (v) inadequate intellectual property protections. These risks, including the following, may adversely affect their ability to make rental payments to us or satisfy their other lease obligations and consequently may materially adversely affect our business, results of operations, financial condition, and stock price.

Uncertain regulatory environment

- Laws and regulations governing the Internet, e-commerce, electronic devices, and other services are evolving. Existing and future laws and regulations may impede the growth of our technology industry tenants. These laws and regulations may cover, among other areas, taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, business licensing, and consumer protection.

Rapid technological changes

- The technology industry is characterized by rapid changes in customer requirements and preferences, frequent new product and service introductions, and the emergence of new industry standards and practices. A failure to respond in a timely manner to these market conditions could materially impair the operations of our technology industry tenants.

Dependency on the maintenance and security of the Internet infrastructure

- Some of our tenants depend on continued and unimpeded access to the Internet by users of their products and services, as well as access to mobile networks. Internet service providers and mobile network operators may be able to block, degrade, or charge additional fees to these tenants or users.
- The Internet has experienced, and is likely to continue to experience, outages and other delays. These outages and delays, as well as problems caused by computer malware, viruses, worms, and similar programs, may materially affect the ability of our technology industry tenants to conduct business.
- Security breaches or network attacks may delay or interrupt the services provided by our tenants and could harm their reputations or subject them to significant liability.

Significant funding requirements for product research and development

- Some of our tenants require significant funding to develop and commercialize their products and technologies, which funding must be obtained from venture capital firms; private investors; the public markets; companies in the technology industry; or federal, state, and local governments. Such funding may become unavailable or difficult to obtain. The ability of each tenant to raise capital will depend on its financial and operating condition, viability of their products, and the overall condition of the financial, banking, and economic environment.
- Even with sufficient funding, some of our tenants may not be able to discover or identify potential customers or may not be able to create tools or technologies that are commercially useful.
- Some of our tenants may not be able to successfully manufacture their products economically.
- Marketed products also face commercialization risk, and tenants may never realize projected levels of product utilization or revenues.
- Negative news regarding the products or other business developments of our tenants may cause their stock price or credit profile to deteriorate.

Inadequate intellectual property protections

- The products and services provided by some of our tenants are subject to the threat of piracy and unauthorized copying, and inadequate intellectual property laws and other inadequate protections could prevent them from enforcing or defending their proprietary technologies. These tenants may also face legal risks arising out of user-generated content.
- Trademark, copyright, patent, domain name, trade dress, and trade secret protection is very expensive to maintain and may require our technology industry tenants to incur significant costs to protect their intellectual property rights.

We cannot assure our stockholders that our technology industry tenants will be able to develop, make, market, or sell their products and services due to the risks inherent in the technology industry. Any technology industry tenant that is unable to avoid, or sufficiently mitigate, the risks described above may have difficulty making rental payments to us or satisfying their other lease obligations to us. Such risks may also decrease the credit quality of our technology industry tenants or cause us to expend more funds and resources on the space leased by these tenants than we originally anticipated. The increased burden on our resources due to adverse developments relating to our technology industry tenants may cause us to achieve lower-than-expected yields on the space leased by these tenants. Negative news relating to our more significant technology industry tenants may also adversely impact our stock price.

Government factors

Negative impact on economic growth resulting from the combination of federal income tax increases, debt policy, and government spending restrictions may adversely affect our results of operations.

Global macroeconomic conditions affect our tenants’ businesses. Developments such as the recent recession and instability in the banking and government sectors of the U.S., Europe, and Asia and/or the negative impact on economic growth resulting from the combination of government tax increases, debt policy, and spending restrictions, may have an adverse effect on our revenue growth and profitability. Volatile, negative, or uncertain economic conditions could undermine business confidence in our significant markets or in other markets and cause our tenants to reduce or defer their spending, which would negatively affect our business. Growth in the markets we serve could be at a slow rate or could stagnate or contract in each case for an extended period of time. Differing economic conditions and patterns of economic growth and contraction in the geographic regions in which we operate and the industries we serve may in the future affect demand for our services. A material portion of our revenues and profitability is derived from our tenants in North America, some of which derive significant revenues from their international operations. Ongoing economic volatility and uncertainty affects our business in a number of other ways, including making it more difficult to accurately forecast client demand beyond the short term and to effectively build our revenue and spending plans. Economic volatility and uncertainty are particularly challenging because it may take some time for the effects and resulting changes in demand patterns to manifest themselves in our business and results

of operations. Changing demand patterns from economic volatility and uncertainty could have a significant negative impact on our results of operations. These risks may impact our overall liquidity, our borrowing costs, or the market price of our common stock.

Failure of the U.S. federal government to manage its fiscal matters or to raise or further suspend the debt ceiling, and changes in the amount of federal debt, may negatively impact the economic environment and adversely impact our results of operations.

The Budget Control Act of 2011 provides for a reduction of $1.1 trillion of U.S. federal government discretionary spending over the next decade through a series of automatic, across-the-board spending cuts known as sequestration. Although the American Taxpayer Relief Act of 2012, which was enacted on January 2, 2013, delayed the effective date of sequestration to provide an additional opportunity for the U.S. Congress and the President to agree on alternative deficit reduction options, sequestration went into effect on March 1, 2013, and will remain in effect in the absence of further legislative action.

The U.S. federal government has established a limit on the level of federal debt that the U.S. federal government can have outstanding, often referred to as the debt ceiling. The U.S. Congress has authority to raise or suspend the debt ceiling and has done so in the past. For example, in 2011, the U.S. Congress raised the debt ceiling by enacting the Budget Control Act of 2011, which resulted in sequestration and the lowering of the credit rating of the U.S. federal government. The U.S. Congress temporarily increased the debt ceiling following a partial shutdown of the U.S. federal government in October 2013, and in February 2014 adopted legislation to suspend the debt ceiling until March 15, 2015. On March 16, 2015, the debt ceiling was raised, and on October 30, 2015, it was suspended again until March 15, 2017. Absent an increase in, or further suspensions to, the debt ceiling in 2017, the U.S. federal government may partially shut down again and/or default on its existing loans as a result of reaching the debt ceiling. If legislation increasing the debt ceiling is not enacted, as needed, and the debt ceiling is reached, the federal government may stop or delay making payments on its obligations. A failure by the U.S. Congress to raise the debt limit to the extent necessary would increase the risk of default by the United States on its obligations, as well as the risk of other economic dislocations. If the U.S. government fails to complete its budget process, another federal government shutdown may result. Such a failure or the perceived risk of such a failure, consequently, could have a material adverse effect on the financial markets and economic conditions in the United States and throughout the world.

An inability of the U.S. federal government to manage its fiscal matters, reduce the duration and scope of sequestration, or manage its debt may result in the loss of economic confidence domestically and globally, reduce investment spending, increase borrowing costs, impact availability and cost of capital, and significantly reduce economic activity. Furthermore, a failure by the U.S. federal government to enact appropriate fiscal legislation may significantly impact the national and global economic and financial environment and affect our business and the businesses of our tenants. If economic conditions severely deteriorate as a result of government fiscal gridlock, our tenants' operations could be adversely affected, which could adversely impact our financial condition and results of operations. These risks may also impact our overall liquidity, our borrowing costs, or the market price of our common stock.

Monetary policy actions by the U.S. Federal Reserve could adversely impact our financial condition and our ability to make distributions to our stockholders.

In December 2016, the U.S. Federal Reserve raised the target range for the federal funds rate to a range from 0.5 to 0.75 percent, and announced its intention to continue to raise the federal funds rate over time. The targeted federal funds rate increase will likely result in an increase in market interest rates, which may increase our interest expense under our unhedged variable-rate borrowings and the costs of refinancing existing indebtedness or obtaining new debt. In addition, increases in market interest rates may result in a decrease in the value of our real estate and a decrease in the market price of our common stock. Increases in market interest rates may also adversely affect the securities markets generally, which could reduce the market price of our common stock without regard to our operating performance. Any such unfavorable changes to our borrowing costs and stock price could significantly impact our ability to raise new debt and equity capital going forward.

Potential changes to the U.S. tax laws could have a significant negative impact on our business operations, financial condition and earnings.

The incoming administration of President Trump has included as part of its agenda a potential reform of U.S. tax laws. The details of the potential reform have not yet emerged but during his presidential campaign, President Trump outlined several changes to business taxes. In addition, House Republicans and Congress have drafted an initial tax reform ("Tax Reform Blueprint") to significantly amend the current income tax code. The convergence of the President's plan and the Tax Reform Blueprint's potential reforms has not yet taken place, however, key changes within the proposals include:

- Elective replacement of current depreciation deductions with a cost recovery system for capital asset investments (excluding land investments),
- Elimination of the deductibility of corporate interest expense, if a cost recovery system is elected,
- Restriction or elimination of benefits of like-kind exchanges that defer capital gains for tax purposes,
- Reduction of the maximum business tax rate from 35 percent to 15-20 percent,
- Elimination of the corporate alternative minimum tax,
- Implementation of a one-time deemed repatriation tax rate of 10 percent on corporate profits held offshore, and
- Elimination of most corporate tax expenditures except for the Research and Development credit.

No details regarding the transition from the current tax code to potential new tax reforms have emerged. In addition, it is not yet known if the potential reform of the U.S. tax laws will include further changes that may impact existing REIT rules under the current Internal Revenue Code. If the tax reform is enacted with some or all of the changes outlined above, our taxable income and the amount of distributions to our stockholders required in order to maintain our REIT status may significantly increase. As a REIT, we are required to distribute at least 90% of our taxable income to our shareholders annually.

We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be issued, nor is the long-term impact of proposed tax reforms (including future reforms that may be part of any enacted tax reform) on the real estate industry clear. Furthermore, the proposed tax reform above may negatively impact our tenants operating results, financial condition and future business plans. Prospective investors are urged to consult their tax advisors regarding the effect of potential changes to the U.S. federal tax laws on an investment in our shares. A reform of the U.S. tax laws by the new administration may be enacted in a manner that negatively impacts our operating results, financial condition and business operations, and is adverse to our stockholders.

Actual and anticipated changes to the regulations of the healthcare system may have a negative impact on the pricing of drugs, cost of healthcare coverage, and reimbursement of healthcare services and products.

The U.S. Food and Drug Administration and comparable agencies in other jurisdictions directly regulate many critical activities of life science, technology, and healthcare industries, including the conduct of preclinical and clinical studies, product manufacturing, advertising and promotion, product distribution, adverse event reporting, and product risk management. In both domestic and foreign markets, sales of products depend in part on the availability and amount of reimbursement by third-party payers, including governments and private health plans. Governments may regulate coverage, reimbursement, and pricing of products to control cost or affect utilization of products. Private health plans may also seek to manage cost and utilization by implementing coverage and reimbursement limitations. Substantial uncertainty exists regarding the reimbursement by third-party payers of newly approved healthcare products. The U.S. and foreign governments regularly consider reform measures that affect healthcare coverage and costs. Such reforms may include changes to the coverage and reimbursement of healthcare services and products. In particular, there have been recent judicial and Congressional challenges to the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act, or collectively, the ACA, which could

have an impact on coverage and reimbursement for healthcare terms and services covered by plans authorized by the ACA, and we expect there will be additional challenges and amendments to the ACA in the future. Earlier this year, Congress voted in favor of a budget resolution that will produce legislation that, if passed, would repeal certain aspects of the ACA. Congress is also considering subsequent legislation to replace or repeal elements or all of the ACA. In addition, there have been recent public announcements by members of Congress and the new presidential administration regarding their plans to repeal and replace the ACA. Government and other regulatory oversight and future regulatory and government interference with the healthcare systems may adversely impact our tenants' businesses and our business.

U.S. government tenants may not receive anticipated appropriations, which could hinder their ability to pay us.

U.S. government tenants are subject to government funding. If one or more of our U.S. government tenants fail to receive anticipated appropriations, we may not be able to collect rental amounts due to us. A significant reduction in federal government spending, particularly a sudden decrease due to a sequestration process, such as occurred in recent years, could also adversely affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that they will renew their leases with us. In addition, recent budgetary pressures have resulted in, and may continue to result in, reduced allocations to government agencies that fund research and development activities, such as the National Institutes of Health. For instance, the National Institutes of Health budget has been, and may continue to be, significantly impacted by the sequestration provisions of the Budget Control Act of 2011 that became effective on March 1, 2013. Past proposals to reduce budget deficits have included reduced National Institutes of Health and other research and development budgets. Any shift away from the funding of research and development or delays surrounding the approval of government budget proposals may cause our tenants to default on rental payments or delay or forgo leasing our rental space, which could adversely affect our business, financial condition, or results of operations. In addition, defaults under leases with U.S. government tenants are governed by federal statute and not by state eviction or rent deficiency laws. As of December 31, 2016, leases with U.S. government tenants at our properties accounted for approximately 1.9% of our aggregate annual rental revenue in effect as of December 31, 2016.

Some of our tenants may be subject to increasing government price controls and other healthcare cost-containment measures.

Government healthcare cost-containment measures can significantly affect our tenants’ revenue and profitability. In many countries outside the U.S., government agencies strictly control, directly or indirectly, the prices at which our pharmaceutical industry tenants’ products are sold. In a number of EU Member States, the pricing and/or reimbursement of prescription pharmaceuticals are subject to governmental control, and legislators, policymakers and healthcare insurance funds continue to propose and implement cost-containing measures to keep healthcare costs down, due in part to the attention being paid to healthcare cost containment and other austerity measures in the EU. In the U.S., our pharmaceutical industry tenants are subject to substantial pricing pressures from state Medicaid programs, private insurance programs, and pharmacy benefit managers, and implementation of the recently enacted U.S. healthcare reform legislation is increasing these pricing pressures. In addition, many state legislative proposals could further negatively affect pricing and/or reimbursement for our pharmaceutical industry tenants’ products. Also, the pricing environment for pharmaceuticals continues to be in the political spotlight in the U.S. Pharmaceutical and medical device product pricing is subject to enhanced government and public scrutiny and calls for reform. Some states have implemented, and other states are considering, pharmaceutical price controls or patient access constraints under the Medicaid program, and some states are considering price-control regimes that would apply to broader segments of their populations that are not Medicaid-eligible. We anticipate that pricing pressures from both governments and private payers inside and outside the U.S. will become more severe over time.

Changes in government funding for the U.S. Food & Drug Administration (FDA), U.S. National Institute of Health (NIH) and other government agencies could hinder their ability to hire and retain key leadership and other personnel, properly administer drug innovation, or prevent new products and services from being developed or commercialized by our life science tenants, which could negatively impact our business.

The ability of the FDA to review and approve new products can be affected by a variety of factors, including budget and funding levels, ability to hire and retain key personnel, and statutory, regulatory, and policy changes. Average review times at the agency have fluctuated in recent years as a result. In addition, Government funding of the NIH and other government agencies that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable.

The ability of the FDA, NIH and other government agencies to properly administer their functions is highly dependent on the levels of government funding and the ability to fill key leadership appointments, among various factors. Currently, the FDA Commissioner position is vacant, pending the appointment of a new Commissioner by President Trump's administration. The confirmation process for a new commissioner may not occur efficiently. The current NIH Director has been asked to remain in place, at least temporarily. There can be no assurances that the current NIH Director will be retained. Delays in filling or replacing key positions could significantly impact the ability of the FDA, NIH, and other agencies to fulfill their functions and could greatly impact healthcare and the drug industry.

In December 2016, the 21st Century Cures Act was signed into law. This new legislation is designed to advance medical innovation and empower the FDA with the authority to directly hire positions related to drug and device development and review. In the past, the FDA was often unable to offer key leadership candidates (including scientists) competitive compensation packages as compared to those offered by private industry. The 21st Century Cures Act is designed to streamline the agency's hiring process and enable the FDA to compete for leadership talent by expanding the narrow ranges that are provided in the existing compensation structures.

In his first week in office, President Trump issued executive orders to freeze government hiring of new employees with the exception of military, national security and public safety personnel. This hiring freeze could impede current or future operations at the FDA, NIH and other agencies. It is unknown at this time what the impact of the hiring freeze will have on the FDA and on programs such as the 21st Century Cures Act. Furthermore, future government proposals to reduce or eliminate budgetary deficits may include reduced allocations to the FDA, the NIH, and other related government agencies. These budgetary pressures may result in a reduced ability by the FDA and NIH to perform their respective roles; including the related impact to academic institutions and research laboratories whose funding is fully or partially dependent on both the level and timing of funding from government sources.

Disruptions at the FDA and other agencies may also slow the time necessary for new drugs and devices to be reviewed and/or approved by necessary government agencies and the healthcare and drug industries' ability to deliver new products to the market in a timely manner, which would adversely affect our tenants' operating results and business. Interruptions to the function of the FDA and other government agencies could adversely affect the demand for office/laboratory space and significantly impact our operating results and our business.

Changes in laws and regulations that control drug-pricing for government programs may adversely impact our operating results and our business.

The Centers for Medicare & Medicaid Services (CMS) is the federal agency within the United Stated Department of Health and Human Services that administers the Medicare program and works in partnership with state governments to administer Medicaid. The Medicare Modernization Act of 2003 that went into effect on January 1, 2006 (which also made changes to the public Part C Medicare health plan program), explicitly prohibits government entities from directly negotiating drug prices with manufacturers. Recently, there has been significant public outcry against price increases viewed to be unfair and unwarranted. During the 2016 presidential campaign, and subsequent to his inauguration, President Trump has endorsed having government programs such as Medicare, bid and negotiate the price of drugs directly with drug companies.

Currently, the outcome of potential reforms and changes to government negotiation/regulation to drug pricing are unknown. Changes in policy that limit prices may reduce the financial incentives for the research and development efforts that lead to discovery and production of new therapies and solutions to life-threatening conditions. Negative impacts of new policies could adversely affect our tenants' businesses, including life science and technology companies, which may reduce the demand for office/laboratory space and negatively impact our operating results and our business.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") will subject us to substantial additional federal regulation, and we cannot predict the effect of such regulation on our business, results of operations, cash flows, or financial condition.

There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act that have required, and continue to require, the SEC to adopt additional rules and regulations in these areas. For example, the Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other

business activities. In addition, provisions of the Dodd-Frank Act that directly affect other participants in the real estate and capital markets, such as banks, investment funds, and interest rate hedge providers, could have indirect, but material, impacts on our business that cannot now be predicted. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, or otherwise adversely affect our business.

The adoption of derivatives legislation by the U.S. Congress could have an adverse impact on our ability to hedge risks associated with our business.

The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk. While we may ultimately be eligible for such exceptions, the scope of these exceptions is currently uncertain, pending further definition through rule-making proceedings. Among the other provisions of the Dodd-Frank Act that may affect derivative transactions are those relating to the establishment of capital and margin requirements for certain derivative participants; establishment of business conduct standards, recordkeeping requirements, and reporting requirements; and imposition of position limits. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until all regulations have been adopted by the SEC and the Commodity Futures Trading Commission. The new legislation and any new regulations could result in future increases to the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of hedge counterparties available to us.

Global factors

A global financial crisis, high structural unemployment levels, and other events or circumstances beyond our control may adversely affect our industry, business, results of operations, contractual commitments, and access to capital.

What began initially in 2007 and 2008 as a “subprime” mortgage crisis turned into an extraordinary U.S. and worldwide structural economic and financial crisis, coupled with the rapid decline of the consumer economy. From 2008 through 2010, significant concerns over energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, and a declining real estate market in the U.S. contributed to increased volatility, diminished expectations for the economy and the markets, and high levels of structural unemployment by historical standards. These factors, combined with volatile oil prices and fluctuating business and consumer confidence, precipitated a steep economic decline. From 2011 through 2016, the U.S. economy showed significant signs of improvement, but other economies around the world, including Europe, Japan, and China, continue to demonstrate sluggish, stagnant, or slowing growth. Further, severe financial and structural strains on the banking and financial systems have led to significant lack of trust and confidence in the global credit and financial system. Consumers and money managers have liquidated and may liquidate equity investments, and consumers and banks have held and may hold cash and other lower-risk investments, which has resulted in significant and, in some cases, catastrophic declines in the equity capitalization of companies and failures of financial institutions. Although U.S. bank earnings and liquidity are on the rebound, the potential of significant future bank credit losses creates uncertainty for the lending outlook.

Further downgrades of the U.S. government’s sovereign credit rating and an economic crisis in Europe could negatively impact our liquidity, financial condition, and earnings.

Previous U.S. debt ceiling and budget deficit concerns, together with sovereign debt conditions in Europe, have increased the possibility of additional downgrades of sovereign credit ratings and economic slowdowns. There is no guarantee that future debt ceiling or federal spending legislation will not fail.

