

ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
October 30, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.
(Exact name of registrant as specified in its charter)
Maryland 95-4502084
(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer Identification Number)
385 East Colorado Boulevard, Suite 299, Pasadena, California 91101
(Address of principal executive offices) (Zip code)

(626) 578-0777
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of October 15, 2018, 107,526,601 shares of common stock, par value \$0.01 per share, were outstanding.

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GLOSSARY

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

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
GAAP	U.S. Generally Accepted Accounting Principles
HVAC	Heating, Ventilation, and Air Conditioning
JV	Joint Venture
LEED®	Leadership in Energy and Environmental Design
LIBOR	London Interbank Offered Rate
Nareit	National Association of Real Estate Investment Trusts
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 the San Francisco market)
U.S.	United States
VIE	Variable Interest Entity

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2018	December 31, 2017
Assets		
Investments in real estate	\$11,587,312	\$10,298,019
Investments in unconsolidated real estate joint ventures	197,970	110,618
Cash and cash equivalents	204,181	254,381
Restricted cash	29,699	22,805
Tenant receivables	11,041	10,262
Deferred rent	511,680	434,731
Deferred leasing costs	238,295	221,430
Investments	957,356	523,254
Other assets	368,032	228,453
Total assets	\$14,105,566	\$12,103,953
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	\$632,792	\$771,061
Unsecured senior notes payable	4,290,906	3,395,804
Unsecured senior line of credit	413,000	50,000
Unsecured senior bank term loans	347,306	547,942
Accounts payable, accrued expenses, and tenant security deposits	907,094	763,832
Dividends payable	101,084	92,145
Total liabilities	6,692,182	5,620,784
Commitments and contingencies		
Redeemable noncontrolling interests	10,771	11,509
Alexandria Real Estate Equities, Inc.'s stockholders' equity:		
7.00% Series D cumulative convertible preferred stock	74,386	74,386
Common stock	1,058	998
Additional paid-in capital	6,801,150	5,824,258
Accumulated other comprehensive (loss) income	(3,811)	) 50,024
Alexandria Real Estate Equities, Inc.'s stockholders' equity	6,872,783	5,949,666
Noncontrolling interests	529,830	521,994
Total equity	7,402,613	6,471,660
Total liabilities, noncontrolling interests, and equity	\$14,105,566	\$12,103,953

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental	\$255,496	\$216,021	\$750,616	\$635,156
Tenant recoveries	81,051	67,058	226,380	188,874
Other income	5,276	2,291	10,000	5,276
Total revenues	341,823	285,370	986,996	829,306
Expenses:				
Rental operations	99,759	83,469	283,438	237,536
General and administrative	22,660	17,636	68,020	56,099
Interest	42,244	31,031	117,256	92,563
Depreciation and amortization	119,600	107,788	352,671	309,069
Impairment of real estate	—	—	6,311	203
Loss on early extinguishment of debt	1,122	—	1,122	670
Total expenses	285,385	239,924	828,818	696,140
Equity in earnings of unconsolidated real estate joint ventures	40,718	14,100	42,952	15,050
Investment income	122,203	—	220,294	—
Gain on sales of real estate – rental properties	—	—	—	270
Gain on sales of real estate – land parcels	—	—	—	111
Net income	219,359	59,546	421,424	148,597
Net income attributable to noncontrolling interests	(5,723)	(5,773)	(17,428)	(18,892)
Net income attributable to Alexandria Real Estate Equities, Inc.’s stockholders	213,636	53,773	403,996	129,705
Dividends on preferred stock	(1,301)	(1,302)	(3,905)	(6,364)
Preferred stock redemption charge	—	—	—	(11,279)
Net income attributable to unvested restricted stock awards	(3,395)	(1,198)	(6,010)	(3,498)
Net income attributable to Alexandria Real Estate Equities, Inc.’s common stockholders	\$208,940	\$51,273	\$394,081	\$108,564
Net income per share attributable to Alexandria Real Estate Equities, Inc.’s common stockholders:				
Basic	\$2.01	\$0.55	\$3.86	\$1.20
Diluted	\$1.99	\$0.55	\$3.85	\$1.20
Dividends declared per share of common stock	\$0.93	\$0.86	\$2.76	\$2.55