Standard & Poor’s Ratings Services lowered its long-term sovereign credit rating on the U.S. from “AAA” to “AA+” in August 2011. Although Standard & Poor’s Ratings Services maintains a stable outlook on the U.S. credit rating, further fiscal impasses within the federal government may result in future downgrades. The impact of any further downgrades to the U.S. government’s sovereign credit rating, or its perceived creditworthiness, is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions.

In addition, certain European nations experienced in the recent past varying degrees of financial stress, including Greece, Ireland, Italy, Portugal, and Spain. Despite assistance packages to Greece, Ireland, Portugal, and Spain, the creation of the European Financial Stability Facility and the European Financial Stabilisation Mechanism, and the creation of a quantitative easing program by the European Central Bank, we do not know whether the prior sovereign financial difficulties within the European Union governments will reemerge with a higher degree of negative impact to the financial markets. Market concerns over the direct and indirect exposure of European banks and insurers to these European Union peripheral nations have resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. There can be no assurance that government or other measures to aid economic recovery will be effective.

These developments, and concerns over the U.S. government's fiscal policies in general, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, the

lowered credit rating could create broader financial turmoil and uncertainty, which may exert downward pressure on the market price of our common stock. Continued adverse economic conditions could have a material adverse effect on our business, financial condition, and results of operations.

Financial volatility and geopolitical instability outside of the U.S. may adversely impact the U.S. and global economies.

Several emerging-market economies, including Argentina, Venezuela, Ukraine, Hungary, and Thailand, continue to experience financial and economic trouble. Other emerging economies, including Russia, Brazil, Afghanistan, and Iraq, have also reported significant economic issues, including fiscal deficits, falling growth rates, and political instability from ongoing geopolitical conflicts and uncertainties. Further, China, the world's second largest economy, has lowered its growth expectations following several years of declining growth rates. It is not possible to predict whether this economic and political turmoil might negatively impact the developed economies around the world, including the U.S. If these macroeconomic and political issues are not managed appropriately, they could lead to currency, sovereign debt, or banking crises and other financial turmoil and uncertainty. Continued adverse economic conditions could have a material adverse effect on our business, financial condition, and results of operations.

We are subject to risks from potential fluctuations in exchange rates between the U.S. dollar and foreign currencies.

We have properties and operations in countries where the U.S. dollar is not the local currency, and we thus are subject to international currency risk from the potential fluctuations in exchange rates between the U.S. dollar and the local currency. In particular, a significant decrease or volatility in the value of the Canadian dollar or other currencies in countries where we may have an investment could materially affect our results of operations. We may attempt to mitigate such effects by borrowing in the local foreign currency in which we invest. Any international currency gain recognized with respect to changes in exchange rates may not qualify under gross income tests that we must satisfy annually in order to qualify and maintain our status as a REIT.

Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect interest expense related to outstanding debt.

We hold certain instruments in our debt profile in which interest rates move in direct relation to LIBOR, depending on our selection of borrowing options. Beginning in 2008, concerns have been raised that some of the member banks surveyed by the BBA in connection with the calculation of daily LIBOR across a range of maturities and currencies may have underreported, overreported, or otherwise manipulated the interbank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that might have resulted from reporting interbank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with a number of their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations have been instigated by regulators and government authorities in various jurisdictions. Other member banks may also enter into such settlements with, or have proceedings brought by, their regulators or law enforcement agencies in the future.
If manipulation of LIBOR occurred, it may have resulted in LIBOR having been artificially lower (or higher) than it would otherwise have been. Any such manipulation could have occurred over a substantial period of time.

On September 28, 2012, British regulators published a report on the review of LIBOR. The report concluded that LIBOR should be retained as a benchmark but recommended a comprehensive reform of LIBOR, including replacing the BBA with a new independent administrator of LIBOR. Based on this report, final rules for the regulation and supervision of LIBOR by the Financial Conduct Authority ("FCA") were published and came into effect on April 2, 2013 (the "FCA Rules"). In particular, the FCA Rules include requirements that (i) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior and (ii) firms submitting data to LIBOR establish and maintain a clear conflict-of-interest policy and

appropriate systems and controls. In response, ICE Benchmark Administration Limited ("IBA") was appointed as the independent LIBOR administrator, effective in early 2014. It is not possible to predict the effect of the FCA Rules, any changes in the methods pursuant to which LIBOR is determined, the administration of LIBOR by IBA, and any other reforms to LIBOR that will be enacted in the United Kingdom and elsewhere. In addition, any changes announced by the FCA, the BBA, IBA, or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which LIBOR is determined, as well as manipulative practices or the cessation thereof, may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the level of the index. Fluctuation or discontinuation of LIBOR would affect our interest expense and earnings and the fair value of certain of our financial instruments. We rely on interest rate hedge agreements to mitigate our exposure to such interest rate risk on a portion of our debt obligations. However, there is no assurance these arrangements will be effective in reducing our exposure to changes in interest rates.

In addition, in November 2014, the Federal Reserve established a working group, the Alternative Reference Rates Committee ("ARRC"), to identify a set of alternative interest reference rates to LIBOR. In a May 2016 interim report, the ARRC narrowed its choice to two LIBOR alternatives. The first choice is the Overnight Bank Funding Rate ("OBFR"), which consists of domestic and foreign unsecured borrowing in U.S. dollars. The Federal Reserve has been calculating the OBFR and publishing it since March 2016. The second alternative rate to LIBOR is the Treasury General Collateral ("GC") rate, which is composed of repo transactions secured by treasuries or other assets accepted as collateral by the majority of intermediaries in the repo market. No specific rate for the GC alternative has yet been specified to serve as a replacement for LIBOR, and it remains undefined. The transition to any alternative rate will require careful and deliberate consideration and implementation so as to not disrupt the stability of financial markets. Regulators, financial institutions, benchmark administrators, and borrowers will need to strategize and implement these changes in a manner that is least disruptive. There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers.

New rules from the SEC that govern money market funds may significantly impact the volatility of LIBOR interest rates.

On July 23, 2014, the SEC adopted rules to make structural and operational reforms to address risks of investor runs in money market funds. These changes affect prime money market funds, which invest in corporate debt securities, differently than they do government money market funds, which invest in securities that are collateralized solely by government securities. The rules require a floating net asset value for institutional prime money market funds and also allow the funds to impose liquidity fees and redemption gates to further prevent large-scale investor runs. The rules provided for a two-year transition period that expired on October 15, 2016. In anticipation of this change, a substantial amount of assets across the broader market previously invested in prime money market funds had been moved to government money market funds, causing a reduction in the availability of bank unsecured funding for European and non-U.S. banks. Government money market funds are not available to foreign banks for their dollar-funding needs. As the transition deadline neared and passed, a supply-and-demand mismatch for dollar funds emerged from foreign banks, causing LIBOR to increase significantly. There can be no assurance that LIBOR will stabilize subsequent to the transition period for these new regulations or whether there will be continued pressure on LIBOR or significant volatility in LIBOR. Any volatility in LIBOR would affect our interest expense and earnings and the fair value of certain of our financial instruments. We rely on interest rate hedge agreements to mitigate our exposure to such interest rate risk on a portion of our debt obligations. However, there is no assurance these arrangements will be effective in reducing our exposure to fluctuations in interest rates.

Adoption of the Basel III standards and other regulatory standards affecting financial institutions may negatively impact our access to financing or affect the terms of our future financing arrangements.

In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision (the "Basel Committee") adopted the Basel III regulatory capital framework ("Basel III" or the "Basel III Standards"). The final package of Basel III reforms was approved by the G20 leaders in November 2010. In January 2013, the Basel Committee agreed to delay implementation of the Basel III Standards and expanded the scope of assets permitted to be included in certain banks' liquidity measurements. U.S. banking regulators have elected to implement substantially all of the Basel III Standards, with implementation of Basel III commencing in 2014 and scheduled to be incrementally implemented through 2019.

Since approving the Basel III Standards, U.S. regulators have also issued rules that impose upon the most systemically significant banking organizations in the U.S. supplementary leverage ratio standards (the "SLR Standards") more stringent than those of the Basel III Standards. In addition, the Federal Reserve Board has adopted a final rule that establishes a methodology to identify whether a U.S. bank holding company is a global systemically important banking organization ("GSIB"). Any firm identified as a GSIB would be subject to a risk-based capital surcharge that is

calibrated based on its systemic risk profile. Under the final rule, the capital surcharge will be phased in beginning on January 1, 2016, and will become fully effective on January 1, 2019.

On September 3, 2014, U.S. banking regulators issued a final rule to implement the Basel Committee's liquidity coverage ratio (the "LCR") in the U.S. (the "LCR Final Rule"). The LCR is intended to promote the short-term resilience of internationally active banking organizations to improve the banking industry's ability to absorb shocks arising from idiosyncratic or market stress, and to improve the measurement and management of liquidity risk. The LCR Final Rule contains requirements that are in certain respects more stringent than the Basel Committee's LCR. The LCR measures an institution's high-quality liquid assets against its net cash outflows. Under the LCR Final Rule, the LCR began phasing in on January 1, 2015, at 80%, with full implementation beginning on January 1, 2017.

U.S. regulators have also issued and proposed rules that impose additional restrictions on the business activities of financial institutions, including their trading and investment activities. For example, in December 2013, U.S. regulators adopted a final rule implementing a section of the Dodd-Frank Act that has become known as the "Volcker Rule." The Volcker Rule generally prohibits

certain U.S. and foreign financial institutions from investing in or sponsoring "covered funds," which include private equity funds or hedge funds and certain other proprietary activities. The effects of the Volcker Rule are uncertain, but it is in any event likely to curtail various banking activities that in turn could result in uncertainties in the financial markets.

The implementation of the Basel III Standards, the SLR Standards, the GSIB capital surcharge, the LCR Final Rule, the Volcker Rule, and other similar rules and regulations could cause an increase in capital requirements for, and place other financial constraints on, both U.S. and foreign financial institutions from which we borrow, which may negatively impact our access to financing or affect the terms of our future financing arrangements.

Significant developments stemming from the recent U.S. presidential election or the U.K.'s referendum on membership in the EU could have a material adverse effect on us.

On January 20, 2017, Mr. Donald J. Trump was inaugurated as the president of the United States. As a presidential candidate, President Trump expressed apprehension towards existing trade agreements, such as the North American Free Trade Agreement (NAFTA), and raised the possibility of imposing significant increases on tariffs on goods imported into the United States, particularly from China and Mexico. President Trump has also indicated an intention to request Congress to make significant changes to U.S. tax laws, significant changes, replacement or elimination of the ACA, and government negotiation/regulation of drug prices paid by government programs. Changes in U.S. social, political, regulatory and economic conditions or laws and policies governing health care system and drug prices, U.S. tax laws, foreign trade, manufacturing, and development and investment in the territories and countries where we or our tenants operate could adversely affect our operating results and our business.

Additionally, on June 23, 2016, the United Kingdom held a referendum and voted in favor of leaving the European Union, or EU. This referendum has created political and economic uncertainty, particularly in the United Kingdom and the EU, and this uncertainty may last for years. Our business could be affected during this period of uncertainty, and perhaps longer, by the impact of the United Kingdom's referendum. In addition, our business could be negatively affected by new trade agreements between the United Kingdom and other countries, including the United States, and by the possible imposition of trade or other regulatory barriers in the United Kingdom. These possible negative impacts, and others resulting from the United Kingdom's actual or threatened withdrawal from the EU, may adversely affect our operating results and our tenants' businesses.

Other factors

Changes in laws, regulations, and financial accounting standards may adversely affect our reported results of operations.

As a response, in large part, to perceived abuses and deficiencies in current regulations believed to have caused or exacerbated the recent global financial crisis, legislative, regulatory, and accounting standard-setting bodies around the world are engaged in an intensive, wide-ranging examination and rewriting of the laws, regulations, and accounting standards that have constituted the basic playing field of global and domestic business for several decades. In many jurisdictions, including the U.S., the legislative and regulatory response has included the extensive reorganization of existing regulatory and rule-making agencies and organizations, and the establishment of new agencies with broad powers. This reorganization has disturbed longstanding regulatory and industry relationships and established procedures.

The rule-making and administrative efforts have focused principally on the areas perceived as having contributed to the financial crisis, including banking, investment banking, securities regulation, and real estate finance, with spillover impacts on many other areas. These initiatives have created a degree of uncertainty regarding the basic rules governing the real estate industry, and many other businesses, that is unprecedented in the U.S. at least since the wave

of lawmaking, regulatory reform, and government reorganization that followed the Great Depression.

The global financial crisis and the aggressive reaction of the government and accounting profession thereto have occurred against a backdrop of increasing globalization and internationalization of financial and securities regulation that began prior to the recent financial crisis. As a result of this ongoing trend, financial and investment activities previously regulated almost exclusively at a local or national level are increasingly being regulated, or at least coordinated, on an international basis, with national rule-making and standard-setting groups relinquishing varying degrees of local and national control to achieve more uniform regulation and reduce the ability of market participants to engage in regulatory arbitrage between jurisdictions. This globalization trend has continued, arguably with an increased sense of urgency and importance, since the financial crisis.

This high degree of regulatory uncertainty, coupled with considerable additional uncertainty regarding the underlying condition and prospects of global, domestic, and local economies, has created a business environment that makes business planning and projections even more uncertain than is ordinarily the case for businesses in the financial and real estate sectors.

In the commercial real estate sector in which we operate, the uncertainties posed by various initiatives of accounting standard-setting authorities to fundamentally rewrite major bodies of accounting literature constitute a significant source of uncertainty as to the basic rules of business engagement. Changes in accounting standards and requirements, including the potential requirement that U.S. public companies prepare financial statements in accordance with international accounting standards, proposed lease standards, and the adoption of accounting standards likely to require the increased use of “fair value” measures, may have a significant effect on our financial results and on the results of our tenants, which would in turn have a secondary impact on us. New accounting pronouncements and interpretations of existing pronouncements are likely to continue to occur at an accelerated pace as a result of recent Congressional and regulatory actions and continuing efforts by the accounting profession itself to reform and modernize its principles and procedures.

Although we have not been as directly affected by the wave of new legislation and regulation as banks and investment banks, we may also be adversely affected by new or amended laws or regulations; by changes in federal, state, or foreign tax laws and regulations; and by changes in the interpretation or enforcement of existing laws and regulations. In the U.S., the financial crisis and continuing economic slowdown prompted a variety of legislative, regulatory, and accounting profession responses.

The federal legislative response culminated in the enactment on July 21, 2010, of the Dodd-Frank Act. The Dodd-Frank Act contains far-reaching provisions that substantially revise, or provide for the revision of, longstanding, fundamental rules governing the banking and investment banking industries and provide for the broad restructuring of the regulatory authorities in these areas. The Dodd-Frank Act has resulted in, and is expected to continue to result in, profound changes in the ground rules for financial business activities in the U.S.

To a large degree, the impacts of the legislative, regulatory, and accounting reforms to date are still not clear. Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require extensive rule- making by regulatory authorities. While we do not currently expect the Dodd-Frank Act to have a significant impact on our business activities, the Dodd-Frank Act’s impact on us may not be known for an extended period of time. The Dodd-Frank Act, including current and future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial or real estate industries or affecting taxation that are proposed or pending in the U.S. Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework within which we operate in ways that are not currently identifiable. The Dodd-Frank Act also has resulted in, and is expected to continue to result in, substantial changes and dislocations in the banking industry and the financial services sector in ways that could have significant effects on, for example, the availability and pricing of unsecured credit, commercial mortgage credit, and derivatives, such as interest rate swaps, which are important aspects of our business. Accordingly, new laws, regulations, and accounting standards, as well as changes to, or new interpretations of, currently accepted accounting practices in the real estate industry, may adversely affect our results of operations.

We may incur significant costs if we fail to comply with laws or if laws change.

Our properties are subject to many federal, state, and local regulatory requirements and to state and local fire, life-safety, and other requirements. If we do not comply with all of these requirements, we may have to pay fines to government authorities or damage awards to private litigants. We do not know whether these requirements will change or whether new requirements will be imposed. Changes in these regulatory requirements could require us to make significant unanticipated expenditures. These expenditures could have an adverse effect on us and our ability to

make distributions to our stockholders.

We may incur significant costs in complying with the Americans with Disabilities Act and similar laws.

Under the ADA, places of public accommodation and/or commercial facilities must meet federal requirements related to access and use by disabled persons. We may be required to make substantial capital expenditures at our properties to comply with this law. In addition, non-compliance could result in the imposition of fines or an award of damages to private litigants.

A number of additional federal, state, and local laws and regulations exist regarding access by disabled persons. These regulations may require modifications to our properties or may affect future renovations. These expenditures may have an adverse impact on overall returns on our investments.

We may incur significant costs in complying with environmental laws.

Federal, state, and local environmental laws and regulations may require us, as a current or prior owner or operator of real estate, to investigate and clean up hazardous or toxic substances or petroleum products released at or from any of our properties. The cost of investigating and cleaning up contamination could be substantial and could exceed the amount of any insurance coverage available to us. In addition, the presence of contamination, or the failure to properly clean it up, may adversely affect our ability to lease or sell an affected property, or to borrow funds using that property as collateral.

Under environmental laws and regulations, we may have to pay government entities or third parties for property damage and for investigation and cleanup costs incurred by those parties relating to contaminated properties regardless of whether we knew of or caused the contamination. Even if more than one party was responsible for the contamination, we may be held responsible for all of the cleanup costs. In addition, third parties may sue us for damages and costs resulting from environmental contamination, or jointly responsible parties may contest their responsibility or be financially unable to pay their share of such costs.

Environmental laws also govern the presence, maintenance, and removal of asbestos-containing materials. These laws may impose fines and penalties on us for the release of asbestos-containing materials and may allow third parties to seek recovery from us for personal injury from exposure to asbestos fibers. We have detected asbestos-containing materials at some of our properties, but we do not expect that they will result in material environmental costs or liabilities to us.

Environmental laws and regulations also require the removal or upgrading of certain underground storage tanks and regulate:

- The discharge of stormwater, wastewater, and any water pollutants;
- The emission of air pollutants;
- The generation, management, and disposal of hazardous or toxic chemicals, substances, or wastes; and
- Workplace health and safety.

Many of our tenants routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities. Environmental liabilities could also affect a tenant’s ability to make rental payments to us. We require our tenants to comply with these environmental laws and regulations and to indemnify us against any related liabilities.

Independent environmental consultants have conducted Phase I or similar environmental assessments at our properties. We intend to use consultants to conduct similar environmental assessments on our future acquisitions. This type of assessment generally includes a site inspection, interviews, and a public records review, but no subsurface sampling. These assessments and certain additional investigations of our properties have not to date revealed any environmental liability that we believe would have a material adverse effect on our business, assets, or results of operations.

Additional investigations have included, as appropriate:

- Asbestos surveys;
- Radon surveys;
- Lead surveys;
- Mold surveys;
- Additional public records review;
- Subsurface sampling; and

- Other testing.

Nevertheless, it is possible that the assessments on our current properties have not revealed, and that assessments on future acquisitions will not reveal, all environmental liabilities. Consequently, there may be material environmental liabilities of which we are unaware that may result in substantial costs to us or our tenants and that could have a material adverse effect on our business.

Changes in financial accounting standards related to accounting for leases may adversely impact us.

The regulatory boards and government agencies that determine financial accounting standards and disclosures in the U.S., including the FASB and the IASB (collectively, the “Boards”) and the SEC, continually change and update the financial accounting standards we must follow. Recently, the Boards issued an Accounting Standards Update, which changes certain aspects of accounting for leases for both lessees and lessors. The final standard is effective on January 1, 2019. We are still evaluating the impact of this standard on our financial condition or results of operations, which could in turn also significantly impact the market price of common stock. Such potential impacts include, without limitation:

•Significant changes to our balance sheet relating to the recognition of operating leases as assets or liabilities based on existing lease terms and whether we are the lessor or lessee; and
•Significant fluctuations in our reported results of operations, including fluctuations in our expenses related to amortization of new lease-related assets and/or liabilities and assumed interest costs with leases.

Changes in lease accounting standards could also potentially impact the structure and terms of future leases since our tenants may seek to limit lease terms to avoid recognizing lease obligations on their financial statements.

Changes in the system for establishing U.S. accounting standards may result in adverse fluctuations in our reported asset and liability values and earnings and may materially and adversely affect our reported results of operations.

Accounting for public companies in the U.S. has historically been conducted in accordance with GAAP as established by the FASB, an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. The IASB is a London-based independent board established in 2001 and charged with the development of IFRS. IFRS generally reflects accounting practices that prevail in Europe and in developed nations in other parts of the world.

IFRS differs in material respects from GAAP. Among other things, IFRS has historically relied more on “fair value” models of accounting for assets and liabilities than GAAP. “Fair value” models are based on periodic revaluation of assets and liabilities, often resulting in fluctuations in such values as compared to GAAP, which relies more frequently on historical cost as the basis for asset and liability valuation.

The SEC released a final report on its IFRS work plan, which indicates the SEC still needs to analyze and consider whether IFRS should be incorporated into the U.S. financial reporting system. It is unclear at this time how and when the SEC will propose that GAAP and IFRS be harmonized if the decision to incorporate is adopted. In addition, incorporating a new method of accounting and adopting IFRS will be a complex undertaking. We may need to develop new systems and controls based on the principles of IFRS. Since these are new endeavors, and the precise requirements of the pronouncements ultimately adopted are not now known, the magnitude of costs associated with this conversion is uncertain.

We are currently evaluating the impact of the adoption of IFRS on our financial condition and results of operations. Such evaluation cannot be completed, however, without more clarity regarding the specific proposed standards that will be adopted. Until there is more certainty with respect to the standards to be adopted, prospective investors should consider that our conversion to IFRS could have a material adverse impact on our reported results of operations.

Changes in financial accounting standards may adversely impact our financial debt covenants.

Certain debt agreements, including those related to our unsecured senior line of credit and unsecured senior bank term loans, contain financial covenants whose calculations are based on current GAAP. Our unsecured senior notes payable contain financial covenants that are calculated based on GAAP at the date the instruments were issued. Our unsecured

senior line of credit and unsecured senior bank term loan agreements provide that our financial debt covenants be renegotiated in good faith to preserve the original intent of the existing financial covenant when such covenant is affected by an accounting standard change. For those debt agreements that require the renegotiation of financial covenants upon changes in accounting standards, there is no assurance that we will be successful in such negotiations or that the renegotiated covenants will not be more restrictive to us.

We face possible risks associated with the physical effects of climate change.

We cannot predict the rate at which climate change will progress. However, the physical effects of climate change could have a material adverse effect on our properties, operations, and business. For example, most of our properties are located along the east and west coasts of the U.S. To the extent that climate change impacts changes in weather patterns, our markets could experience increases in storm intensity and rising sea levels. Over time, these conditions could result in declining demand for space at our properties or in our inability to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of, or availability of, property insurance on terms we find acceptable, by increasing the cost of energy, and by increasing the cost of snow removal at our properties. There can be no assurance that climate change will not have a material adverse effect on our properties, operations, or business.

Extreme weather or natural disasters may cause property damage or disrupt business, which could harm our business and operating results.

We have properties located in areas that may be subject to extreme weather and natural disasters, including, but not limited to, earthquakes, winds, floods, hurricanes, and fires. Such conditions may damage our properties, disrupt our operations, and adversely impact our tenants' operations. There can be no assurance that such conditions will not have a material adverse effect on our properties, operations, or business.

Terrorist attacks may have an adverse impact on our business and operating results and could decrease the value of our assets.

Terrorist attacks such as those that took place on September 11, 2001, could have a material adverse impact on our business, our operating results, and the market price of our common stock. Future terrorist attacks may result in declining economic activity, which could reduce the demand for, and the value of, our properties. To the extent that future terrorist attacks impact our tenants, their businesses similarly could be adversely affected, including their ability to continue to honor their lease obligations.

Our business and operations would suffer in the event of information technology system failures.

Despite system redundancy, the implementation of security measures, and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war, and telecommunications failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional significant costs to remedy damages caused by such disruptions.

Security breaches through cyber-attacks, cyber-intrusions, or other methods could disrupt our information technology networks and related systems.

Risks associated with security breaches, whether through cyber-attacks or cyber-intrusions over the Internet, malware, computer viruses, attachments to e-mails, or other methods, against persons inside our organization, persons with access to systems inside our organization, the U.S. government, financial markets or institutions, or major businesses, including tenants, could disrupt or disable networks and related systems, other critical infrastructures, and the normal operation of business. The risk of a security breach or disruption, particularly through cyber-attack or cyber-intrusion, including by computer hackers, foreign governments, and cyber-terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. Even though we may not be specifically targeted, cyber-attacks on the U.S. government, financial markets, financial institutions, or other major businesses, including tenants, could disrupt our normal business operations and networks, which may in

turn have a material adverse impact on our financial condition and results of operations.

Information technology networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations, including managing our building systems. They also may be critical to the operations of certain of our tenants and our service providers. Although we make efforts to maintain the security and integrity of these types of networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well-protected information, networks, systems, and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and in fact may not be detected. While to date we have not experienced a cyber-attack or cyber-intrusion, we may be unable to anticipate or to implement adequate security barriers or other preventive measures. A security breach or other significant disruption involving our information technology networks and related systems could:

- Disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants;
- Result in misstated financial reports, violations of loan covenants, missed reporting deadlines, and/or missed permitting deadlines;
- Result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- Result in the unauthorized access to, and destruction, loss, theft, misappropriation, or release of, proprietary, confidential, sensitive, or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive, or otherwise harmful purposes and outcomes;
- Result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;
- Require significant management attention and resources to remedy any damages that result;
- Subject us to claims for breach of contract, damages, credits, penalties, or termination of leases or other agreements; or
- Damage our reputation among our tenants and investors generally.

Any or all of the foregoing could have a material adverse effect on our financial condition, results of operations, and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

As of December 31, 2016, we had 199 properties in North America containing approximately 19.9 million RSF of operating properties and development and redevelopment of new Class A properties (under construction or pre-construction), including nine consolidated real estate joint ventures and one unconsolidated real estate joint venture. Property statistics presented are for our managed properties, which includes both consolidated properties and unconsolidated properties at 100% of each property's respective annual rental revenue in effect as of December 31, 2016, and RSF, unless otherwise noted. The occupancy percentage of our operating properties in North America was 96.6% as of December 31, 2016. The exteriors of our properties typically resemble traditional office properties, but the interior infrastructures are designed to accommodate the needs of life science and technology tenants. These improvements typically are generic rather than specific to a particular tenant. As a result, we believe that the improvements have long-term value and utility and are usable by a wide range of tenants. Improvements to our properties typically include:

- Reinforced concrete floors;
- Upgraded roof loading capacity;
- Increased floor-to-ceiling heights;
- Heavy-duty HVAC systems;
- Enhanced environmental control technology;
- Significantly upgraded electrical, gas, and plumbing infrastructure; and
- Laboratory benches.

As of December 31, 2016, we held a fee simple interest in each of our properties, with the exception of 28 properties that accounted for approximately 14% of our total number of properties. Of the 28 properties, we held 16 properties in the Greater Boston market, five properties in the San Francisco market, two properties in the New York City market, one property in the Maryland market, two properties in the Research Triangle Park market, and two properties in the Asia market pursuant to ground leasehold interests. As of December 31, 2016, our asset base also included one land parcel in North America which we held pursuant to ground leasehold interests. Refer to further discussion in our consolidated financial statements and notes thereto in "Item 15. Exhibits and Financial Statement Schedules" in this annual report on Form 10-K.

As of December 31, 2016, we had 620 leases with a total of 463 tenants, and 88, or 44%, of our 199 properties were single-tenant properties. Leases in our multi-tenant buildings typically have initial terms of five to 10 years, while the single-tenant building leases typically have initial terms of 10 to 20 years. As of December 31, 2016:

- Investment-grade tenants represented 49% of our annual rental revenue in effect as of December 31, 2016;
- Approximately 97% of our leases (on an RSF basis) were triple net leases, requiring 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 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; and
- Approximately 95% 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.

Our leases also typically give us the right to review and approve tenant alterations to the property. Generally, tenant-installed improvements to the properties are reusable generic improvements and remain our property after

termination of the lease at our election. However, we are permitted under the terms of most of our leases to require that the tenant, at its expense, remove certain non-generic improvements and restore the premises to their original condition.

Top 20 Tenants: 73% of Top 20 Annual Rental Revenue from Investment-Grade Tenants

Our properties are leased to a high-quality and diverse group of tenants, with no individual tenant accounting for more than 4.1% of our annual rental revenue in effect as of December 31, 2016. The following table sets forth information regarding leases with our 20 largest tenants in North America based upon annual rental revenue as of December 31, 2016 (dollars in thousands):

	Tenant	Remaining Lease Term in Years [1]	Aggregate RSF	Annual Rental Revenue	Percentage of Aggregate Annual Rental Revenue	Investment-Grade Ratings Moody's	Investment-Grade Ratings S&P
1	Eli Lilly and Company	11.7	595,465	$32,313	4.1 %	A2	AA-
2	Illumina, Inc.	13.5	891,495	31,301	4.0	—	BBB
3	ARIAD Pharmaceuticals, Inc. [2] / IBM Watson Health [3]	13.3	386,111	30,051	3.8	—	—
4	Sanofi	11.0	446,975	25,162	3.2	A1	AA
5	Novartis AG	9.7 [4]	386,217	24,122	3.1	Aa3	AA-
6	bluebird bio, Inc.	9.1	338,911	23,640	3.0	—	—
7	Uber Technologies, Inc.	75.9	422,980	22,076	2.8	—	—
8	New York University	13.6	209,224	20,651	2.6	Aa3	AA-
9	Dana-Farber Cancer Institute, Inc.	13.9	254,130	19,512	2.5	A1	—
10	Amgen Inc.	7.3	407,369	16,838	2.1	Baa1	A
11	Roche	3.7	343,861	16,517	2.1	A1	AA
12	Massachusetts Institute of Technology	7.9	256,126	16,431	2.1	Aaa	AAA
13	United States Government	8.5	263,147	14,805	1.9	Aaa	AA+
14	Celgene Corporation	3.2	344,320	14,653	1.9	Baa2	BBB+
15	FibroGen, Inc.	6.9	234,249	14,198	1.8	—	—
16	Biogen Inc.	11.8	305,212	13,278	1.7	Baa1	A-
17	Merrimack Pharmaceuticals, Inc.	2.5	167,167	11,246	1.4	—	—
18	Bristol-Myers Squibb Company	2.2	251,316	10,743	1.4	A2	A+
19	The Regents of the University of California	6.7	233,527	10,608	1.4	Aa2	AA
20	GlaxoSmithKline plc	2.5	249,278	10,418	1.3	A2	A+
	Total/weighted average	13.4 [5]	6,987,080	$378,563	48.2 %		

Annual rental revenue and RSF include 100% of each property managed by us in North America.

(1) Based on percentage of aggregate annual rental revenue in effect as of December 31, 2016.

(2) In January 2017, Takeda Pharmaceutical Company Limited entered into a definitive agreement to acquire ARIAD Pharmaceuticals, Inc. The transaction is expected to be completed in February 2017. Takeda holds investment-grade ratings of A1 (Moody's) and A+ (S&P). If the acquisition was completed as of December 31, 2016, 53% of our annual rental revenue would have been from investment-grade tenants and 81% of our annual rental revenue from Top 20 tenants would have been from investment-grade tenants.

(3) IBM Watson Health, a digital health venture of IBM, currently subleases 163,186 RSF at 75 Binney Street with an initial lease term of 10 years. IBM holds investment-grade ratings of Aa3 (Moody's) and AA- (S&P).

(4) Reflects lease extension for 302,626 RSF at 100 and 200 Technology Square in our Cambridge submarket of Greater Boston executed in January 2017.

(5) Excluding Uber, the weighted average remaining lease term for our top 20 tenants is 9.6 years.

Cash Flows from High-Quality, Diversified, and Innovative Tenants

Annual Rental Revenue from Investment-Grade Tenants[1]

49 % [2]

Tenant Mix by Annual Rental Revenue[1]

(1) Represents annual rental revenue in effect as of December 31, 2016.

(2) Decline in annual rental revenue from investment-grade tenants primarily due to the delivery of 422,980 RSF to Uber Technologies, Inc. during the three months ended December 31, 2016. As of June 2016, the latest valuation date, Uber had an estimated value of approximately $68 billion.

(3) Tech and other represent 4.9% and 2.9%, respectively, of annual rental revenue.

High-Quality Cash Flows from Class A Properties in AAA Locations[1]

Key Locations
Class A Properties in
AAA Locations
79%
of ARE's
Annual Rental Revenue[2]

Percentage of ARE's Annual Rental Revenue[2]

Solid Demand for Class A Properties
in AAA Locations Drives Solid Occupancy

Occupancy of Operating Properties across Key Locations as of December 31, 2016

Solid Historical
Occupancy[3]
95%
Over 10 Years

(1) As of December 31, 2016.
(2) Represents annual rental revenue in effect as of December 31, 2016.
(3) Average occupancy of operating properties in North America as of December 31 for the last 10 years.

Locations of properties

The locations of our properties are diversified among a number of life science and technology cluster markets. The following table sets forth the total RSF, number of properties, and annual rental revenue in effect as of December 31, 2016, in North America of our properties by market (dollars in thousands, except per RSF amounts):

Market	RSF					Number of Properties	Annual Rental Revenue		
	Operating	Development	Redevelopment	Total	% of Total		Total	% of Total	per RSF
Greater Boston	5,849,003	431,483	—	6,280,486	32 %	51	$323,301	41 %	$57.46
San Francisco	3,209,456	743,855	—	3,953,311	20	30	148,879	19	46.43
New York City	727,674	—	—	727,674	4	2	61,366	8	86.63
San Diego	3,798,141	233,523	162,156	4,193,820	21	52	129,793	17	36.26
Seattle	747,809	290,111	—	1,037,920	5	11	33,999	4	46.59
Maryland	2,085,196	—	—	2,085,196	11	28	50,877	6	25.46
Research Triangle Park	1,043,726	—	—	1,043,726	5	15	23,689	3	22.94
Canada	256,967	—	—	256,967	1	3	6,484	1	25.45
Non-cluster markets	268,689	—	—	268,689	1	6	5,992	1	25.43
Properties held for sale	21,940	—	—	21,940	—	1	—	—	—
North America	18,008,601	1,698,972	162,156	19,869,729	100%	199	$784,380	100%	$45.15
Future development projects				5,292,631					
Total SF – North America				25,162,360					

RSF, number of properties, and annual rental revenue include 100% of each property managed by us in North America.

Summary of occupancy percentages in North America

The following table sets forth the occupancy percentages for our operating properties and our properties under redevelopment in each of our North America markets as of the following dates:

Market	Operating Properties			Operating and Redevelopment Properties		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
Greater Boston	96.2%	96.5 %	98.8 %	96.2%	95.2 %	95.9 %
San Francisco	99.9	100.0	98.9	99.9	100.0	98.9
New York City	97.3	99.7	99.4	97.3	99.7	99.4
San Diego	94.3	96.4	96.5	90.4	82.3	95.5
Seattle	97.6	99.6	94.8	97.6	99.6	94.8
Maryland	95.8	96.0	92.5	95.8	96.0	92.5
Research Triangle Park	99.0	97.6	99.1	99.0	97.6	99.1
Subtotal	96.7	97.4	97.2	95.8	93.8	96.2
Canada	99.2	99.3	97.6	99.2	99.3	97.6
Non-cluster markets	87.7	80.0	87.4	87.7	80.0	87.4
North America	96.6%	97.2 %	97.0 %	95.7%	93.7 %	96.1 %

Occupancy includes 100% of each property managed by us in North America.

Property listing

The following table provides certain information about our properties as of December 31, 2016 (dollars in thousands):

Market / Submarket / Address	RSF				Number of Properties	Annual Rental Revenue	Occupancy Percentage	
	Operating	Development	Redevelopment	Total			Operating	Operating and Redevelopment
Greater Boston								
Cambridge/Inner Suburbs								
Alexandria Center® at Kendall Square 50, 60, 75/125, and 100 Binney Street, 161 and 215 First Street, 150 Second Street, 300 Third Street, and 11 Hurley Street	1,646,782	431,483	—	2,078,265	9	$104,366	99.3 %	99.3 %
225 Binney Street (consolidated joint venture – 30% ownership)	305,212	—	—	305,212	1	13,278	100.0	100.0
Alexandria Technology Square® 100, 200, 300, 400, 500, 600, and 700 Technology Square	1,181,635	—	—	1,181,635	7	77,933	100.0	100.0
One Kendall Square	644,771	—	—	644,771	9	42,258	97.3	97.3
480 and 500 Arsenal Street	234,260	—	—	234,260	2	9,539	100.0	100.0
640 Memorial Drive	225,504	—	—	225,504	1	13,730	100.0	100.0
780 and 790 Memorial Drive	99,658	—	—	99,658	2	6,811	96.1	96.1
167 Sidney Street and 99 Erie Street	54,549	—	—	54,549	2	3,573	100.0	100.0
79/96 13th Street (Charlestown Navy Yard)	25,309	—	—	25,309	1	620	100.0	100.0
Cambridge/Inner Suburbs	4,417,680	431,483	—	4,849,163	34	272,108	99.3	99.3
Longwood Medical Area								
360 Longwood Avenue (unconsolidated joint venture – 27.5% ownership)	413,799	—	—	413,799	1	23,720	75.7	75.7
Route 128								
Alexandria Park at 128	343,882	—	—	343,882	8	9,424	93.8	93.8
3 and 6/8 Preston Court, 29, 35, and 44 Hartwell Avenue, 35 and 45/47 Wiggins Avenue, and 60 Westview Street								

19 Presidential Way	144,892	—	—	144,892	1	2,591	52.6	52.6
225 Second Avenue	112,500	—	—	112,500	1	6,109	100.0	100.0
100 Beaver Street	82,330	—	—	82,330	1	3,104	100.0	100.0
285 Bear Hill Road	26,270	—	—	26,270	1	1,185	100.0	100.0
Route 128	709,874	—	—	709,874	12	22,413	87.3	87.3
Route 495								
111 and 130 Forbes Boulevard	155,846	—	—	155,846	2	1,629	100.0	100.0
20 Walkup Drive	91,045	—	—	91,045	1	666	100.0	100.0
30 Bearfoot Road	60,759	—	—	60,759	1	2,765	100.0	100.0
Route 495	307,650	—	—	307,650	4	5,060	100.0	100.0
Greater Boston	5,849,003	431,483	—	6,280,486	51	$323,301	96.2 %	96.2 %

RSF, annual rental revenue, and occupancy percentage include 100% of each property managed by us in North America.

42

Property listing (continued)

Market / Submarket / Address	RSF Operating	Development	Redevelopment	Total	Number of Properties	Annual Rental Revenue	Occupancy Percentage Operating	Operating and Redevelopment
San Francisco								
Mission Bay/SoMa								
409 and 499 Illinois Street (consolidated joint venture – 60% ownership)	455,069	—	—	455,069	2	$ 28,228	100.0 %	100.0 %
1455 and 1515 Third Street	422,980	—	—	422,980	2	22,076	100.0	100.0
510 Townsend Street	—	300,000	—	300,000	1	—	—	—
455 Mission Bay Boulevard South	210,398	—	—	210,398	1	10,077	100.0	100.0
1500 Owens Street (consolidated joint venture – 50.1% ownership)	158,267	—	—	158,267	1	7,714	100.0	100.0
1700 Owens Street	157,340	—	—	157,340	1	10,273	100.0	100.0
505 Brannan Street (consolidated joint venture – 99.5% ownership)	—	150,000	—	150,000	1	—	—	—
Mission Bay/SoMa	1,404,054	450,000	—	1,854,054	9	78,368	100.0	100.0
South San Francisco								
Alexandria Technology Center® – Gateway	448,175	—	—	448,175	6	17,882	100.0	100.0
600, 630, 650, 681, 901, and 951 Gateway Boulevard								
213, 249, 259, and 269 East Grand Avenue	407,369	293,855	—	701,224	4	16,838	100.0	100.0
400 and 450 East Jamie Court	163,035	—	—	163,035	2	6,355	100.0	100.0
500 Forbes Boulevard	155,685	—	—	155,685	1	5,540	100.0	100.0
7000 Shoreline Court	136,395	—	—	136,395	1	4,582	100.0	100.0
341 and 343 Oyster Point Boulevard	107,960	—	—	107,960	2	4,479	100.0	100.0
849/863 Mitten Road/866 Malcolm Road	103,857	—	—	103,857	1	3,123	97.1	97.1
South San Francisco	1,522,476	293,855	—	1,816,331	17	58,799	99.8	99.8
Palo Alto/Stanford Research Park								
2425 Garcia Avenue/2400/2450 Bayshore Parkway	99,208	—	—	99,208	1	4,257	100.0	100.0
3165 Porter Drive	91,644	—	—	91,644	1	3,885	100.0	100.0
3350 West Bayshore Road	60,000	—	—	60,000	1	1,919	100.0	100.0
2625/2627/2631 Hanover Street	32,074	—	—	32,074	1	1,651	100.0	100.0

Palo Alto/Stanford Research Park	282,926	—	—	282,926	4		11,712	100.0		100.0	
San Francisco	3,209,456	743,855	—	3,953,311	30		148,879	99.9		99.9	
New York City											
Manhattan											
Alexandria Center® for Life Science	727,674	—	—	727,674	2	$	61,366	97.3	%	97.3	%
430 and 450 East 29th Street											
New York City	727,674	—	—	727,674	2	$	61,366	97.3	%	97.3	%

RSF, annual rental revenue, and occupancy percentage include 100% of each property managed by us in North America.