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$219,359	\$59,546	\$421,424	\$148,597
Other comprehensive (loss) income				
Unrealized gains on public investments:				
Unrealized holding gains arising during the period	—	17,018	—	23,414
Reclassification adjustment for losses included in net income	—	—	—	2,482
Unrealized gains on public investments, net	—	17,018	—	25,896
Unrealized (losses) gains on interest rate hedge agreements:				
Unrealized interest rate hedge gains arising during the period	165	145	2,808	812
Reclassification adjustment for amortization of interest (income) expense included in net income	(1,432)	198	(3,241)	1,810
Unrealized (losses) gains on interest rate hedge agreements, net	(1,267)	343	(433)	2,622
Unrealized (losses) gains on foreign currency translation:				
Unrealized foreign currency translation (losses) gains arising during the period	(59)	3,836	(3,631)	7,592
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	—	—	2,421
Unrealized (losses) gains on foreign currency translation, net	(59)	3,836	(3,631)	10,013
Total other comprehensive (loss) income	(1,326)	21,197	(4,064)	38,531
Comprehensive income	218,033	80,743	417,360	187,128
Less: comprehensive income attributable to noncontrolling interests	(5,723)	(5,783)	(17,428)	(18,914)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	\$212,310	\$74,960	\$399,932	\$168,214

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

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

	Alexandria Real Estate Equities, Inc.'s Stockholders' Equity								
	7.00% Series D Cumulative Convertible Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance as of December 31, 2017	\$74,386	99,783,686	\$ 998	\$5,824,258	\$ —	\$ 50,024	\$ 521,994	\$6,471,660	\$ 11,509
Net income	—	—	—	—	403,996	—	16,781	420,777	647
Total other comprehensive loss	—	—	—	—	—	(4,064)	—	(4,064)	—
Reclassification of net unrealized gains on non-real estate investments upon adoption of new ASU on financial instruments on January 1, 2018	—	—	—	—	140,520	(10,771)	—	90,750	—
Redemption of noncontrolling interests	—	—	—	—	—	—	—	—	(1,497)
Distributions to noncontrolling interests	—	—	—	—	—	—	(23,775)	(23,775)	(638)
Contributions from noncontrolling interests	—	—	—	257	—	—	14,830	15,087	750
Issuance of common stock	—	5,716,420	57	696,475	—	—	—	696,532	—
Issuance pursuant to stock plan	—	303,488	3	29,119	—	—	—	29,122	—
Dividends declared on common stock	—	—	—	—	(289,571)	—	—	(289,571)	—
Dividends declared on	—	—	—	—	(3,905)	—	—	(3,905)	—

preferred stock									
Reclassification									
of distributions in	—	—	—	251,041	(251,041	—	—	—	—
excess of earnings									
Balance as of									
September 30,	\$74,386	105,803,594	\$1,058	\$6,801,150	\$—	\$(3,811)	\$529,830	\$7,402,613	\$10,771
2018									