43

Property listing (continued)

Market / Submarket / Address	RSF Operating	Development	Redevelopment	Total	Number of Properties	Annual Rental Revenue	Occupancy Percentage Operating	Occupancy Percentage Operating and Redevelopment
San Diego								
Torrey Pines								
ARE Spectrum 3215 Merryfield Row, and 3013 and 3033 Science Park Road	102,938	233,523	—	336,461	3	$4,241	93.7 %	93.7 %
ARE Nautilus 3530 and 3550 John Hopkins Court, and 3535 and 3565 General Atomics Court	226,593	—	—	226,593	4	8,242	82.9	82.9
ARE Sunrise 10931/10933 and 10975 North Torrey Pines Road, 3010 Science Park Road, and 10996 Torreyana Road	234,596	—	—	234,596	3	9,160	100.0	100.0
Torrey Ridge Science Center 10578, 10614, and 10628 Science Center Drive	294,993	—	—	294,993	3	12,504	87.1	87.1
3545 Cray Court	116,556	—	—	116,556	1	4,827	100.0	100.0
11119 North Torrey Pines Road	72,506	—	—	72,506	1	3,274	100.0	100.0
Torrey Pines	1,048,182	233,523	—	1,281,705	15	42,248	92.1	92.1
University Town Center								
5200 Illumina Way	792,687	—	—	792,687	6	25,371	100.0	100.0
Campus Pointe by Alexandria (consolidated joint venture – 55% ownership) 10290 and 10300 Campus Point Drive	754,765	—	—	754,765	2	30,625	100.0	100.0
ARE Towne Centre 9363, 9373, 9393, and 9625 Towne Centre Drive	107,253	—	162,156	269,409	4	1,913	100.0	39.8
ARE Esplanade	241,963	—	—	241,963	4	9,517	95.2	95.2

4755, 4757, and 4767 Nexus Center Drive, and 4796 Executive Drive								
9880 Campus Point Drive	71,510	—	—	71,510	1	2,774	100.0	100.0
University Town Center	1,968,178	—	162,156	2,130,334	17	70,200	99.4	91.8
Sorrento Mesa								
5810/5820 and 6138/6150 Nancy Ridge Drive	138,970	—	—	138,970	2	3,950	100.0	100.0
ARE Portola	105,812	—	—	105,812	3	1,415	43.1	43.1
6175, 6225, and 6275 Nancy Ridge Drive								
10121 and 10151 Barnes Canyon Road	102,392	—	—	102,392	2	1,987	100.0	100.0
7330 Carroll Road	66,244	—	—	66,244	1	2,431	100.0	100.0
5871 Oberlin Drive	33,817	—	—	33,817	1	993	100.0	100.0
Sorrento Mesa	447,235	—	—	447,235	9	10,776	86.5	86.5
Sorrento Valley								
11025, 11035, 11045, 11055, 11065, and 11075 Roselle Street	121,655	—	—	121,655	6	2,900	92.0	92.0
3985, 4025, 4031, and 4045 Sorrento Valley Boulevard	103,111	—	—	103,111	4	1,174	48.2	48.2
Sorrento Valley	224,766	—	—	224,766	10	4,074	71.9	71.9
I-15 Corridor								
13112 Evening Creek Drive	109,780	—	—	109,780	1	2,495	100.0	100.0
San Diego	3,798,141	233,523	162,156	4,193,820	52	$129,793	94.3 %	90.4 %

RSF, annual rental revenue, and occupancy percentage include 100% of each property managed by us in North America.

44

Property listing (continued)

Market / Submarket / Address	RSF Operating	Development	Redevelopment	Total	Number of Properties	Annual Rental Revenue	Occupancy Percentage Operating	Occupancy Percentage Operating and Redevelopment
Seattle								
Lake Union								
400 Dexter Avenue North	—	290,111	—	290,111	1	$—	— %	— %
1201 and 1208 Eastlake Avenue East	203,369	—	—	203,369	2	8,748	100.0	100.0
1616 Eastlake Avenue East	168,708	—	—	168,708	1	8,517	96.7	96.7
1551 Eastlake Avenue East	117,482	—	—	117,482	1	4,833	100.0	100.0
199 East Blaine Street	115,084	—	—	115,084	1	6,183	100.0	100.0
219 Terry Avenue North	30,705	—	—	30,705	1	1,745	100.0	100.0
1600 Fairview Avenue East	27,991	—	—	27,991	1	1,138	100.0	100.0
Lake Union	663,339	290,111	—	953,450	8	31,164	99.2	99.2
Elliott Bay								
3000/3018 Western Avenue	47,746	—	—	47,746	1	1,839	100.0	100.0
410 West Harrison Street and 410 Elliott Avenue West	36,724	—	—	36,724	2	996	65.6	65.6
Elliott Bay	84,470	—	—	84,470	3	2,835	85.1	85.1
Seattle	747,809	290,111	—	1,037,920	11	33,999	97.6	97.6
Maryland								
Rockville								
9800 Medical Center Drive	282,436	—	—	282,436	4	12,563	100.0	100.0
1330 Piccard Drive	131,511	—	—	131,511	1	2,433	75.7	75.7
1500 and 1550 East Gude Drive	90,489	—	—	90,489	2	1,681	100.0	100.0
14920 and 15010 Broschart Road	86,703	—	—	86,703	2	2,055	100.0	100.0
1405 Research Boulevard	71,669	—	—	71,669	1	2,104	100.0	100.0
5 Research Place	63,852	—	—	63,852	1	2,390	100.0	100.0
9920 Medical Center Drive	58,733	—	—	58,733	1	455	100.0	100.0
5 Research Court	54,906	—	—	54,906	1	—	—	—
12301 Parklawn Drive	49,185	—	—	49,185	1	1,329	100.0	100.0
Rockville	889,484	—	—	889,484	14	25,010	90.2	90.2
Gaithersburg								
Alexandria Technology Center® – Gaithersburg I 9 West Watkins Mill Road and 910, 930, and 940 Clopper Road	377,401	—	—	377,401	4	8,427	100.0	100.0
Alexandria Technology Center® – Gaithersburg II 708 Quince Orchard Road, 1300 Quince Orchard	237,137	—	—	237,137	5	6,131	100.0	100.0

Boulevard, and 19, 20, and 22 Firstfield Road									
401 Professional Drive	63,154	—	—	63,154	1	1,435	100.0	100.0	
950 Wind River Lane	50,000	—	—	50,000	1	1,082	100.0	100.0	
620 Professional Drive	27,950	—	—	27,950	1	1,191	100.0	100.0	
Gaithersburg	755,642	—	—	755,642	12	18,266	100.0	100.0	
Beltsville									
8000/9000/10000 Virginia Manor Road	191,884	—	—	191,884	1	2,463	100.0	100.0	
Northern Virginia									
14225 Newbrook Drive	248,186	—	—	248,186	1	5,138	100.0	100.0	
Maryland	2,085,196	—	—	2,085,196	28	$ 50,877	95.8 %	95.8	%

RSF, annual rental revenue, and occupancy percentage include 100% of each property managed by us in North America.

45

Property listing (continued)

Market / Submarket / Address	RSF				Number of Properties	Annual Rental Revenue	Occupancy Percentage			
	Operating	Development	Redevelopment	Total			Operating		Operating and Redevelopment	
Research Triangle Park										
Research Triangle Park										
Alexandria Technology Center® – Alston	186,870	—	—	186,870	3	$3,286	94.8	%	94.8	%
100, 800, and 801 Capitola Drive										
108/110/112/114 TW Alexander Drive	158,417	—	—	158,417	1	4,607	100.0		100.0	
Alexandria Innovation Center® – Research Triangle Park	135,677	—	—	135,677	3	3,328	99.1		99.1	
7010, 7020, and 7030 Kit Creek Road										
6 Davis Drive	100,000	—	—	100,000	1	1,260	100.0		100.0	
7 Triangle Drive	96,626	—	—	96,626	1	3,156	100.0		100.0	
407 Davis Drive	81,956	—	—	81,956	1	1,644	100.0		100.0	
2525 East NC Highway 54	82,996	—	—	82,996	1	1,690	100.0		100.0	
601 Keystone Park Drive	77,395	—	—	77,395	1	1,304	100.0		100.0	
6040 George Watts Hill Drive	61,547	—	—	61,547	1	2,051	100.0		100.0	
5 Triangle Drive	32,120	—	—	32,120	1	824	100.0		100.0	
6101 Quadrangle Drive	30,122	—	—	30,122	1	539	100.0		100.0	
Research Triangle Park	1,043,726	—	—	1,043,726	15	23,689	99.0		99.0	
Canada	256,967	—	—	256,967	3	6,484	99.2		99.2	
Non-cluster markets	268,689	—	—	268,689	6	5,992	87.7		87.7	
	17,986,661	1,698,972	162,156	19,847,789	198	784,380	96.6	%	95.7	%
Properties held for sale in North America										
6146 Nancy Ridge Drive	21,940	—	—	21,940	1	—	—	%	—	%

Total – North America	18,008,601	1,698,972	162,156	19,869,729	199	$784,380

RSF, annual rental revenue, and occupancy percentage include 100% of each property managed by us in North America.

Leasing Activity

- Executed a total of 179 leases, with a weighted-average lease term of 15.6 years, for 3,390,067 RSF, including 997,537 RSF related to our development and redevelopment projects during the year ended December 31, 2016; solid leasing activity in light of minimal contractual lease expirations at the beginning of 2016, and a highly leased value-creation pipeline; and
- Achieved rental rate increases of 27.6% and 12.0% (cash basis) for lease renewals and re-leasing of space aggregating 2,129,608 RSF (included in the 3,390,067 RSF above) during the year ended December 31, 2016.

Approximately 69% of the 179 leases executed during the year ended December 31, 2016, did not include concessions for free rent. During the year ended December 31, 2016, we granted tenant concessions/free rent averaging 1.8 months with respect to the 3,390,067 RSF leased.

The following chart presents renewed/re-leased space and development/redevelopment/previously vacant space leased for the years ended December 31, 2014, 2015, and 2016:

Lease structure

Our Same Properties net operating income and Same Properties net operating income (cash basis) increases for the year ended December 31, 2016, of 4.7% and 6.0%, respectively, benefited significantly from strong market fundamentals. The limited supply of Class A space in AAA locations and strong demand from innovative tenants drove rental rate increases of 27.6% and 12.0% (cash basis) on 2.1 million renewed/re-leased RSF, while a favorable triple net lease structure with contractual annual rent escalations resulted in both a consistent Same Properties operating margin of 70% and occupancy of 97.1% across our 159 Same Properties aggregating 13,521,141 RSF. As of December 31, 2016, approximately 97% of our leases (on an RSF basis) were triple net leases, requiring 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. Additionally, approximately 96% of our leases (on an RSF basis) contained contractual annual rent escalations that were either fixed or based on a consumer price index or another index, and approximately 95% of our leases (on an RSF basis) provided for the recapture of certain capital expenditures.

The following table summarizes our leasing activity at our properties for the years ended December 31, 2016 and 2015:

	Year Ended December 31,			
	2016		2015	
	Including Straight-Line Rent	Cash Basis	Including Straight-Line Rent	Cash Basis
(Dollars are per RSF)				
Leasing activity:				
Renewed/re-leased space [1]				
Rental rate changes	27.6%	12.0%	19.6%	9.9%
New rates	$48.60	$45.83	$35.70	$35.97
Expiring rates	$38.09	$40.92	$29.84	$32.73
Rentable square footage	2,129,608		2,209,893	
Number of leases	126		146	
Tenant improvements/leasing commissions	$15.69		$10.02	
Average lease term	5.5 years		4.7 years	
Developed/redeveloped/previously vacant space leased [2]				
New rates	$50.24	$38.72	$55.24	$50.65
Rentable square footage	1,260,459		2,762,149	
Number of leases	53		72	
Tenant improvements/leasing commissions	$12.42		$19.63	
Average lease term	32.6 years		11.9 years	
Leasing activity summary (totals):				
New rates	$49.21	$43.19	$46.55	$44.13
Rentable square footage	3,390,067 [3]		4,972,042	
Number of leases	179		218	
Tenant improvements/leasing commissions	$14.48		$15.36	
Average lease term	15.6 years		8.7 years	
Lease expirations [1]				
Expiring rates	$36.70	$39.32	$28.32	$30.80
Rentable square footage	2,484,169		2,801,883	
Number of leases	166		197	

Leasing activity includes 100% of results for each property managed by us. Refer to the “Non-GAAP Measures” section under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this annual report on Form 10-K for a description of the basis used to compute the measures above.

(1) Excludes 20 month-to-month leases for 31,207 RSF and 16 month-to-month leases for 30,810 RSF as of December 31, 2016 and 2015, respectively.

(2) 2016 information includes the 75-year ground lease with Uber Technologies, Inc. at 1455 and 1515 Third Street. The average lease term, excluding this ground lease, was 10.7 years for the year ended December 31, 2016.

(3) During the year ended December 31, 2016, we granted tenant concessions/free rent averaging 1.8 months with respect to the 3,390,067 RSF leased.

48

Summary of contractual lease expirations

The following table summarizes information with respect to the contractual lease expirations at our properties as of December 31, 2016:

Year	Number of Leases	RSF	Percentage of Occupied RSF	Annual Rental Revenue (per RSF)	Percentage of Total Annual Rental Revenue
2017	67 [(1)]	985,627 [(1)]	5.7 % [(1)]	$30.96 [(1)]	3.9 % [(1)]
2018	124	1,947,907	11.2%	$43.08	10.8%
2019	81	1,546,068	8.9 %	$41.34	8.2 %
2020	79	1,823,082	10.5%	$40.03	9.4 %
2021	75	1,617,138	9.3 %	$42.25	8.8 %
2022	54	1,241,547	7.2 %	$46.08	7.4 %
2023	29	1,412,675	8.1 %	$42.85	7.8 %
2024	20	1,129,545	6.5 %	$45.90	6.7 %
2025	14	431,476	2.5 %	$46.33	2.6 %
2026	18	717,121	4.1 %	$43.92	4.1 %
Thereafter	39	4,488,778	26.0%	$52.19	30.3%

Lease expirations include 100% of the RSF for each property managed by us in North America.

(1) Excludes 20 month-to-month leases for 31,207 RSF.

The following tables present information by market with respect to our 2017 and 2018 contractual lease expirations in North America as of December 31, 2016:

Market	2017 Contractual Lease Expirations					Annual Rental Revenue (per RSF)
	Leased	Negotiating/ Anticipating	Targeted for Redevelopment	Remaining Expiring Leases	Total [(1)]	
Greater Boston	78,093 [(2)]	60,124	—	100,712 [(3)]	238,929	$ 39.61
San Francisco	44,703	3,418	—	6,856	54,977	34.46
New York City	1,739	—	—	15,374	17,113	N/A
San Diego	39,622	140,580	—	160,500 [(4)]	340,702	27.80
Seattle	22,471	—	—	17,900	40,371	44.66
Maryland	—	—	—	94,665	94,665	18.35
Research Triangle Park	38,824	58,486	—	74,195	171,505	15.60
Non-cluster markets	—	—	—	27,365	27,365	22.19
Total	225,452	262,608	—	497,567	985,627	$ 30.96
Percentage of expiring leases	23 %	27 %	—%	50 %	100 %	

2018 Contractual Lease Expirations

Market	Leased	Negotiating/ Anticipating	Targeted for Redevelopment	Remaining Expiring Leases	Total	Annual Rental Revenue (per RSF)
Greater Boston	446,302 (2)	3,426	—	494,702 (3)	944,430	$ 56.22
San Francisco	5,507	2,508	—	296,681	304,696	42.25
New York City	—	—	—	3,091	3,091	N/A
San Diego	—	16,091	—	318,380	334,471	29.99
Seattle	—	—	—	23,034	23,034	49.04
Maryland	—	—	—	184,600	184,600	15.39
Research Triangle Park	—	—	—	62,292	62,292	25.98
Canada	—	—	—	80,689	80,689	20.75
Non-cluster markets	—	—	—	10,604	10,604	26.58
Total	451,809	22,025	—	1,474,073	1,947,907	$ 43.08
Percentage of expiring leases	23 %	1 %	— %	76 %	100 %	

Lease expirations include 100% of the RSF for each property managed by us in North America.

(1) Excludes 20 month-to-month leases for 31,207 RSF.

(2) Includes 47,185 RSF at 200 Technology Square and 255,441 RSF at 100 Technology Square expiring in 2017 and 2018, respectively. In the first quarter 2017, Novartis AG renewed these spaces for a term of 10 years.

(3) Includes 84,038 RSF and 318,763 RSF located in our Cambridge submarket for remaining expiring leases in 2017 and 2018, respectively.

(4) Includes 94,609 RSF related to Eli Lilly and Company’s lease expiration in January 2017 at 10300 Campus Point Drive located in our University Town Center submarket. Eli Lilly and Company relocated and expanded into 305,006 RSF at 10290 Campus Point Drive in December 2016.

Value-creation projects and external growth

Incremental annual net operating income from highly leased development and redevelopment of new Class A properties

(1) Represents incremental annual net operating income upon stabilization of our development and redevelopment of new Class A properties, including only our share of real estate joint venture projects. RSF and percentage leased represent 100% of each property.

50

Sustainability and health and wellness

(1) Upon completion of 17 in-process LEED certification projects.

Investments in real estate

Our investments in real estate consisted of the following as of December 31, 2016 (dollars in thousands, except per square foot amounts):

	Investments in Real Estate	%	Per SF (1)	Square Feet Consolidated	Unconsolidated	Total
Investments in real estate:						
Rental properties	$9,526,250	90 %	$541	17,594,802	413,799	18,008,601
Development and redevelopment projects:						
Projects to be delivered in 2017	748,854	7	533	1,405,117	—	1,405,117
Projects to be delivered in 2018 and 2019	60,400	1	132	456,011	—	456,011
Development and redevelopment projects	809,254	8	435	1,861,128	—	1,861,128
Rental properties and development/redevelopment projects	10,335,504		531	19,455,930	413,799	19,869,729
Future value-creation projects	253,551	2	48	5,292,631	—	5,292,631
Value-creation pipeline	1,062,805	10	149	7,153,759	—	7,153,759
Gross investments in real estate – North America	10,589,055	100%	$428	24,748,561	$ 413,799	25,162,360
Less: accumulated depreciation	(1,546,798)					
Net investments in real estate – North America	9,042,257					
Net investments in real estate – Asia	35,715					
Investments in real estate	$9,077,972					

(1) Represents cost per SF of our consolidated properties.

52

Development, redevelopment, and future value-creation of new Class A properties

A key component of our business model is our disciplined allocation of capital to development and redevelopment of new Class A properties located in world-class collaborative life science and technology campuses in AAA urban innovation clusters. These projects are focused on providing high-quality, generic, and reusable space to meet the real estate requirements of, and are reusable by, a wide range of tenants. A significant number of our active development and redevelopment projects are highly leased and expected to be substantially delivered in the near future. Upon completion, each value-creation project is expected to generate a significant increase in rental income, net operating income, and cash flows. Our development and redevelopment projects are generally in locations that are highly desirable to high-quality entities, which we believe results in higher occupancy levels, longer lease terms, and higher rental income and returns. Delivery of new Class A properties in our urban innovation cluster locations from our value-creation pipeline is expected to significantly increase net operating income:

Delivery Date	RSF	Leased Percentage [(1)]	Incremental Annual Net Operating Income [(1)]
YTD 3Q16	1,003,795	99%	$55 million
4Q16	890,133	89%	$37 million
2017	1,405,117	80%	$95 million to $105 million

(1) Represents incremental annual net operating income upon stabilization of our development and redevelopment of new Class A properties, including only our share of real estate joint venture projects. RSF and percentage leased represent 100% of each property.

Development projects consist of the ground-up development of generic and reusable facilities. Redevelopment projects consist of the permanent change in use of office, warehouse, and shell space into office/laboratory and tech office space. We generally will not commence new development projects for aboveground construction of new Class A office/laboratory and tech office space without first securing significant pre-leasing for such space, except when there is solid market demand for high-quality Class A facilities.

Predevelopment activities include entitlements, permitting, design, site work, and other activities preceding commencement of construction of aboveground building improvements. The advancement of predevelopment efforts is focused on reducing the time required to deliver projects to prospective tenants. These critical activities add significant value for future ground-up development and are required for the vertical construction of buildings. Ultimately, these projects will provide high-quality facilities and are expected to generate significant revenue and cash flows.

As of December 31, 2016, we had seven ground-up development and one redevelopment of new Class A properties under construction in North America. The projects at completion will aggregate 2.0 million RSF, of which 102,938 RSF have been completed and were in service as of December 31, 2016. As of December 31, 2016, we had future value-creation projects supporting an aggregate of 5.3 million SF of ground-up development in North America.

During the year ended December 31, 2016, we commenced the following projects:

- 150,000 RSF development at 505 Brannan Street in our Mission Bay/SoMa submarket, which is 100% leased to Pinterest, Inc., with an initial occupancy date in the fourth quarter of 2017;
- Development of an additional building at 3215 Merryfield Row aggregating 170,523 RSF at our ARE Spectrum project in our Torrey Pines submarket; 100% leased to Vertex Pharmaceuticals, Inc., with an initial occupancy date in the fourth quarter of 2017; and
- Development of a parking structure located at 5200 Illumina Way in our University Town Center submarket; 100% leased to Illumina, Inc., with an initial occupancy date in the third quarter of 2017.

Our initial stabilized yield is calculated as the quotient of the estimated amounts of net operating income upon stabilization and our investment in the property and excludes the benefit of leverage. Our cash rents related to our value-creation projects are expected to increase over time, and our average cash yields are generally expected to be greater than our initial stabilized yields (cash basis). Our estimates for initial stabilized yields, initial stabilized yields (cash basis), and total costs at completion represent our initial estimates at the commencement of the project. We expect to update this information upon completion of the project, or sooner if there are significant changes to the expected project yields or costs. Initial stabilized yield reflects rental income, including contractual rent escalations and any rent concessions over the term (s) of the lease(s), calculated on a straight-line basis. Initial stabilized yield (cash basis) reflects cash rents at the stabilization date after initial rental concessions, if any, have elapsed and our total cash investment in the property. Average cash yield reflects cash rents, including contractual rent escalations after initial rental concessions have elapsed, calculated on a straight-line basis, and our total cash investment in the property.

Visible-growth highly leased pipeline – 2017 deliveries and other recent development commencements

The following table sets forth a summary of our development and redevelopment of new Class A properties as of December 31, 2016 (dollars in thousands):

Property/Market/Submarket	Dev/ Redev	Project RSF			Percentage			Project Start	Occupancy	
		In Service	CIP	Total	Leased	Negotiating	Total		Initial	Stabilized
400 Dexter Avenue North/Seattle/Lake Union	Dev	—	290,111	290,111	83%	17%	100%	2Q15	1Q17	2017
510 Townsend Street/San Francisco/Mission Bay/SoMa	Dev	—	300,000	300,000	100%	—%	100%	3Q15	3Q17	2017
5200 Illumina Way, Parking Structure/San Diego/University Town Center	Dev	—	N/A	N/A	100%	—%	100%	2Q16	3Q17	2017
100 Binney Street/Greater Boston/Cambridge	Dev	—	431,483	431,483	48%	31%	79%	3Q15	4Q17	2017
505 Brannan Street, Phase I/San Francisco/Mission Bay/SoMa	Dev	—	150,000	150,000	100%	—%	100%	1Q16	4Q17	2017
ARE Spectrum/San Diego/Torrey Pines	Dev	102,938	233,523	336,461	97%	—%	97%	2Q16	4Q17	2017
		102,938	1,405,117	1,508,055	81%	12%	93%			
9625 Towne Centre Drive/San Diego/University Town Center	Redev	—	162,156	162,156	—%	100%	100%	3Q15	4Q18	2018
213 East Grand Avenue/South San Francisco/San Francisco	Dev	—	293,855	293,855	100%	—%	100%	2Q17	1Q19	2019
		—	456,011	456,011	64%	36%	100%			
Total		102,938	1,861,128	1,964,066	77%	18%	95%			

Property/Market/Submarket	Our Ownership Interest	In Service	CIP	Cost to Complete	Total at Completion	Unlevered Yields		
						Average Cash	Initial Stabilized Cash Basis	Initial Stabilized
400 Dexter Avenue North/Seattle/Lake Union	100%	$—	$160,936	$71,064	$232,000	7.3%	6.9%	7.2%
510 Townsend Street/San Francisco/Mission Bay/SoMa	100%	—	119,715	118,285	238,000	7.9%	7.0%	7.2%
5200 Illumina Way, Parking Structure/San Diego/University Town Center	100%	—	22,858	47,142	70,000	7.0%	7.0%	7.0%
100 Binney Street/Greater Boston/Cambridge	100%	11,096	269,100	254,804	535,000	7.9%	7.0%	7.7%

505 Brannan Street, Phase I/San Francisco/Mission Bay/SoMa	99.5%	—	64,159	76,841	141,000	8.6%	7.0%	8.2%
ARE Spectrum/San Diego/Torrey Pines	100%	64,915	112,086	100,999	278,000	6.9%	6.1%	6.4%
		$76,011	$748,854	$669,135	$1,494,000			
9625 Towne Centre Drive/San Diego/University Town Center	100%	—	25,490	TBD	TBD	(1)	(1)	(1)
213 East Grand Avenue/South San Francisco/San Francisco	100%	—	34,910	TBD	TBD	(1)	(1)	(1)
		—	60,400	TBD	TBD			
Total		$76,011	$809,254	TBD	TBD			

(1) The design and budget of these projects are in process, and the estimated project costs with related yields will be disclosed in the future.

Visible-growth highly leased pipeline – 2017 deliveries and other recent development commencements (continued)

100 Binney Street	510 Townsend Street	505 Brannan Street, Phase I	213 East Grand Avenue
Greater Boston/Cambridge	San Francisco/Mission Bay/SoMa	San Francisco/Mission Bay/SoMa	San Francisco/South San Francisco
431,483 RSF	300,000 RSF	150,000 RSF	293,855 RSF
Bristol-Myers Squibb Company	Stripe, Inc.	Pinterest, Inc.	Merck & Co., Inc.

ARE Spectrum	9625 Towne Centre Drive	400 Dexter Avenue North
San Diego/Torrey Pines	San Diego/University Town Center	Seattle/Lake Union
233,523 RSF	162,156 RSF	290,111 RSF
Celgene Corporation The Medicines Company Vertex Pharmaceuticals Incorporated	Negotiating	Juno Therapeutics, Inc.

Anticipated near-term and future development projects

The following table summarizes the key information for our future value-creation projects in North America as of December 31, 2016 (dollars in thousands, except per SF amounts):

Property/Submarket	Our Interest	Book Value	Project SF Anticipated Near-Term Developments	Anticipated Future Developments	Other Future Developments	Per SF [1]
Key future projects:						
Greater Boston						
161 First Street/Cambridge	100%	$5,637	183,644 [2]	—	—	$31 [2]
399 Binney Street (One Kendall Square)/Cambridge	100%	58,785	172,500	—	—	341 [3]
Alexandria Technology Square®/Cambridge	100%	7,787	—	100,000	—	78
Other future projects	100%	5,472	—	—	221,955	25
San Francisco						
88 Bluxome Street/Mission Bay/SoMa	100%	—	—	1,070,925	—	—
505 Brannan Street, Phase II/Mission Bay/SoMa	99.5%	13,581	—	165,000	—	82
East Grand Avenue/South San Francisco	100%	15,513	227,936	—	—	68
Other future projects	100%	—	—	—	95,620	—
New York						
East 29th Street/Manhattan	100%	—	420,000	—	—	—
San Diego						
5200 Illumina Way/University Town Center	100%	10,846	—	386,044	—	28
Campus Point Drive/University Town Center	100%	11,388	315,000	—	—	36
Other future projects	100%	26,041	—	—	193,895	134
Seattle						
1150/1165/1166 Eastlake Avenue East/Lake Union	100%	36,138	—	366,000	—	99
1818 Fairview Avenue East/Lake Union	100%	10,810	188,490	—	—	57
Maryland						
9800 Medical Center Drive/Rockville	100%	4,682	180,000	—	—	26
Other future projects	100%	14,375	—	—	408,000	35
Research Triangle Park						
6 Davis Drive/Research Triangle Park	100%	16,555	—	1,000,000	—	17
Other future projects	100%	4,150	—	—	76,262	54
Non-cluster Markets – other future projects	100%	11,791	—	—	592,285	20
Key future projects		$253,551	1,687,570	3,087,969	1,588,017	$48
Future value-creation projects			6,363,556			
Acquisition completed in January 2017 – 88 Bluxome Street			(1,070,925)			
Total future value-creation projects as of December 31, 2016			5,292,631			

(1) Excludes 88 Bluxome Street acquisition completed in January 2017.
(2) Represents approximately 130-140 multi-family residential units.
(3) Includes the cost of design work performed prior and subsequent to acquisition.

Anticipated near-term and future development projects (continued)

399 Binney Street (One Kendall Square)	East Grand Avenue	East 29th Street
Greater Boston/Cambridge	San Francisco/South San Francisco	Manhattan/New York City
172,500 SF	227,936 SF	420,000 RSF

Campus Point Drive	1818 Fairview Avenue East	9800 Medical Center Drive
San Diego/University Town Center	Seattle/Lake Union	Maryland/Rockville
315,000 SF	188,490 SF	180,000 SF

57

Summary of capital expenditures

Our construction spending for the year ended December 31, 2016, consisted of the following (in thousands):

Construction Spending	Year Ended December 31, 2016
Additions to real estate – consolidated projects [1]	$ 821,690
Investments in unconsolidated real estate joint ventures	11,529
Construction spending (cash basis)	833,219
Increase in accrued construction	76,848
Noncontrolling interest share of construction spending (consolidated joint ventures)	(101,762)
Construction spending	$ 808,305

(1) Includes revenue-enhancing projects and non-revenue-enhancing capital expenditures shown in the table below.

The following table summarizes the total projected construction spending for the year ending December 31, 2017, which includes interest, property taxes, insurance, payroll, and other indirect project costs (in thousands):

Projected Construction Spending	Year Ending December 31, 2017
Development and redevelopment projects	$ 760,000
Contributions from noncontrolling interests (consolidated joint ventures)	(15,000)
Generic laboratory infrastructure/building improvement projects	108,000
Non-revenue-enhancing capital expenditures and tenant improvements	12,000
Total projected construction spending	865,000

Guidance range	$ 815,000 – 915,000

2017 Disciplined Allocation of Capital
92% Allocation to Urban Innovation Submarkets

58

Non-revenue-enhancing capital expenditures, tenant improvements, and leasing costs

The tables below show the average per RSF of property-related non-revenue-enhancing capital expenditures, tenant improvements, and leasing costs, excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue enhancing, or related to properties that have undergone redevelopment (dollars in thousands, except per RSF amounts):

Non-Revenue-Enhancing Capital Expenditures, Tenant Improvements, and Leasing Costs [1]	Year Ended December 31, 2016			Recent Average per RSF [2]
	Amount	RSF	Per RSF	
Non-revenue-enhancing capital expenditures	$9,206	16,671,887	$0.55	$ 0.41
Tenant improvements and leasing costs:				
Re-tenanted space	$17,198	967,754	$17.77	$ 15.76
Renewal space	16,221	1,161,854	13.96	8.34
Total tenant improvements and leasing costs/weighted average	$33,419	2,129,608	$15.69	$ 10.53

(1) Excludes amounts that are recoverable from tenants, revenue enhancing, or related to properties that have undergone redevelopment.
(2) Represents the average of the five years ended December 31, 2016.

We expect our capital expenditures, tenant improvements, and leasing costs (excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue-enhancing, or related to properties that undergo redevelopment) on a per RSF basis in 2017 to be approximately similar to the amounts shown in the preceding table.

ITEM 3. LEGAL PROCEEDINGS

To our knowledge, no legal proceedings are pending against us, other than routine actions and administrative proceedings, substantially all of which are expected to be covered by liability insurance and which, in the aggregate, are not expected to have a material adverse effect on our financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NYSE under the symbol "ARE." On January 17, 2017, the last reported sales price per share of our common stock was $110.52, and there were 361 holders of record of our common stock (excluding beneficial owners whose shares are held in the name of Cede & Co.). The following table sets forth the quarterly high and low trading prices per share of our common stock as reported on the NYSE and the distributions declared by us with respect to our common stock for each such period (distributions were paid in the quarter following the quarter in which the distribution was declared):

	2016				2015			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High	$114.02	$114.67	$103.60	$91.25	$96.86	$95.21	$98.39	$102.96
Low	$101.51	$100.53	$89.43	$70.69	$83.92	$82.91	$86.84	$88.54
Per share distribution	$0.83	$0.80	$0.80	$0.80	$0.77	$0.77	$0.77	$0.74

Future distributions on our common stock will be determined by, and at the discretion of, our Board of Directors and will depend on a number of factors, including actual cash available for distribution, our financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, restrictions under Maryland law, and such other factors as our Board of Directors deems relevant. To maintain our qualification as a REIT, we must make annual distributions to stockholders of at least 90% of our taxable income for the current taxable year, determined without regard to deductions for dividends paid and excluding any net capital gains. Under certain circumstances, we may be required to make distributions in excess of cash flow available for distributions to meet these distribution requirements. In such a case, we may borrow funds or may raise funds through the issuance of additional debt or equity capital. No dividends can be paid on our common stock unless we have paid full cumulative dividends on our Series D Convertible Preferred Stock and our 6.45% Series E cumulative redeemable preferred stock ("Series E Redeemable Preferred Stock"). From the date of issuance of our preferred stock through December 31, 2016, we have paid full cumulative dividends on our Series D Convertible Preferred Stock and Series E Redeemable Preferred Stock. We cannot assure our stockholders that we will make any future distributions.

The income tax treatment of distributions on our common stock, Series D Convertible Preferred Stock, and Series E Redeemable Preferred Stock for the years ended December 31, 2016, 2015, and 2014, was as follows:

	Common Stock			Series D Convertible Preferred Stock			Series E Redeemable Preferred Stock		
	Year Ended December 31,								
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Ordinary income	25.2 %	50.1 %	91.8 %	44.8 %	54.4 %	100.0 %	44.8 %	54.4 %	100.0 %
Return of capital	43.9	7.9	8.2	—	—	—	—	—	—
Capital gains at 25%	—	8.5	—	—	9.2	—	—	9.2	—
Capital gains at 20%	30.9	33.5	—	55.2	36.4	—	55.2	36.4	—
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Dividends declared	$3.23	$3.05	$2.88	$1.75	$1.75	$1.75	$1.6125	$1.6125	$1.6125

Refer to "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this annual report on Form 10-K for information on securities authorized for issuance under equity compensation plans.

60

ITEM 6. SELECTED FINANCIAL DATA

The following table should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this annual report on Form 10-K. Refer to "Item 15. Exhibits and Financial Statement Schedules."

	Year Ended December 31,				
(Dollars in thousands, except per share amounts)	2016	2015	2014	2013	2012
Operating Data:					
Revenues:					
Rental	$673,820	$608,824	$544,153	$467,764	$422,793
Tenant recoveries	223,655	209,063	173,480	150,095	133,280
Other income	24,231	25,587	9,244	13,292	18,424
Total revenues	921,706	843,474	726,877	631,151	574,497
Expenses:					
Rental operations	278,408	261,232	219,164	189,039	172,756
General and administrative	63,884	59,621	53,530	48,520	47,747
Interest	106,953	105,813	79,299	67,952	69,184
Depreciation and amortization	313,390	261,289	224,096	189,123	185,687
Impairment of real estate	209,261 [(1)]	23,250	51,675	—	2,050
Loss on early extinguishment of debt	3,230	189	525	1,992	2,225
Total expenses	975,126	711,394	628,289	496,626	479,649
Equity in (losses) earnings of unconsolidated real estate JVs	(184)	1,651	554	—	—
Gain on sales of real estate – rental properties	3,715	12,426	—	—	—
(Loss) income from continuing operations	(49,889)	146,157	99,142	134,525	94,848
(Loss) income from discontinued operations [(1)]	—	(43)	1,233	900	8,816
Gain on sales of real estate – land parcels	90	—	6,403	4,824	1,864
Net (loss) income	(49,799)	146,114	106,778	140,249	105,528
Net income attributable to noncontrolling interests	(16,102)	(1,897)	(5,204)	(4,032)	(3,402)
Net (loss) income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	(65,901)	144,217	101,574	136,217	102,126
Dividends on preferred stock	(20,223)	(24,986)	(25,698)	(25,885)	(27,328)
Preferred stock redemption charge	(61,267)	—	(1,989)	—	(5,978)
Net income attributable to unvested restricted stock awards	(3,750)	(2,364)	(1,774)	(1,581)	(1,190)
Net (loss) income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$(151,141)	$116,867	$72,113	$108,751	$67,630
Net (loss) income per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders – basic and diluted					
Continuing operations	$(1.99)	$1.63	$0.99	$1.59	$0.95
Discontinued operations	—	—	0.02	0.01	0.14
Net (loss) income per share	$(1.99)	$1.63	$1.01	$1.60	$1.09
Weighted-average shares of common stock outstanding – Basic	76,102,617	71,528,843	71,169,694	68,038,195	62,159,913
Weighted-average shares of common stock outstanding – Diluted	76,102,617	71,528,843	71,169,694	68,038,195	62,160,244
Dividends declared per share of common stock	$3.23	$3.05	$2.88	$2.61	$2.09

Balance Sheet Data (at year end):					
Investments in real estate	$9,077,972	$7,629,922	$7,108,610	$6,730,270	$6,395,922
Total assets	$10,354,888	$8,881,017	$8,109,038	$7,503,965	$7,131,129
Total debt	$4,164,025	$3,935,692	$3,651,581	$3,035,262	$3,162,962
Total liabilities	$4,972,610	$4,587,053	$4,199,480	$3,525,024	$3,628,071
Redeemable noncontrolling interests	$11,307	$14,218	$14,315	$14,444	$14,564
Total equity	$5,370,971	$4,279,746	$3,895,243	$3,964,497	$3,488,494

(1) Refer to Note 2 – "Basis of Presentation and Summary of Significant Accounting Policies" to our consolidated financial statements regarding discontinued operations and Note 18 – "Assets Classified as Held for Sale" to our consolidated financial statements under Item 15 in this annual report on Form 10-K.

	Year Ended December 31,				
(Dollars in thousands, except per occupied RSF amounts)	2016	2015	2014	2013	2012
Other Data:					
Net cash provided by operating activities	$392,501	$342,611	$334,325	$312,727	$305,533
Net cash used in investing activities	$1,496,628	$722,395	$634,829	$591,375	$558,100
Net cash provided by financing activities	$1,105,521	$419,126	$331,312	$197,570	$314,860
Number of properties – North America	199	191	184	175	172
RSF (including development and redevelopment projects under construction) – North America	19,869,729	18,874,070	17,356,818	16,092,344	16,226,907
Occupancy of operating properties – North America	96.6 %	97 %	97 %	96 %	95 %
Occupancy of operating and redevelopment properties – North America	95.7 %	94 %	96 %	96 %	92 %
Annual rental revenue per occupied RSF – North America	$45.15	$41.17	$38.68	$37.12	$35.34
Reconciliation of net (loss) income attributable to Alexandria's common stockholders to funds from operations attributable to Alexandria's common stockholders – diluted:					
Net (loss) income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$(151,141)	$116,867	$72,113	$108,751	$67,630
Depreciation and amortization [1]	313,390	261,289	224,096	190,778	192,005
Noncontrolling share of depreciation and amortization from consolidated JVs	(9,349)	(372)	—	—	—
Our share of depreciation and amortization from unconsolidated real estate JVs	2,707	1,734	329	—	—
(Gain) loss on sales of real estate – rental properties	(3,715)	(12,426)	(1,838) [2]	121 [2]	(1,564) [2]
Gain on sales of real estate – land parcels	(90)	—	(6,403)	(4,824)	(1,864)
Impairment of real estate – rental properties	98,194	23,250	26,975	—	11,400
Allocation to unvested restricted stock awards	—	(1,758)	(690)	36	31
Funds from operations attributable to Alexandria's common stockholders – basic [3]	249,996	388,584	314,582	294,862	267,638
Effect of dilutive securities and assumed conversion:					
Assumed conversion of unsecured senior convertible notes	—	—	—	15	21
Funds from operations attributable to Alexandria's common stockholders – diluted [3]	249,996	388,584	314,582	294,877	267,659
Acquisition-related expenses	—	—	—	1,446	—
Non-real estate investment income	(4,361)	(13,109)	—	—	(5,811)
	113,539	—	24,700	853	2,050

Impairments of land parcels and non-real estate investments					
Loss on early extinguishment of debt	3,230	189	525	1,992	2,225
Preferred stock redemption charge	61,267	—	1,989	—	5,978
Allocation to unvested restricted stock awards	(2,356)	110	(226)	(35)	(39)
Funds from operations attributable to Alexandria's common stockholders – diluted, as adjusted [3]	$421,315	$375,774	$341,570	$299,133	$272,062

(1) Includes depreciation and amortization classified in discontinued operations related to assets held for sale (for the periods prior to when such assets were designated as held for sale).