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

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

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net income	\$421,424	\$148,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	352,671	309,069
Loss on early extinguishment of debt	1,122	670
Gain on sales of real estate – rental properties	—	(270)
Impairment of real estate	6,311	203
Gain on sales of real estate – land parcels	—	(111)
Equity in earnings of unconsolidated real estate joint ventures	(42,952)	(15,050)
Distributions of earnings from unconsolidated real estate joint ventures	430	249
Amortization of loan fees	7,870	8,578
Amortization of debt premiums	(1,795)	(1,873)
Amortization of acquired below-market leases	(16,588)	(14,908)
Deferred rent	(75,960)	(74,362)
Stock compensation expense	25,209	18,649
Investment income	(220,294)	(2,007)
Changes in operating assets and liabilities:		
Tenant receivables	(807)	(224)
Deferred leasing costs	(42,821)	(39,925)
Other assets	(21,629)	(10,662)
Accounts payable, accrued expenses, and tenant security deposits	21,897	30,619
Net cash provided by operating activities	414,088	357,242
Investing Activities		
Proceeds from sales of real estate	5,748	4,263
Additions to real estate	(663,688)	(660,877)
Purchases of real estate	(947,013)	(590,884)
Deposits for investing activities	2,500	4,700
Acquisitions of interests in unconsolidated real estate joint ventures	(35,922)	—
Investments in unconsolidated real estate joint ventures	(77,501)	(248)
Return of capital from unconsolidated real estate joint ventures	68,592	38,576
Additions to investments	(174,195)	(128,190)
Sales of investments	57,330	18,896
Net cash used in investing activities	\$(1,764,149)	\$(1,313,764)

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

	Nine Months Ended September 30,	
	2018	2017
Financing Activities		
Borrowings from secured notes payable	\$17,784	\$145,272
Repayments of borrowings from secured notes payable	(155,155)	(2,882)
Proceeds from issuance of unsecured senior notes payable	899,321	424,384
Borrowings from unsecured senior line of credit	3,894,000	2,634,000
Repayments of borrowings from unsecured senior line of credit	(3,531,000)	(2,348,000)
Repayments of borrowings from unsecured senior bank term loans	(200,000)	(200,000)
Payment of loan fees	(19,066)	(4,343)
Repurchase of 7.00% Series D cumulative convertible preferred stock	—	(17,934)
Redemption of 6.45% Series E cumulative redeemable preferred stock	—	(130,350)
Proceeds from the issuance of common stock	696,532	705,391
Dividends on common stock	(280,632)	(229,814)
Dividends on preferred stock	(3,905)	(8,317)
Contributions from noncontrolling interests	15,837	9,877
Distributions to and purchases of noncontrolling interests	(25,910)	(17,432)
Net cash provided by financing activities	1,307,806	959,852
Effect of foreign exchange rate changes on cash and cash equivalents	(1,051)	1,579
Net (decrease) increase in cash, cash equivalents, and restricted cash	(43,306)	4,909
Cash, cash equivalents, and restricted cash as of the beginning of period	277,186	141,366
Cash, cash equivalents, and restricted cash as of the end of period	\$233,880	\$146,275
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest, net of interest capitalized	\$99,638	\$86,232
Non-Cash Investing Activities:		
Change in accrued construction	\$69,654	\$(38,767)
Contribution of real estate to an unconsolidated real estate joint venture	\$—	\$6,998

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

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

1. Organization and basis of presentation

Alexandria Real Estate Equities, Inc. (NYSE:ARE), an S&P 500[®] company, is an urban office REIT uniquely focused on collaborative life science and technology campuses in AAA innovation cluster locations. As used in this quarterly report on Form 10 Q, references to the “Company,” “Alexandria,” “ARE,” “we,” “us,” and “our” refer to Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries. The accompanying unaudited consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated.

We have prepared the accompanying interim consolidated financial statements in accordance with GAAP and in conformity with the rules and regulations of the SEC. In our opinion, the interim consolidated financial statements presented herein reflect all adjustments, of a normal recurring nature, that are necessary to fairly present the interim consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10 K for the year ended December 31, 2017. Any references to our market capitalization, number or quality of buildings or tenants, quality of location, square footage, number of leases, or occupancy percentage, and any amounts derived from these values in these notes to consolidated financial statements, are outside the scope of our independent registered public accounting firm’s interim review.

2. Summary of significant accounting policies

Consolidation

On an ongoing basis, as circumstances indicate the need for reconsideration, we evaluate each legal entity that is not wholly owned by us in accordance with the consolidation guidance. Our evaluation considers all of our variable interests, including equity ownership, as well as fees paid to us for our involvement in the management of each partially owned entity. To fall within the scope of the consolidation guidance, an entity must meet both of the following criteria:

- The entity has a legal structure that has been established to conduct business activities and to hold assets; such entity can be in the form of a partnership, limited liability company, or corporation, among others; and
- We have a variable interest in the legal entity – i.e., variable interests that are contractual, such as equity ownership, or other financial interests that change with changes in the fair value of the entity’s net assets.