(2) (Gain) loss recognized prior to the fourth quarter of 2014 is classified in (loss) income from discontinued operations in the consolidated statements of operations.

(3) Refer to "Funds From Operations and Funds From Operations, as Adjusted (Attributable to Alexandria Real Estate Equities, Inc.'s Common Stockholders)" in the "Non-GAAP Measures" section under Item 7 in this annual report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto under Item 15 in this annual report on Form 10-K. 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 such forward-looking statements, including, but not limited to, those described under "Item 1A. Risk Factors" in this annual report on Form 10-K. We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements contained in this or any other document, whether as a result of new information, future events, or otherwise.

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

Executive summary

We concluded another successful year where our best-in-class team delivered solid results and continued growth. Below are the key highlights:

Solid internal growth

- Total revenues of $921.7 million, up 9.3%, for the year ended December 31, 2016, compared to $843.5 million for the year ended December 31, 2015;
- Solid leasing activity in light of minimal contractual lease expirations at the beginning of 2016 and a highly leased value-creation pipeline:

	2016
Total leasing activity – RSF	3,390,067
Lease renewals and re-leasing of space:	
Rental rate increases	27.6%
Rental rate increases (cash basis)	12.0%
RSF	2,129,608

- Same property net operating income growth of 4.7% and 6.0% (cash basis) for the year ended December 31, 2016, compared to the year ended December 31, 2015.

Solid external growth; disciplined allocation of capital to highly leased value-creation pipeline

- Deliveries of Class A properties in urban innovation clusters from our value-creation pipeline is expected to significantly increase net operating income:

Delivery Date	RSF [(1)]	Percentage Leased [(1)]	Incremental Annual Net Operating Income [(1)]
YTD 3Q16	1,003,795	99%	$55 million
4Q16	890,133	89%	$37 million
2017	1,405,117	80%	$95 million to $105 million

(1) Represents incremental annual net operating income upon stabilization of our development and redevelopment of new Class A properties, including only our share of real estate joint venture projects. RSF and percentage leased represent 100% of each property.

- Key development, redevelopment, and other projects placed into service during the year ended December 31, 2016:

- 422,980 RSF, 100% leased to Uber Technologies, Inc. at 1455 and 1515 Third Street in our Mission Bay/SoMa submarket in San Francisco;
- 305,006 RSF, 100% leased to Eli Lilly and Company at 10290 Campus Point Drive in our University Town Center submarket in San Diego; consistent initial stabilized cash yield of 6.8%;
- 295,609 RSF to Illumina, Inc. at 5200 Illumina Way, in our University Town Center submarket in San Diego; improvement of initial stabilized cash yield to 7.2% from 7.0% as initially disclosed;
- 274,734 RSF, 97% leased to Sanofi and 255,743 RSF, 99% leased to bluebird bio, Inc. at 50 and 60 Binney Street in our Cambridge submarket in Greater Boston, respectively; improvement of initial stabilized cash yield to 7.7% from 7.3% as initially disclosed;

- 64,378 RSF at 430 East 29th Street in our Manhattan submarket in New York City; improvement of initial stabilized cash yield to 7.0% from 6.6% as initially disclosed;
- 61,755 RSF, 100% leased to Otonomy, Inc. at 4796 Executive Drive in our University Town Center submarket in San Diego; improvement of initial stabilized cash yield to 7.0% from 6.8% as initially disclosed; and
- 59,783 RSF, 100% leased to Editas Medicine, Inc. at 11 Hurley Street in our Cambridge submarket in Greater Boston; improvement of initial stabilized cash yield to 8.8% from 7.9% as initially disclosed.
- Executed a 293,855 RSF 15-year build-to-suit lease with Merck & Co., Inc. at 213 East Grand Avenue in our South San Francisco submarket; we anticipate commencing development in the second quarter of 2017.

Increased common stock dividend

- Common stock dividend for the year ended December 31, 2016, of $3.23 per common share, up 18 cents, or 6%, over the year ended December 31, 2015; continuation of our strategy to share growth in cash flows from operating activities with our stockholders while also retaining a significant portion for reinvestment.

Operating results

	Year Ended December 31,			
	2016	2015	Change	
Net (loss) income attributable to Alexandria's common stockholders – diluted:				
In Millions	$(151.1)	$116.9	$(268.0)	N/A
Per Share	$(1.99)	$1.63	$(3.62)	N/A
Funds from operations attributable to Alexandria's common stockholders – diluted, as adjusted:				
In Millions	$421.3	$375.8	$45.5	12.1%
Per Share	$5.51	$5.25	$0.26	5.0 %

Items included in net (loss) income attributable to Alexandria's common stockholders:
(amounts are shown after deducting any amounts attributable to noncontrolling interests)

	Year Ended December 31,			
	2016	2015	2016	2015
(In millions, except per share amounts)	Amount		Per Share – Diluted	
Gain on sales of real estate – rental properties and land parcels	$3.8	$12.4	$0.05	$0.17
Impairment of:				
Real estate – rental properties	(98.2)	(23.3)	(1.29)	(0.33)
Real estate – land parcels and non-real estate investments	(113.5)	—	(1.49)	—
Loss on early extinguishment of debt	(3.2)	(0.2)	(0.04)	—
Preferred stock redemption charge	(61.3)	—	(0.81)	—
Total	$(272.4)	$(11.1)	$(3.58)	$(0.16)
Weighted-average shares of common stock outstanding – diluted	76.1	71.5		

Core operating metrics and internal growth

- Percentage of annual rental revenue from investment-grade tenants in effect as of December 31, 2016: 49%
- Percentage of annual rental revenue from Class A properties in AAA locations in effect as of December 31, 2016: 79%
- Occupancy for operating properties in North America at 96.6% as of December 31, 2016
- Operating margin at 70% for the year ended December 31, 2016
- Adjusted EBITDA margin at 66% for the year ended December 31, 2016
- See "Solid Internal Growth" in the above section for information on our leasing activity and same property net operating income growth

External growth

Disciplined allocation of capital to visible, multiyear, highly leased value-creation pipeline

- Refer to “Executive Summary” within this Item 7 in this annual report on Form 10-K for information.

Strategic acquisitions

- In November 2016, we acquired the remaining 49% interest in our real estate joint venture with Uber Technologies, Inc. for $90.1 million. The real estate joint venture owned land parcels located at 1455 and 1515 Third Street and a parking garage structure in our Mission Bay/SoMa submarket of San Francisco.
- The former real estate joint venture was expected to complete the development of two new Class A properties in 2018, pursuant to leases with Uber.
- As a result of the acquisition of the remaining 49% ownership interest, we own a 100% fee simple interest in both land parcels and the parking garage and are no longer obligated to fund the development of the two Class A properties.
- In connection with the acquisition of the remaining interest in the land and parking garage, we leased these assets to Uber for 75 years, beginning in November 2016. Uber will develop and own 100% of the two Class A properties on the land parcels.
- The $90.1 million purchase price includes $56.8 million payable in 2017.
- Initial stabilized yields on our total project investment of $155.0 million (including our investment in our initial 51% interest) are 14.4% and 7.0% (cash basis). Cash rents for the parking structure and land commence in February 2017, and November 2017, respectively.
- In November 2016, we acquired One Kendall Square, a 644,771 RSF, nine-building collaborative life science and technology campus located in the east side of our Cambridge submarket of Greater Boston, for a purchase price of $725.0 million, including the assumption of a $203.0 million secured note payable. The campus is 97.3% occupied, and we expect to achieve an initial stabilized yield (cash basis) of 6.2% upon completion of near-term renewals and re-leasing of space (see below). This acquisition provides us with a significant opportunity to increase cash flows through the following:
- $47/RSF average in-place annual rents (mix of office gross rents and lab triple net rents), significantly below-market;
- 55% contractual lease expirations through 2019;
- Conversion of campus office space into office/laboratory space through redevelopment; and
- Entitled land parcel for near-term ground-up development of an additional building aggregating 172,500 square feet.
- In October 2016, we acquired the Torrey Ridge Science Center, a 294,993 RSF, three-building collaborative life science campus located in the heart of our Torrey Pines submarket of San Diego, for a purchase price of $182.5 million. The campus is 87.1% occupied, and we expect to achieve an initial stabilized yield (cash basis) of 6.8% at stabilization in the first half of 2018 upon completion of near-term renewals/re-leasing of acquired below-market leases and the conversion of 75,953 RSF of existing shell and office space into office/laboratory space.

Dispositions

- During the three months ended December 31, 2016, we completed the dispositions of our remaining operating properties and land parcels in India for an aggregate sales price of approximately $53.4 million. As of December 31, 2016, we had no remaining investments in real estate in India.

Balance sheet management

Improvement in balance sheet leverage and liquidity

- $14.2 billion total market capitalization as of December 31, 2016;
- $2.2 billion of liquidity as of December 31, 2016;
- Net debt to Adjusted EBITDA:
  - Fourth quarter of 2016, annualized: 6.1x; year ended December 31, 2016: 6.6x;
  - Fourth quarter of 2017, annualized target range: 5.5x to 6.0x;

- Fixed-charge coverage ratio:
- Fourth quarter of 2016, annualized: 3.8x; year ended December 31, 2016: 3.6x;
- Fourth quarter of 2017, annualized target: greater than 4.0x;

- In April 2016, we closed a secured construction loan for our development project at 100 Binney Street in our Cambridge submarket:
  - Commitments available for borrowing of $304.3 million;
  - Outstanding borrowings bearing interest at a rate of LIBOR+200 bps; and
  - Executed 2.00% LIBOR rate cap agreements for notional amounts up to $150 million.
- In June 2016, we executed the offering of $350.0 million of unsecured senior notes payable, due in 2027 at an interest rate of 3.95%. Net proceeds of $344.7 million were used initially to reduce outstanding borrowings on our unsecured senior line of credit;
- On July 29, 2016, we amended our unsecured senior line of credit and recognized a loss on early extinguishment of debt of $2.4 million related to the write-off of unamortized loan fees. Key changes are summarized below:

	Amended Agreement	Prior Agreement
Commitments	$1.65 billion	$1.5 billion
Interest rate	LIBOR+1.00%	LIBOR+1.10%
Maturity date	October 29, 2021	January 3, 2019

- On July 29, 2016, we completed a partial principal repayment of $200 million of our 2019 Unsecured Senior Bank Term Loan, reducing the total outstanding balance from $600 million to $400 million, and recognized a loss on early extinguishment of debt of $869 thousand related to the write-off of unamortized loan fees during the year ended December 31, 2016;
- Executed additional interest rate swap agreements with an aggregate notional amount of $700 million during the year ended December 31, 2016, to provide a minimum of hedged variable-rate debt of $900 million and $450 million as of December 31, 2017 and 2018, respectively;
- Repurchased 6.0 million shares of our 7.00% Series D cumulative convertible preferred stock (“Series D Convertible Preferred Stock”) at an aggregate price of $206.8 million, or $34.41 per share, and recognized a preferred stock redemption charge of $61.3 million during the year ended December 31, 2016;
- In October 2016, we filed an ATM common stock offering program, which allows us to sell up to an aggregate of $600.0 million of our common stock. During the three months ended December 31, 2016, we sold an aggregate of 3.4 million shares of common stock for gross proceeds of $354.2 million, or $105.73 per share, and net proceeds of approximately $348.4 million;
- In December 2016, we sold an aggregate of 7.5 million shares of our common stock to settle our forward equity sales agreements executed in July 2016. Net proceeds, after issuance costs and underwriters’ discount, of $715.9 million were used to fund the acquisition of One Kendall Square located in East Cambridge, to lower net debt to Adjusted EBITDA by 0.3x, and to fund construction;
- Raised $380.9 million in 2016 from (i) completed dispositions aggregating $274.6 million and (ii) funding from our joint venture partner aggregating $106.3 million, primarily in 2016, related to the sale of a partial interest in 10290 Campus Point Drive. Refer to “Real Estate Asset Sales” within this Item 7 of this annual report on Form 10-K for additional information;
- During the year ended December 31, 2016, we repaid six secured notes payable aggregating $307.0 million with a weighted-average interest rate of 4.58%;
- Current and future value-creation pipeline was 10% of gross investments in real estate in North America as of December 31, 2016, with a fourth quarter of 2017 target of less than 10%; and
- 4% unhedged variable-rate debt as a percentage of total debt as of December 31, 2016.

Sustainability and health and wellness

- 51% of annual rental revenue expected from LEED certified projects upon completion of in-process projects;
- 2016 recipient of the NAREIT Investor CARE (Communications and Reporting Excellence) Gold Award as a best-in-class REIT that delivers transparency, quality, and efficient communications and reporting to the investment community; our second consecutive (2016 and 2015) NAREIT Investor CARE Gold Award; and
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In November 2016, we became the first REIT to be named a first-in-class Fitwel Champion to promote health and wellness in the workplace and to earn Fitwel building certifications.

External growth – value-creation development and redevelopment of new Class A properties placed into service during 2016

The following table presents value-creation development and redevelopment of new Class A properties, including our unconsolidated real estate joint venture, placed into service during the year ended December 31, 2016 (dollars in thousands):

Property/Market/Submarket	Our Ownership Interest	Date Delivered	RSF in Service						Total Project	
			Prior to 1/1/16	Placed into Service 2016				Total		
				First Quarter	Second Quarter	Third Quarter	Fourth Quarter		Leased	Investment[1]
Consolidated development projects										
50 and 60 Binney Street/ Greater Boston/Cambridge	100%	9/30/16	—	—	—	530,477	—	530,477	99%	$474,000
1455 and 1515 Third Street/ San Francisco/Mission Bay/SoMa	100%	11/10/16	—	—	—	—	422,980	422,980	100%	$155,000
430 East 29th Street/ New York City/Manhattan	100%	Various	354,261	1,783	62,595	—	—	418,639	100%	$471,000
5200 Illumina Way, Building 6/ San Diego/University Town Center	100%	6/20/16	—	—	295,609	—	—	295,609	100%	$68,000
4796 Executive Drive/ San Diego/University Town Center	100%	12/1/16	—	—	—	—	61,755	61,755	100%	$41,000
Consolidated redevelopment projects										
11 Hurley Street/ Greater Boston/Cambridge	100%	9/29/16	—	—	—	59,783	—	59,783	100%	$36,500
10290 Campus Point Drive/ San Diego/University Town Center	55%	12/2/16	—	—	—	—	305,006	305,006	100%	$231,000
Unconsolidated real estate joint venture development project										
360 Longwood Avenue/ Greater Boston/Longwood Medical Area	27.5%	Various	259,859	2,508	51,040	—	100,392	413,799	76%	$108,965[4]
			614,120	4,291	409,244	590,260	890,133	2,508,048		

(1) Below is our originally disclosed total project investment and unlevered yields:

Property	Investment	Unlevered Yields						Incremental Annual Net Operating Income
		Average Cash (Original)	Change	Initial Stabilized Cash Basis (Original)	Change	Initial Stabilized (Original)	Change	

50 and 60 Binney Street	$ 500,000	8.1%	0.5 %	7.3 %	0.4 %	7.4 %	0.5 %	
430 East 29th Street	$ 463,200	7.1%	0.5 %	6.6 %	0.4 %	6.5 %	0.6 %	
5200 Illumina Way, Building 6	$ 69,900	8.6%	0.2 %	7.0 %	0.2 %	8.4 %	0.2 %	
4796 Executive Drive	$ 42,200	7.7%	0.3 %	6.8 %	0.2 %	7.1 %	0.3 %	$92M
11 Hurley Street	$ 41,000	8.8%	1.0 %	7.9 %	0.9 %	8.6 %	1.1 %	
10290 Campus Point Drive	$ 241,000	7.6%	0.1 %	6.8 %	— %	7.0 %	0.1 %	
360 Longwood Avenue	$ 108,965	9.3%	(1.1)%	8.3 %	(1.0)%	8.9 %	(1.1)%	

(2) Improvement of our initial yields is due to a variety of factors, including (i) use of Building Information Modeling (BIM), (ii) avoided use of owner's contingency, (iii) early use of consultants, (iv) co-location of consultants during construction, and (v) adaptive reuse of special permit.

(3) Refer to Note 4 – "Investment in Unconsolidated Real Estate Joint Venture" to our consolidated financial statements under Item 15 in this annual report on Form 10-K for information about our acquisition of the remaining 49% ownership interest.

(4) Our project cost at completion and unlevered yields are based upon our share of the investment in real estate, including costs incurred directly by us outside of the real estate joint venture.

External growth – value-creation development and redevelopment of new Class A properties placed into service during 2016 (continued)

50 Binney Street	60 Binney Street	360 Longwood Avenue	11 Hurley Street	430 East 29th Street
Greater Boston/Cambridge	Greater Boston/Cambridge	Greater Boston/Longwood Medical Area	Greater Boston/Cambridge	New York City/Manhattan
274,734 RSF	255,743 RSF	413,799 RSF	59,783 RSF	418,639 RSF
Sanofi Genzyme	bluebird bio, Inc.	Dana-Farber Cancer Institute, Inc. The Children's Hospital Corporation	Editas Medicine, Inc.	Roche/New York University/Others

1455 and 1515 Third Street [1]	10290 Campus Point Drive	5200 Illumina Way, Building 6	4796 Executive Drive	Incremental annual net operating income[2]
San Francisco/Mission Bay/SoMa	San Diego/University Town Center	San Diego/University Town Center	San Diego/University Town Center	
422,980 RSF	305,006 RSF	295,609 RSF	61,755 RSF	
Uber Technologies, Inc.	Eli Lilly and Company	Illumina, Inc.	Otonomy, Inc.	$92M

(1) Refer to Note 4 – "Investment in Unconsolidated Real Estate Joint Venture" to our consolidated financial statements under Item 15 in this annual report on Form 10-K for information about our acquisition of the remaining 49% ownership interest in our real estate joint venture with Uber Technologies, Inc.

(2) Represents incremental annual net operating income upon stabilization of our development and redevelopment of new Class A properties, including only our share of real estate joint venture projects.

Acquisitions in 2016

Our real estate asset acquisitions during the year ended December 31, 2016, consisted of the following (dollars in thousands):

Property/Market/Submarket	Type	Date of Purchase	Number of Properties	Square Footage		Purchase Price	Occupancy	Unlever Yields Initial Stabiliz Cash Basis
				Operating	Future Value-Creation			
Torrey Ridge Science Center/San Diego/Torrey Pines	Operating	10/3/16	3	294,993	—	$182,500	87.1 %	6.8 % (1
One Kendall Square/Greater Boston/Cambridge	Operating/Development	11/7/16	9	644,771	172,500	725,000	97.3 %	6.2 % (2
1455 and 1515 Third Street/San Francisco/Mission Bay/SoMa (acquisition of remaining 49% interest)	Operating	11/10/16	2	422,980	—	90,100 (3)	100.0%	N/A (4
			14	1,362,744	172,500	$997,600		

(1) At stabilization in the first half of 2018, upon completion of near-term renewals/re-leasing of acquired below-market leases and the conversion of 75,953 RSF of existing shell and office space into office/laboratory space.
(2) Upon stabilization at completion of the ground-up development of our entitled land parcel.
(3) The purchase price includes $56.8 million payable in 2017.
(4) Refer to “External Growth – Value-Creation Development and Redevelopment of New Class A Properties Placed into Service during 2016” earlier within this Item 7 for discussion of our overall project investment and yields after our acquisition of the 49% noncontrolling interest.