If an entity does not meet both criteria above, we apply other accounting literature, such as the cost or equity method of accounting. If an entity does meet both criteria above, we evaluate such entity for consolidation under either the variable interest model if the legal entity meets any of the following characteristics to qualify as a VIE, or under the voting model for all other legal entities that are not VIEs.

A legal entity is determined to be a VIE if it has any of the following three characteristics:

- 1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support;
- 2) The entity is established with non-substantive voting rights (i.e., where the entity deprives the majority economic interest holder(s) of voting rights); or
- 3)

The equity holders, as a group, lack the characteristics of a controlling financial interest. Equity holders meet this criterion if they lack any of the following:

• The power, through voting rights or similar rights, to direct the activities of the entity that most significantly influence the entity's economic performance, as evidenced by:

• Substantive participating rights in day-to-day management of the entity's activities; or

• Substantive kick-out rights over the party responsible for significant decisions;

• The obligation to absorb the entity's expected losses; or

• The right to receive the entity's expected residual returns.

2. Summary of significant accounting policies (continued)

Once we consider the sufficiency of equity and voting rights of each legal entity, we then evaluate the characteristics of the equity holders' interests, as a group, to see if they qualify as controlling financial interests. Our real estate joint ventures consist of limited partnerships or limited liability companies. For an entity structured as a limited partnership or a limited liability company, our evaluation of whether the equity holders (equity partners other than us in each of our joint ventures) lack the characteristics of a controlling financial interest includes the evaluation of whether the limited partners or non-managing members (the noncontrolling equity holders) lack both substantive participating rights and substantive kick-out rights, defined as follows:

Participating rights provide the noncontrolling equity holders the ability to direct significant financial and operating decisions made in the ordinary course of business that most significantly influence the entity's economic performance. Kick-out rights allow the noncontrolling equity holders to remove the general partner or managing member without cause.

If we conclude that any of the three characteristics of a VIE are met, including that the equity holders lack the characteristics of a controlling financial interest because they lack both substantive participating rights and substantive kick-out rights, we conclude that the entity is a VIE and evaluate it for consolidation under the variable interest model.

Variable interest model

If an entity is determined to be a VIE, we evaluate whether we are the primary beneficiary. The primary beneficiary analysis is a qualitative analysis based on power and benefits. We consolidate a VIE if we have both power and benefits – that is, (i) we have the power to direct the activities of a VIE that most significantly influence the VIE's economic performance (power), and (ii) we have the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE (benefits). We consolidate VIEs whenever we determine that we are the primary beneficiary. Refer to Note 4 – “Consolidated and Unconsolidated Real Estate Joint Ventures” to these unaudited consolidated financial statements for information on specific joint ventures that qualify as VIEs. If we have a variable interest in a VIE but we are not the primary beneficiary, we account for our investment using the equity method of accounting.

Voting model

If a legal entity fails to meet any of the three characteristics of a VIE (due to insufficiency of equity, existence of non-substantive voting rights, or lack of a controlling financial interest), we then evaluate such entity under the voting model. Under the voting model, we consolidate the entity if we determine that we, directly or indirectly, have greater than 50% of the voting shares and that other equity holders do not have substantive participating rights. Refer to Note 4 – “Consolidated and Unconsolidated Real Estate Joint Ventures” to these unaudited consolidated financial statements for further information on our unconsolidated real estate joint ventures that qualify for evaluation under the voting model.

Use of estimates

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

Investments in real estate

Evaluation of business combination or asset acquisition

We evaluate each acquisition of real estate or in-substance real estate (including equity interests in entities that predominantly hold real estate assets) to determine whether the integrated set of assets and activities acquired meets the definition of a business and needs to be accounted as a business combination. An acquisition of an integrated set of assets and activities that does not meet the definition of a business is accounted for as an asset acquisition. If either of the following criteria is met, the integrated set of assets and activities acquired would not qualify as a business:

- Substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets; or

- The integrated set of assets and activities is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., revenue generated before and after the transaction).

2. Summary of significant accounting policies (continued)

An acquired process is considered substantive if:

- The process includes an organized workforce (or includes an acquired contract that provides access to an organized workforce) that is skilled, knowledgeable, and experienced in performing the process;
- The process cannot be replaced without significant cost, effort, or delay; or
- The process is considered unique or scarce.

Generally, we expect that acquisitions of real estate or in-substance real estate will not meet the definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e., land, buildings, and related intangible assets) or because the acquisition does not include a substantive process in the form of an acquired workforce or an acquired contract that cannot be replaced without significant cost, effort, or delay. When evaluating acquired service or management contracts, we consider the nature of the services performed, the terms of the contract relative to similar arm's-length contracts, and the availability of comparable vendors in evaluating whether the acquired contract constitutes a substantive process.

Recognition of real estate acquired

For acquisitions of real estate or in-substance real estate that are accounted for as business combinations, we recognize the assets acquired (including the intangible value of acquired above- or below-market leases, acquired in-place leases, tenant relationships, and other intangible assets or liabilities), liabilities assumed, noncontrolling interests, and previously existing ownership interests at fair value as of the acquisition date. Any excess (deficit) of the consideration transferred relative to the fair value of the net assets acquired is accounted for as goodwill (bargain purchase gain). Acquisition costs related to business combinations are expensed as incurred.

Acquisitions of real estate and in-substance real estate that do not meet the definition of a business are accounted for as asset acquisitions. The accounting model for asset acquisitions is similar to the accounting model for business combinations except that the acquisition consideration (including acquisition costs) is allocated to the individual assets acquired and liabilities assumed on a relative fair value basis. As a result, asset acquisitions do not result in the recognition of goodwill or a bargain purchase gain. Additionally, because the accounting model for asset acquisitions is a cost accumulation model, preexisting interests in the acquired assets, if any, are not remeasured to fair value but continue to be accounted for at their historical cost. Direct acquisition costs are capitalized if an asset acquisition is probable. If we determine that an asset acquisition is no longer probable, no new costs are capitalized and all capitalized costs that are not recoverable are expensed.

The relative fair values used to allocate the cost of an asset acquisition are determined by the same methodologies and assumptions we utilize to determine fair value in a business combination.

If a real estate property is acquired with an in-place lease that contains a bargain fixed-rate renewal option for the period beyond the non-cancelable lease term, we evaluate factors, such as the business conditions in the industry in which the lessee operates, the economic conditions in the area in which the property is located, and the ability of the lessee to sublease its space during the renewal term, in order to determine the likelihood that the lessee will renew. When we determine there is reasonable assurance that such bargain renewal option will be exercised, we consider the option in determining the intangible value of such lease and its related amortization period. The value of tangible assets acquired is based upon our estimation of value on an "as if vacant" basis. The value of acquired in-place leases includes the estimated costs during the hypothetical lease-up period and other costs that would have been incurred in the execution of similar leases under the market conditions at the acquisition date of the acquired in-place lease. We

assess the fair value of tangible and intangible assets based on numerous factors, including estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including the historical operating results, known trends, and market/economic conditions, that may affect the property.

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

2. Summary of significant accounting policies (continued)

Capitalized project costs

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

Real estate sales

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

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

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

Impairment of long-lived assets

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

Long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators or triggering events for long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are assessed by project and include significant fluctuations in estimated net operating income, occupancy changes, significant near-term lease expirations, current and historical operating and/or cash flow losses, construction costs, estimated completion dates, rental rates, and other

market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, current and historical operating results, known trends, current market/economic conditions that may affect the property, and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recognized to reduce the carrying amount to its estimated fair value. If an impairment loss is not required to be recognized, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives.