72

Real estate asset sales

Our asset sale strategy consists of (i) the recycling of capital from high-value assets (via the sale of partial interests to high-quality institutional investors or the sale of 100%), (ii) the sale of non-core/"core-like" operating assets, which increases the quality of our asset base, and (iii) the sale of non-strategic land parcels, all of which provide a significant source of capital to fund our highly pre-leased value-creation development and redevelopment projects. Our real estate asset sales completed during the year ended December 31, 2016, consisted of the following (dollars in thousands):

Property/Market/Submarket	Date of Sale	RSF/Acres	Net Operating Income (1)	Net Operating Income (Cash) (1)	Classification: Construction Funding	Classification: Asset Sales
Dispositions completed in the first through third quarters of 2016:						
16020 Industrial Drive/Maryland/Gaithersburg	4/21/2016	71,000 RSF	$ 1,022	$ 896	$—	$ 6,400
Land parcels in North America (Gaithersburg/Non-cluster)	Various	5.9 acres	N/A	N/A	—	8,700
Land parcels in India	Various	28 acres	N/A	N/A	—	12,767 (2)
					—	27,867
Two joint ventures – 45% partial interest sales:						
10290 Campus Point Drive/San Diego/University Town Center	6/29/16	305,006 RSF	$ 15,832 (3)	$ 14,665 (3)	106,263 (4)	—
10300 Campus Point Drive/San Diego/University Town Center	12/15/16	449,759 RSF			—	150,008 (4)
Dispositions completed in the fourth quarter of 2016:						
306 Belmont Street and 350 Plantation Street/Greater Boston/ Route 495/Worcester	12/9/16	90,690 RSF	$ 1,558	$ 1,348	—	$ 17,550
560 Eccles Avenue/San Francisco/South San Francisco	12/21/16	3.3 acres	N/A	N/A	—	12,000
7990 Enterprise Street/Canada	12/15/16	66,000 RSF	965	957	—	13,836
Operating properties and land parcels in India	Various	566,355 RSF / 168 acres	363	391	—	53,364 (2)
					—	96,750
					$ 106,263	$ 274,625

(1) Represents annualized amounts for the quarter ended prior to the date of sale. Cash net operating income excludes straight-line rent and amortization of acquired below-market leases.

(2) Represents the completion of the sale of all of our investments in real estate in India. During 2016, we recognized impairments of real estate related to the dispositions of assets in Asia aggregating $194.3 million. Refer to Note 18 – "Assets Classified as Held for Sale" to our consolidated financial statements under Item 15 of this annual report on Form 10-K for additional information.

(3) Represents a 45% partial interest share of net operating income and cash net operating income: (i) anticipated upon stabilization of the redevelopment of 10290 Campus Point Drive and (ii) realized for 10300 Campus Point Drive during the third quarter of 2016.

(4) Aggregate proceeds of $256.3 million, including gross proceeds of $68.6 million received as of September 30, 2016, $153.0 million received during the three months ended December 31, 2016, and additional future proceeds of $34.7 million to be received primarily during the first quarter of 2017.

73

Execution of capital strategy

During 2016, we continued to execute on many of the long-term components of our capital strategy. Some of our key accomplishments include the following:

2016 Capital strategy

- Achieved targeted key credit metric ratios, including a net debt to Adjusted EBITDA ratio of 6.1x and a fixed-charge coverage ratio of 3.8x for the fourth quarter of 2016 on an annualized basis;
- Continued the process of prudently laddering our debt maturities as we completed the successful offering in June 2016 of $350.0 million of unsecured senior notes payable with a stated interest rate of 3.95% due in 2027;
- $2.2 billion of liquidity as of December 31, 2016;
- Executed additional interest rate swap agreements with an aggregate notional amount of $700 million during the year ended December 31, 2016, to provide a minimum of hedged variable-rate debt of $900 million and $450 million as of December 31, 2017 and 2018, respectively;
- As of December 31, 2016, our unhedged variable-rate debt as a percentage to total debt was 4%;
- In April 2016, we closed a secured construction loan for our development project at 100 Binney Street in our Cambridge submarket:
- Commitments available for borrowing of $304.3 million;
- Outstanding borrowings bearing interest at a rate of LIBOR+200 bps; and
- Executed 2.00% LIBOR rate cap agreements for notional amounts up to $150 million;
- On July 29, 2016, we amended our unsecured senior line of credit with key changes summarized as follows:

	Amended Agreement	Prior Agreement
Commitments	$1.65 billion	$1.5 billion
Interest rate	LIBOR+1.00%	LIBOR+1.10%
Maturity date	October 29, 2021	January 3, 2019

- On July 29, 2016, we completed a partial principal repayment of $200 million of our 2019 Unsecured Senior Bank Term Loan, reducing the total outstanding balance from $600 million to $400 million;
- Completed our December 2015 ATM program during the first half of 2016, when we sold an aggregate of 3.9 million shares of our common stock for gross proceeds of $374.3 million, or $94.80 per share, and net proceeds of approximately $367.8 million;
- Established a new ATM common stock offering program in October 2016 that allowed us to sell up to an aggregate of $600.0 million. During the three months ended December 31, 2016, we sold an aggregate of 3.4 million shares of our common stock for gross proceeds of $354.2 million, or $105.73 per share, and net proceeds of approximately $348.4 million;
- Raised $380.9 million in 2016 from (i) completed dispositions aggregating $274.6 million and (ii) funding from our joint venture partner, primarily in 2016, aggregating $106.3 million related to the sale of a partial interest in 10290 Campus Point Drive. Refer to “Real Estate Asset Sales” within this Item 7 of this annual report on Form 10-K for additional information;
- Maintained a high-quality tenant base as of December 31, 2016, with 49% of our annual rental revenue from investment-grade tenants;
- Continued to access diverse sources of capital, including joint venture capital aggregating $256.3 million from the sale of a 45.0% partial interest in 10290 and 10300 Campus Point Drive to a high-quality institutional partner;
- Continued to allocate substantially all of our external growth capital to Class A properties located in world-class collaborative life science and technology campuses in AAA urban innovation clusters; and
- Reduced our investment in the current and future value-creation pipeline to 10% of gross investments in real estate in North America as of December 31, 2016, with a target of less than 10%.

During 2017, we intend to continue to execute our capital strategy to achieve further improvements to our credit rating, which will allow us to further improve our cost of capital and continue our disciplined approach to capital allocation. For further information, refer to the “Projected Results” section below within this Item 7 of this annual report on Form 10-K.

Balance sheet management

As described above, we successfully executed our long-term capital strategy in 2016, continuing to strengthen our balance sheet and credit profile. Consistent with 2016, our capital strategy for 2017 consists of the following elements:

- Allocate capital to Class A properties located in world-class collaborative life science and technology campuses in AAA urban innovation clusters;
- Continue to improve our credit profile;
- Maintain access to diverse sources of capital, which includes cash flows from operating activities after dividends, incremental debt supported by our growth in EBITDA, asset sales, joint venture capital, and other capital such as the sale of equity;
- Maintain commitment to long-term capital to fund growth;
- Prudently ladder debt maturities;
- Maintain significant balance sheet liquidity; and
- Maintain a stable and flexible balance sheet.

Given the anticipated delivery of significant incremental EBITDA from our development and redevelopment of new Class A properties, we expect to obtain debt for a significant portion of construction on a leverage-neutral basis. We expect to continue to maintain access to a diverse source of debt, including unsecured senior notes payable, as well as secured construction loans for our development and redevelopment projects from time to time. We expect to continue to maintain a significant proportion of our net operating income unencumbered to allow for future flexibility for accessing both unsecured and secured debt markets, although we expect traditional secured mortgage notes payable will remain a small component of our capital structure.

In addition to debt funding on a leverage-neutral basis, we intend to supplement our remaining capital needs with cash flows from operating activities, after dividends and proceeds from asset sales, real estate joint ventures, and other equity capital. We pursued a strategy of asset sales in 2016 that combined the sales of partial real estate joint venture interests in low cap rate operating assets to high-quality institutional investors and the sales of certain land parcels and non-core operating assets, which allowed us to increase the quality of our asset base and to realize through sales a portion of the significant incremental net asset value we created in the Class A properties. We expect to identify additional real estate assets for sale in 2017 using a similar strategy over the next several quarters to generate additional proceeds for reinvestment into our value-creation projects, subject to market conditions. The amount of asset sales necessary to meet our sources of capital forecast will vary depending upon the amount of EBITDA associated with the assets sold. For example, the sale of an income-producing property benefits leverage less than the sale of a non-income-producing land parcel. We may also sell additional common equity subject to market conditions. Additionally, other capital activity in 2017 will also be considered and will influence the amount of real estate disposition.

Improved cost of capital

As part of our capital strategy to continue strengthening our credit profile, we expect to complete and place into service development and redevelopment projects currently under construction, which we expect will deliver significant incremental EBITDA. As our EBITDA grows in 2017 and beyond, this growth in EBITDA should allow us to obtain debt funding on a leverage-neutral basis and provide significant capital to fund our development and redevelopment projects. Additionally, the resulting improvement in our balance sheet leverage ratio should allow us to access diverse sources of capital, strengthen our credit profile, and reduce our cost of capital. In addition, we expect to continue to maintain a significant proportion of unencumbered net operating income. For the year ended December 31, 2016, our unencumbered net operating income as a percentage of total net operating income was 85%.

75

Investments

We hold equity investments in certain publicly traded companies, privately held entities, and limited partnerships primarily involved in the life science and technology industries.
As of December 31, 2016, our investments aggregated $342.5 million, or approximately 3.3% of our total assets. The charts and table below present selected investment statistics as of December 31, 2016 (dollars in thousands, unless stated otherwise):

Public/Private Investment Mix
(Cost)

Tenant/Non-Tenant Mix
(Cost)

Investment Type	Cost	Net Unrealized Gains	Total
Public	$41,392	$ 19,293	$60,685
Private	281,792	—	281,792
Total	$323,184	$ 19,293	$342,477

Number of Investments

221

Average Cost

$1.5M

Results of operations

Favorable Lease Structure [1]	Same Property Net Operating Income Increase
Percentage of triple net leases 97%	
Stable cash flows	
Percentage of leases containing annual rent escalations 96%	
Increasing cash flows	
Percentage of leases providing for the recapture of capital expenditures 95%	
Lower capex burden	

Margins [2]	Rental Rate Increases: Renewed/Re-Leased Space
Adjusted EBITDA	Operating
66%	70%

(1) Percentages calculated based on RSF.

(2) Represents the year ended December 31, 2016.

Same properties

As a result of changes within our total property portfolio during the comparative periods presented, including changes from assets acquired or sold, properties placed into development or redevelopment, and development and/or redevelopment properties recently placed into service, the consolidated total rental revenues, tenant recoveries, and rental operating expenses in our operating results can show significant changes from period to period. In order to supplement an evaluation of our results of operations over a given period, we analyze the operating performance for all properties that were fully operating for the entirety of the comparative periods presented, referred to as Same Properties. These properties are analyzed separately from properties acquired subsequent to the first day in the earliest comparable period presented, properties that underwent development or redevelopment at any time during the comparative periods and corporate entities (legal entities performing general and administrative functions), which are excluded from same property results. Additionally, rental revenues from lease termination fees, if any, are excluded from the results of the Same Properties.

The following table presents information regarding our Same Properties as of December 31, 2016 and 2015:

	December 31,	
	2016	2015
Percentage change in net operating income over comparable period from prior year	4.7%	1.3%
Percentage change in net operating income (cash basis) over comparable period from prior year	6.0%	4.7%
Operating margin	70%	69%
Number of Same Properties	159	164
RSF	13,521,141	14,054,506
Occupancy – current-period average	97.1%	95.7%
Occupancy – same-period prior-year average	96.3%	95.9%

The following table reconciles the number of Same Properties to total properties for the year ended December 31, 2016:

Development – under construction	Properties
100 Binney Street	1
510 Townsend Street	1
505 Brannan Street	1
ARE Spectrum	3
213 East Grand Avenue	1
400 Dexter Avenue North	1
5200 Illumina Way, Parking Structure	N/A
	8

Development – placed into service after January 1, 2015	Properties	
50 and 60 Binney Street	2	
75/125 Binney Street	1	
430 East 29th Street	1	
5200 Illumina Way, Building 6	1	
4796 Executive Drive	1	
6040 George Watts Hill Drive	1	
360 Longwood Avenue (unconsolidated real estate joint venture)	1	
1455 and 1515 Third Street	2	(1)
	10	

Redevelopment – under construction	Properties
9625 Towne Centre Drive	1

Redevelopment – placed into service after January 1, 2015	1 Properties
225 Second Avenue	1
11055, 11065, and 11075 Roselle Street	3
10151 Barnes Canyon Road	1
11 Hurley Street	1
10290 Campus Point Drive	1
	7
Acquisitions after January 1, 2015:	Properties
640 Memorial Drive	1
Torrey Ridge Science Center	3
One Kendall Square	9
	13
Properties held for sale	1
Total properties excluded from Same Properties	40
Same Properties	159
Total properties as of the year ended December 31, 2016	199

(1) Represents two land parcels and a parking garage 100% leased to Uber.

Comparison of results for the year ended December 31, 2016, to the year ended December 31, 2015

The following table presents a comparison of the components of net operating income for our Same Properties and Non-Same Properties for the year ended December 31, 2016, compared to the year ended December 31, 2015. For a reconciliation of net operating income to income from continuing operations, the most directly comparable financial measure presented in accordance with GAAP, refer to "Non-GAAP Measures" within this Item 7 of this annual report on Form 10-K.

	Year Ended December 31,			
(Dollars in thousands)	2016	2015	$ Change	% Change
Same Properties	$541,164	$521,954	$19,210	3.7 %
Non-Same Properties	132,656	86,870	45,786	52.7
Total rental	673,820	608,824	64,996	10.7
Same Properties	189,270	183,885	5,385	2.9
Non-Same Properties	34,385	25,178	9,207	36.6
Total tenant recoveries	223,655	209,063	14,592	7.0
Same Properties	171	475	(304)	(64.0)
Non-Same Properties	24,060	25,112	(1,052)	(4.2)
Total other income	24,231	25,587	(1,356)	(5.3)
Same Properties	730,605	706,314	24,291	3.4
Non-Same Properties	191,101	137,160	53,941	39.3
Total revenues	921,706	843,474	78,232	9.3
Same Properties	219,235	217,888	1,347	0.6
Non-Same Properties	59,173	43,344	15,829	36.5
Total rental operations	278,408	261,232	17,176	6.6
Same Properties	511,370	488,426	22,944	4.7
Non-Same Properties	131,928	93,816	38,112	40.6
Net operating income	$643,298	$582,242	$61,056	10.5 %
Net operating income – Same Properties	$511,370	$488,426	$22,944	4.7 %
Straight-line rent revenue and amortization of acquired below-market leases	(14,085)	(19,314)	5,229	(27.1)
Net operating income – Same Properties (cash basis)	$497,285	$469,112	$28,173	6.0 %

Rental revenues

Total rental revenues for the year ended December 31, 2016, increased by $65.0 million, or 10.7%, to $673.8 million, compared to $608.8 million for the year ended December 31, 2015. The increase was primarily due to rental revenues from our Non-Same Properties totaling $45.8 million primarily due to placing into service, subsequent to January 1, 2015, highly leased development and redevelopment projects, aggregating 3,174,458 RSF, and 13 operating properties acquired subsequent to January 1, 2015.

Rental revenues from our Same Properties for the year ended December 31, 2016, increased by $19.2 million, or 3.7%, to $541.2 million, compared to $522.0 million for the year ended December 31, 2015. The increase was primarily due to significant rental rate increases on lease renewals and re-leasing of space since January 1, 2015, as

well as an increase in occupancy for Same Properties to 97.1% for the year ended December 31, 2016, from 96.3% for the year ended December 31, 2015.

Tenant recoveries

Tenant recoveries for the year ended December 31, 2016, increased by $14.6 million, or 7.0%, to $223.7 million, compared to $209.1 million for the year ended December 31, 2015. This increase is relatively consistent with the increase in our rental operating expenses of $17.2 million, or 6.6%, as discussed under “Rental Operating Expenses” below. Same Properties’ tenant recoveries increased by $5.4 million, or 2.9%, primarily due to the increase in occupancy for Same Properties, as discussed above.

Other income

Other income for the years ended December 31, 2016 and 2015, consisted of the following (in thousands):

	Year Ended December 31,		
	2016	2015	Change
Management fee income	$418	$1,667	$(1,249)
Interest and other income	6,680	4,978	1,702
Investment income	17,133	18,942	(1,809)
Total other income	$24,231	$25,587	$(1,356)

Rental operating expenses

Total rental operating expenses for the year ended December 31, 2016, increased by $17.2 million, or 6.6%, to $278.4 million, compared to $261.2 million for the year ended December 31, 2015. Approximately $15.8 million of the increase was due to an increase in rental operating expenses from our Non-Same Properties, primarily related to development and redevelopment projects placed into service subsequent to January 1, 2015, and 13 operating properties acquired subsequent to January 1, 2015.

Same Properties’ rental operating expenses increased during the year ended December 31, 2016, compared to the year ended December 31, 2015, primarily due to higher utility and repairs and maintenance expenses as a result of an increase in occupancy from 96.3% for the year ended December 31, 2015, to 97.1% for the year ended December 31, 2016.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2016, increased by $4.3 million, or 7.2%, to $63.9 million, compared to $59.6 million for the year ended December 31, 2015. General and administrative expenses increased primarily due to the continued growth in depth and breadth of our operations in multiple markets. As a percentage of total assets, our general and administrative expenses for the years ended December 31, 2016 and 2015, were consistent at 0.6% and 0.7%, respectively.

Interest expense

Interest expense for the years ended December 31, 2016 and 2015, consisted of the following (dollars in thousands):

	Year Ended December 31,		
Component	2016	2015	Change
Interest incurred	$159,403	$142,353	$17,050
Capitalized interest	(52,450)	(36,540)	(15,910)
Interest expense	$106,953	$105,813	$1,140
Average debt balance outstanding (1)	$4,256,306	$4,078,381	$177,925
Weighted-average annual interest rate (2)	3.7%	3.5%	0.2%

(1) Represents the average total debt balance outstanding during the years ended December 31, 2016 and 2015.
(2) Represents total interest incurred divided by the average debt balance outstanding in the respective periods.

The net change in interest expense during the year ended December 31, 2016, compared to the year ended December 31, 2015, resulted from the following (dollars in thousands):

Component	Interest Rate[(1)]	Effective Date	Change
Increases in interest incurred due to:			
Issuance of debt:			
$300 million unsecured senior note payable	4.46%	November 2015	$11,410
$350 million unsecured senior note payable	4.11%	June 2016	7,780
Secured construction loans	Various	Various	5,860
Assumption of $203 million secured note payable	3.38%	November 2016	1,120
Fluctuations in interest rate:			
Interest rate hedge agreements			2,550
Variable-rate senior bank term loans			1,050
Amortization of deferred financing fees			870
Total increases			30,640
Decreases in interest incurred due to:			
Repayment of debt: [(2)]			
Secured notes payable repaid in 2016	Various	Various	(8,210)
Secured notes payable repaid in 2015	Various	Various	(3,360)
Lower average balance on unsecured line of credit			(1,820)
Other decrease in interest			(200)
Total decreases			(13,590)
Change in interest incurred			17,050
Increase in capitalized interest [(3)]			(15,910)
Total change in interest expense			$1,140

(1) Represents the weighted-average interest rate as of the end of the applicable period, including expense/income related to our interest rate hedge agreements, amortization of debt premiums (discounts), amortization of loan fees, and other bank fees.

(2) Refer to Note 9 – “Secured and Unsecured Senior Debt” to our consolidated financial statements under Item 15 of this annual report on Form 10-K for information on debt repayments.

(3) Increase in capitalized interest is due to increased construction activity on our highly leased development and redevelopment projects in our value-creation pipeline aggregating 1.9 million RSF as of December 31, 2016.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2016, increased by $52.1 million, or 19.9%, to $313.4 million, compared to $261.3 million for the year ended December 31, 2015. The increase is primarily due to additional depreciation from development and redevelopment projects placed into service subsequent to January 1, 2015, and 13 operating properties acquired subsequent to January 1, 2015.

Sales of real estate assets and related impairment charges

Refer to “Assets Located in Asia” in Note 18 – “Assets Classified as Held for Sale” and to “Sales of Real Estate Assets and Related Impairment Charges” in Note 3 – “Investments in Real Estate” to our consolidated financial statements under Item 15 of this annual report on Form 10-K.