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

2. Summary of significant accounting policies (continued)

International operations

In addition to operating properties in the U.S., we have three operating properties in Canada and one operating property in China. The functional currency for our subsidiaries operating in the U.S. is the U.S. dollar. The functional currencies for our foreign subsidiaries are the local currencies in each respective country. The assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect as of the financial statement date. Income statement accounts of our foreign subsidiaries are translated using the weighted-average exchange rate for the periods presented. Gains or losses resulting from the translation are classified in accumulated other comprehensive income as a separate component of total equity and are excluded from net income.

Whenever a foreign investment meets the criteria for classification as held for sale, we evaluate the recoverability of the investment under the held for sale impairment model. We may recognize an impairment charge if the carrying amount of the investment exceeds its fair value less cost to sell. In determining an investment's carrying amount, we consider its net book value and any cumulative unrealized foreign currency translation adjustment related to the investment.

The appropriate amounts of foreign exchange rate gains or losses classified in accumulated other comprehensive income are reclassified to net income when realized upon the sale of our investment or upon the complete or substantially complete liquidation of our investment.

Investments

We hold investments in publicly traded companies and privately held entities primarily involved in the life science and technology industries. As a REIT, we generally limit our ownership percentage in the voting stock of each individual entity to less than 10%.

Prior to January 1, 2018

Prior to the adoption of a new ASU on financial instruments effective January 1, 2018, all of our equity investments in actively traded public companies were considered available-for-sale and were presented in our consolidated balance sheets at fair value. Fair value was determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of accumulated other comprehensive income within total equity (excluded from net income). The classification of each investment was determined at the time each investment was made, and such determination was reevaluated at each balance sheet date. The cost of each investment sold was determined by the specific identification method, with realized gains or losses classified in other income in our consolidated statements of income. Investments in privately held entities were generally accounted for under the cost method when our interest in the entity was so minor that we had virtually no influence over the entity's operating and financial policies. Investments in privately held entities were accounted for under the equity method unless our interest in the entity was deemed to be so minor that we had virtually no influence over the entity's operating and financial policies. Under the equity method of accounting, we recognized our investment initially at cost and adjusted the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

We periodically assessed our investments in available-for-sale equity securities and privately held companies accounted for under the cost method for other-than-temporary impairment. We monitored each of our investments throughout the year for new developments, including operating results, results of clinical trials, capital-raising events,

and merger and acquisition activities. Individual investments were evaluated for impairment when changes in conditions indicated an impairment may exist. The factors that we considered in making these assessments included, but were not limited to, market prices, market conditions, available financing, prospects for favorable or unfavorable clinical trial results, new product initiatives, and new collaborative agreements. If an unrealized loss related to an available-for-sale equity security was determined to be other-than-temporary, such unrealized loss was reclassified from accumulated other comprehensive income within total equity into earnings. For a cost method investment, if a decline in the fair value of an investment below its carrying value was determined to be other-than-temporary, such investment was written down to its estimated fair value with a charge to earnings. If there were no identified events or changes in circumstances that might have had an adverse effect on our cost method investments, we did not estimate the investment's fair value.

2. Summary of significant accounting policies (continued)

Effective January 1, 2018

Beginning on January 1, 2018, under the new ASU, equity investments (except those accounted for under the equity method and those that result in consolidation of the investee) are measured at fair value, with changes in fair value recognized in net income, as follows:

Investments in publicly traded companies are classified as investments with readily determinable fair values. These investments are carried at fair value, with changes in fair value recognized in net income, rather than in accumulated other comprehensive income within total equity. The fair values for our investments in publicly traded companies continue to be determined based on sales prices/quotes available on securities exchanges, or published prices that serve as the basis for current transactions.