Loss on early extinguishment of debt

During the year ended December 31, 2016, we recognized a loss on early extinguishment of debt related to the write-off of a portion of unamortized loan fees totaling $2.4 million upon the amendment of our unsecured senior line of credit in July 2016. In addition, we completed a partial principal repayment of $200 million of our 2019 Unsecured Senior Bank Term Loan and recognized a loss on early extinguishment of debt of $869 thousand related to the

write-off of unamortized loan fees. During the year ended December 31, 2015, we recognized a loss on early extinguishment of debt to expense a portion of unamortized loan fees aggregating $189 thousand upon our $25.0 million partial principal repayment under our 2019 Unsecured Senior Bank Term Loan.

Equity in (losses) earnings of unconsolidated real estate joint venture

Equity in losses of unconsolidated real estate joint venture of $184 thousand and equity in earnings of unconsolidated real estate joint venture of $1.7 million for the years ended December 31, 2016 and 2015, respectively, primarily include our 27.5% share of the operating results of our property at 360 Longwood Avenue in our Longwood Medical Area submarket of Greater Boston. The results include depreciation and amortization expense from placing into service additional RSF at this development property. As of December 31, 2016, we had 413,799 RSF, or 100%, of this property in service at 76% occupancy.

Gain on sales of real estate – rental properties

During the year ended December 31, 2016, we recognized an aggregate gain of $3.7 million from three properties sold for a total consideration of $43.4 million, which included a gain of $2.4 million on the sale of a property located in our Canada market in North America at 7990 Enterprise Street for $13.8 million.

Comparison of results for the year ended December 31, 2015, to the year ended December 31, 2014

The following table presents a comparison of the components of net operating income for our Same Properties and Non-Same Properties for the year ended December 31, 2015, compared to the year ended December 31, 2014. For a reconciliation of net operating income to income from continuing operations, the most directly comparable financial measure presented in accordance with GAAP, refer to "Non-GAAP Measures" within this Item 7 of this annual report on Form 10-K.

	Year Ended December 31,			
(Dollars in thousands)	2015	2014	$ Change	% Change
Same Properties	$482,120	$481,524	$596	0.1 %
Non-Same Properties	126,704	62,629	64,075	102.3
Total rental	608,824	544,153	64,671	11.9
Same Properties	174,302	159,037	15,265	9.6
Non-Same Properties	34,761	14,443	20,318	140.7
Total tenant recoveries	209,063	173,480	35,583	20.5
Same Properties	496	340	156	45.9
Non-Same Properties	25,091	8,904	16,187	181.8
Total other income	25,587	9,244	16,343	176.8
Same Properties	656,918	640,901	16,017	2.5
Non-Same Properties	186,556	85,976	100,580	117.0
Total revenues	843,474	726,877	116,597	16.0
Same Properties	206,745	196,413	10,332	5.3
Non-Same Properties	54,487	22,751	31,736	139.5
Total rental operations	261,232	219,164	42,068	19.2
Same Properties	450,173	444,488	5,685	1.3
Non-Same Properties	132,069	63,225	68,844	108.9
Net operating income	$582,242	$507,713	$74,529	14.7 %
Net operating income – Same Properties	$450,173	$444,488	$5,685	1.3 %
Straight-line rent revenue and amortization of acquired below-market leases	(13,626)	(27,669)	14,043	(50.8)
Net operating income – Same Properties (cash basis)	$436,547	$416,819	$19,728	4.7 %

Rental revenues

Total rental revenues for the year ended December 31, 2015, increased by $64.7 million, or 11.9%, to $608.8 million, compared to $544.2 million for the year ended December 31, 2014. The increase was primarily due to rental revenues from our Non-Same Properties, which consisted of the following: (i) increase of $50.5 million due to the placement into service subsequent to January 1, 2014, of highly leased development and redevelopment projects aggregating 1.3 million RSF and (ii) increase of $13.6 million due to acquisitions subsequent to January 1, 2014, of operating properties aggregating 384,626 RSF.

Rental revenues from our Same Properties for the year ended December 31, 2015, increased by $596 thousand, or 0.1%, to $482.1 million, compared to $481.5 million for the year ended December 31, 2014. The increase was primarily due to the rental rate increases on renewed/re-leased space, which was offset by free rent provided to our

tenant at 3115 Merryfield Row as part of a relocation in 2015.

Tenant recoveries

Tenant recoveries for the year ended December 31, 2015, increased by $35.6 million, or 20.5%, to $209.1 million, compared to $173.5 million for the year ended December 31, 2014. The increase is consistent with the increase in our rental operating expenses of $42.1 million, or 19.2%, as discussed under “Rental Operating Expenses” below.

Same Properties tenant recoveries increased by $15.3 million, or 9.6%, primarily as a result of an increase in Same Properties rental operating expenses of $10.3 million, or 5.3%, as discussed below, and an increase from one of our top 20 tenants converting from a gross lease to a triple net lease in 2015.

Other income

Other income for the years ended December 31, 2015 and 2014, consisted of the following (in thousands):

	Year Ended December 31,		
	2015	2014	Change
Management fee income	$1,667	$2,761	$(1,094)
Interest and other income	4,978	4,157	821
Investment income	18,942	2,326	16,616
Total other income	$25,587	$9,244	$16,343

Rental operating expenses

Total rental operating expenses for the year ended December 31, 2015, increased by $42.1 million, or 19.2%, to $261.2 million, compared to $219.2 million for the year ended December 31, 2014. Approximately $31.7 million of the increase was due to an increase in rental operating expenses from our Non-Same Properties, primarily related to development and redevelopment projects placed into service subsequent to January 1, 2014, and operating properties acquired subsequent to January 1, 2014, as mentioned above.

Same Properties rental operating expenses increased by $10.3 million, or 5.3%, during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to higher (i) utility expenses, (ii) snow removal expenses, and (iii) property taxes. Utility expenses increased primarily due to higher utility rates for properties in the San Francisco, San Diego, and Greater Boston markets. Snow removal expenses increased due to a more severe winter in 2015 compared to 2014, and property taxes increased as a result of the higher assessed values in 2015 compared to 2014.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2015, increased by $6.1 million, or 11.4%, to $59.6 million, compared to $53.5 million for the year ended December 31, 2014. General and administrative expenses increased primarily due to continued growth in depth and breadth of our operations in multiple markets. As a percentage of total assets, our general and administrative expenses for the years ended December 31, 2015 and 2014, were consistent at 0.7% and 0.7%, respectively.

Interest expense

Interest expense for the years ended December 31, 2015 and 2014, consisted of the following (dollars in thousands):

	Year Ended December 31,		
Component	2015	2014	Change
Interest incurred	$142,353	$126,404	$15,949
Capitalized interest	(36,540)	(47,105)	10,565
Interest expense	$105,813	$79,299	$26,514
Average debt balance outstanding [1]	$4,078,381	$3,375,129	$703,252
Weighted-average annual interest rate [2]	3.5 %	3.7 %	(0.2)%

(1) Represents the average total debt balance outstanding during the years ended December 31, 2015 and 2014.
(2) Represents total interest incurred divided by the average debt balance outstanding in the respective periods.

The net change in interest expense during the year ended December 31, 2015, compared to the year ended December 31, 2014, resulted from the following (dollars in thousands):

Component	Interest Rate[1]	Effective Date	Change
Increases in interest incurred due to:			
Issuance of debt:			
$300 million unsecured senior note payable	4.50%	July 2014	$7,390
$400 million unsecured senior note payable	2.75%	July 2014	6,100
$300 million unsecured senior note payable	4.30%	November 2015	1,590
Assumption of $82 million secured note payable	3.93%	January 2015	2,550
Higher average balance on unsecured line of credit			3,430
Amortization of deferred financing fees			1,340
Other interest incurred			90
Total increases			22,490
Decreases in interest incurred due to:			
Repayment of debt:			
$76 million secured note payable	5.73%	October 2015	(1,210)
Unsecured senior bank term loans	Various	Various	(1,170)
Expiration of hedge agreements	Various	December 2014	(4,161)
Total decreases			(6,541)
Change in interest incurred			15,949
Increase in capitalized interest			10,565
Total change in interest expense			$26,514

(1) Represents the weighted-average interest rate as of the end of the applicable period, including expense/income related to our interest rate hedge agreements, amortization of debt premiums (discounts), amortization of loan fees, and other bank fees.

Depreciation and amortization

Depreciation and amortization for the year ended December 31, 2015, increased by $37.2 million, or 16.6%, to $261.3 million, compared to $224.1 million for the year ended December 31, 2014. The increase is primarily due to additional depreciation from development and redevelopment projects placed into service subsequent to January 1, 2014, and operating properties aggregating 384,626 RSF that were acquired subsequent to January 1, 2014.

Impairment of real estate

In December 2015, we determined that a 71,000 RSF R&D/warehouse property, located at 16020 Industrial Drive in Maryland, met the criteria for classification as held for sale. Accordingly, in December 2015, we recognized an $8.7 million impairment charge to lower the carrying costs of the property to its estimated fair value less cost to sell. We completed the sale of the property in 2016 for $6.4 million at no gain or loss.

During the three months ended March 31, 2015, we determined that a 175,000 RSF property in Hyderabad, India, met the criteria for classification as held for sale and consequently recognized an impairment charge of $14.5 million to lower the carrying costs of the property to its estimated fair value less cost to sell, including an estimated $4.2 million foreign currency exchange translation loss. On March 26, 2015, we completed the sale of the vacant property for $12.4 million at no gain or loss.

Loss on early extinguishment of debt

During the year ended December 31, 2015, we recognized a loss on early extinguishment of debt related to the write-off of a portion of unamortized loan fees aggregating $189 thousand upon our $25.0 million partial principal repayment under our 2019 Unsecured Senior Bank Term Loan. During the year ended December 31, 2014, we recognized a loss on early extinguishment of debt related to the write-off of a portion of unamortized loan fees totaling $525 thousand upon our $125.0 million partial principal repayment under our 2019 Unsecured Senior Bank Term Loan.

Equity in earnings of unconsolidated real estate joint ventures

Equity in earnings of unconsolidated real estate joint venture of $1.7 million for the year ended December 31, 2015, primarily includes our 27.5% share of the operating results of our property at 360 Longwood Avenue in our Longwood Medical Area submarket of Greater Boston, which was placed into service at various dates beginning in the three months ended December 31, 2014. As of December 31, 2015, we had 259,859 RSF, or 63%, of this property in service and occupied, and 153,940 RSF, or 37%, of this project under development.

Gain on sales of real estate – rental properties

During the year ended December 31, 2015, we sold a property located at 75/125 Shoreway Road in our Palo Alto/Stanford Research Park submarket of San Francisco aggregating 82,874 RSF for an aggregate sales price of $38.5 million and recognized an aggregate gain on sales of real estate of $12.4 million.

In December 2015, we sold partial interests in four Class A properties to a high-quality institutional investor. The aggregate proceeds from the sale of $453.1 million exceeded the value of the underlying properties in comparison to their historical cost basis. These properties remain consolidated in our financial statements, thus no gain has been recognized on our disposition of these partial interests. These sales were accounted for as equity transactions with an adjustment to our additional-paid in capital and noncontrolling interest balances.

Joint venture financial information

We present components of operating results and balance sheet information for the share of our consolidated real estate joint ventures attributable to noncontrolling interests and for our share of investment in an unconsolidated real estate joint venture to help investors estimate operating results and balance sheet information related to our partially owned entities. These amounts are estimated by computing, for each joint venture that we consolidate in our financial statements, the noncontrolling interest percentage of each financial item to arrive at the cumulative noncontrolling interest share of each component presented. In addition, for our real estate joint venture that we do not control and do not consolidate, we apply our economic ownership percentage to the unconsolidated real estate joint venture to arrive at our proportionate share of each component presented (dollars in thousands).

	December 31, 2016	
	Noncontrolling Interest Share of Consolidated Real Estate JVs	Our Share of Unconsolidated Real Estate JVs
Investments in real estate	$485,934	$ 92,799
Cash and cash equivalents	12,703	3,284
Other assets	27,266	8,141
Secured notes payable	—	(51,057)
Other liabilities	(39,421)	(2,946)
Redeemable noncontrolling interests	(11,307)[2]	—
	$475,175	$ 50,221

	Noncontrolling Interest Share of Consolidated Real Estate Joint Ventures		Our Share of Unconsolidated Real Estate Joint Ventures [1]	
	December 31, 2016		December 31, 2016	
	Three Months Ended	Year Ended	Three Months Ended	Year Ended
Total revenues	$9,371	$34,425	$2,554	$8,746
Rental operations	(2,439)	(9,217)	(1,087)	(3,349)
	6,932	25,208	1,467	5,397
General and administrative	(68)	(178)	(19)	(87)
Interest	—	—	(707)	(2,787)
Depreciation and amortization	(2,598)	(9,349)	(655)	(2,707)
Impairment of real estate	(8)	(594)	—	—
Net income (loss) [2]	$4,258	$15,087	$86	$(184)

Consolidated Real Estate Joint Ventures

Property/Market/Submarket	Noncontrolling [3] Interest Share
225 Binney Street/Greater Boston/Cambridge	70%
1500 Owens Street/San Francisco/Mission Bay/SoMa	49.9%
409 and 499 Illinois Street/San Francisco/Mission Bay/SoMa	40%
10290 and 10300 Campus Point Drive/San Diego/ University Town Center	45%

Unconsolidated Real Estate Joint Ventures

Property/Market/Submarket	Our Share
360 Longwood Avenue/Greater Boston/Longwood Medical Area	27.5%
1455 and 1515 Third Street/San Francisco/Mission Bay/SoMa	[1]

Our unconsolidated real estate joint venture at 360 Longwood Avenue has a non-recourse, secured construction loan that includes the following key terms:

Tranche	Maturity Date	Stated Rate	Outstanding Balance	Remaining Commitments	Total
Fixed rate	April 1, 2017 [4]	5.25 %	$ 173,226	$ 2,015	$ 175,241
Floating rate [5]	April 1, 2017 [4]	L+3.75 %	12,557	25,402	37,959
			185,783	$ 27,417	$ 213,200
Unamortized deferred financing costs			(117)		
			$ 185,666		

(1) Prior to November 10, 2016, we held a 51% interest in 1455 and 1515 Third Street and accounted for this as an unconsolidated real estate joint venture. On November 10, 2016, we acquired the remaining 49% interest in this real estate joint venture and now account for this entity on a consolidated basis. “Our Share of Unconsolidated Real Estate Joint Ventures” includes operating results prior to November 10, 2016.

(2) Represents a redeemable noncontrolling interest in our consolidated real estate project at 213 East Grand Avenue, located in our South San Francisco submarket, aggregating 293,855 RSF. The real estate joint venture earns a fixed preferred return of 8.4% which is excluded from our net income calculation.

(3) In addition to the consolidated real estate joint ventures listed, various partners hold insignificant interests in three other properties.

(4) We have two, one-year options to extend the stated maturity date to April 1, 2019, subject to certain conditions. The real estate joint venture expects to refinance the existing secured construction loan in connection with the anticipated sale of a condo interest in the 360 Longwood Avenue real estate joint venture. See Sources and uses of capital under Item 7 of this annual report on Form 10-K for additional discussion.

(5) Borrowings under the floating rate tranche have an interest rate floor equal to 5.25% and are subject to an interest rate cap on LIBOR of 3.50%.

Projected results

Based on our current view of existing market conditions and certain current assumptions, we present guidance for EPS attributable to Alexandria's common stockholders – diluted and funds from operations per share attributable to Alexandria's common stockholders – diluted, each for the year ending December 31, 2017, as set forth in the table below. The table below provides a reconciliation of funds from operations per share attributable to Alexandria's common stockholders – diluted, a non-GAAP measure, to EPS, the most directly comparable GAAP measure, and other key assumptions and key credit metrics included in our guidance for the year ending December 31, 2017.

Net Earnings per Share and Funds From Operations per Share Attributable to Alexandria's Common Stockholders – Diluted	
Earnings per share	\$1.49 to \$1.69
Depreciation and amortization [1]	4.45
Allocation of unvested restricted stock awards	(0.04)
Funds from operations per share	\$5.90 to \$6.10

Key Assumptions	2017 Guidance			
(Dollars in millions)	Low		High	
Occupancy percentage for operating properties in North America as of December 31, 2017	96.6%		97.2%	
Lease renewals and re-leasing of space:				
Rental rate increases	18.5%		21.5%	
Rental rate increases (cash basis)	6.5%		9.5%	
Same Properties performance:				
Net operating income increase	1.5%		3.5%	
Net operating income increase (cash basis)	5.5%		7.5%	
Straight-line rent revenue [2]	\$	107	\$	112
General and administrative expenses [3]	\$	68	\$	73
Capitalization of interest	\$	42	\$	52
Interest expense	\$	131	\$	141

(1) Includes depreciation related to the final purchase price allocations for the acquisitions of Torrey Ridge Science Center and One Kendall Square that closed during the fourth quarter of 2016.

(2) Straight-line rent revenue includes free rent and rent escalations. For competitive reasons, we do not provide disclosure of free rent included in straight-line rent revenue on expected deliveries in anticipation of future negotiations with potential tenants. During the fourth quarter of 2016, approximately 84% of straight-line rent revenue related to initial free rent concessions granted on value-creation projects recently placed into service. Initial free rent concessions granted on value-creation projects recently placed into service as a percentage of straight-line rent revenue for the year ending December 31, 2017 is expected to be consistent with the fourth quarter of 2016.

(3) General and administrative expenses as a percentage of total assets and total revenues for the year ending December 31, 2017, are expected to be consistent with 2016.

Key Credit Metrics	2017 Guidance
Net debt to Adjusted EBITDA – fourth quarter of 2017, annualized	5.5x to 6.0x
Net debt and preferred stock to Adjusted EBITDA – fourth quarter of 2017, annualized	5.5x to 6.0x
Fixed-charge coverage ratio – fourth quarter of 2017, annualized	Greater than 4.0x
Value-creation pipeline as a percentage of gross investments in real estate as of December 31, 2017	Less than 10%

Net Debt to Adjusted EBITDA [(1)] Net Debt and Preferred Stock to Adjusted EBITDA [(1)]

Fixed-Charge Coverage Ratio [(1)] Liquidity

$2.2B

(In millions)	
Availability under our $1.65 billion unsecured senior line of credit	$ 1,622
Remaining construction loan commitments	340
Available-for-sale equity securities, at fair value	61
Cash, cash equivalents, and restricted cash	141
	$ 2,164

(1) Quarter annualized.

As of December 31, 2016, we had CIP related to our seven development projects and one redevelopment project. The completion of these projects, along with projects recently placed into service, certain future projects, and operations from Same Properties, is expected to contribute significant increases in rental income, net operating income, and cash flows. Operating performance assumptions related to the completion of our development and redevelopment projects, including the timing of initial occupancy, stabilization dates, and initial stabilized yield, are included in the "Investments in Real Estate" section under Item 2 of this annual report on Form 10-K. Certain key assumptions regarding our projections, including assumptions related to various development and redevelopment projects, are reflected in the tables above and in the "Projected Construction Spending" table in the "Investments in Real Estate" section under Item 2 of this annual report on Form 10-K.

The completion of our development and redevelopment projects will result in an increase in interest expense and other project costs, because these project costs will no longer qualify for capitalization and will, therefore, be expensed as incurred. Our projection assumptions for Same Properties net operating income growth, rental rate growth, straight-line rent, general and administrative expenses, capitalization of interest, and interest expense are included in the tables above and are subject to a number of variables and uncertainties, including those discussed in Item 1A and within this Item 7 of this annual report on Form 10-K. To the extent our full-year earnings guidance is updated during the year, we will provide additional disclosure supporting reasons for any significant changes to such guidance.

Liquidity and capital resources

Overview

We expect to meet certain long-term liquidity requirements, such as requirements for development, redevelopment, other construction projects, capital improvements, tenant improvements, property acquisitions, leasing costs, non-revenue-enhancing capital expenditures, scheduled debt maturities, distributions to noncontrolling interests, and dividends through net cash provided by operating activities, periodic asset sales, strategic real estate joint venture capital, and long-term secured and unsecured indebtedness, including borrowings under our $1.65 billion unsecured senior line of credit, unsecured senior bank term loans, and the issuance of additional debt and/or equity securities.

We expect to continue meeting our short-term liquidity and capital requirements, as further detailed in this section, generally through our working capital and net cash provided by operating activities. We believe that the net cash provided by operating activities will continue to be sufficient to enable us to make the distributions necessary to continue qualifying as a REIT.

Over the next several years, our balance sheet, capital structure, and liquidity objectives are as follows:

- Retain positive cash flows from operating activities after payment of dividends and distributions to noncontrolling interests for investment in development and redevelopment projects and/or acquisitions;
-