Investments in privately held entities without readily determinable fair values fall into two categories:

- Investments in privately held entities that report net asset value per share (“NAV”), such as our privately held investments in limited partnerships, are carried at fair value using NAV as a practical expedient with changes in fair value recognized in net income.
- Investments in privately held entities that do not report NAV are accounted for using a measurement alternative that allows these investments to be measured at cost, adjusted for observable price changes and impairments, with changes recognized in net income.

For investments in privately held entities that do not report NAV, an observable price is a price observed in an orderly transaction for an identical or similar investment of the same issuer. Observable price changes result from, among other things, equity transactions for the same issuer executed during the reporting period, including subsequent equity offerings or other reported equity transactions related to the same issuer. For these transactions to be considered observable price changes, we evaluate whether these transactions have similar rights and obligations, including voting rights, distribution preferences, conversion rights, and other factors, to the investments we hold.

Investments in privately held entities that do not report NAV continue to be evaluated on the basis of a qualitative assessment for indicators of impairment by utilizing the same monitoring criteria described above. If such indicators are present, we are required to estimate the investment’s fair value and immediately recognize an impairment loss, without consideration as to whether the impairment is other-than-temporary, in an amount equal to the investment’s carrying value in excess of its estimated fair value.

Investments in privately held entities continue to be accounted for under the equity method unless our interest in the entity is deemed to be so minor that we have virtually no influence over the entity’s operating and financial policies. Under the equity method of accounting, we initially recognize our investment at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

Initial adoption of new ASU

On January 1, 2018, we recognized the following adjustments upon adoption of the new ASU:

• For investments in publicly traded companies, reclassification of cumulative unrealized gains as of December 31, 2017, aggregating \$49.8 million, from accumulated other comprehensive income to retained earnings.

• For investments in privately held entities without readily determinable fair values that were previously accounted for under the cost method:

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Adjustment to investments for unrealized gains aggregating \$90.8 million related to investments in privately held entities that report NAV, representing the difference between fair value as of December 31, 2017, using NAV as a practical expedient and the carrying value of the investments as of December 31, 2017, with a corresponding adjustment to retained earnings.

No adjustment was required for investments in privately held entities that do not report NAV. The ASU requires a prospective transition approach for investments in privately held entities that do not report NAV. The FASB clarified that it would be difficult for entities to determine the last observable transaction price existing prior to the adoption of this ASU. Therefore, unlike our investments in privately held entities that report NAV that were adjusted to reflect fair values upon adoption of the new ASU, our investments in privately held entities that do not report NAV were not retrospectively adjusted to fair values upon adoption. As such, any initial valuation adjustments made for investments in privately held entities that do not report NAV subsequent to January 1, 2018, as a result of future observable price changes include recognition of unrealized gains or losses equal to the difference between the carrying basis of the investment and the observable price at the date of remeasurement.

2. Summary of significant accounting policies (continued)

Revenue recognition

Recognition of revenue arising from contracts with customers

On January 1, 2018, we adopted an ASU on revenue recognition that requires a new model for recognition of revenue arising from contracts with customers, as well as recognition of gains and losses from the transfer of nonfinancial assets arising from contracts with noncustomers. A customer is distinguished from a noncustomer by the nature of the goods or services that are transferred. Customers are provided with goods or services that are generated by a company's ordinary output activities, whereas noncustomers are provided with nonfinancial assets that are outside of a company's ordinary output activities.

The core principle underlying the ASU on recognition of revenue arising from contracts with customers is that an entity must recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in such exchange. This requires entities to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The ASU requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that we (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy the performance obligation.

An entity is also required to determine if it controls the goods or services prior to the transfer to the customer in order to determine if it should account for the arrangement as a principal or agent. Principal arrangements, where the entity controls the goods or services provided, result in the recognition of the gross amount of consideration expected in the exchange. Agent arrangements, where the entity simply arranges but does not control the goods or services being transferred to the customer, result in the recognition of the net amount the entity is entitled to retain in the exchange. Upon adoption of the new lease ASU in 2019, we will be required to classify our tenant recoveries into lease and nonlease components, whereby the nonlease components would be subject to the ASU on recognition of revenue arising from contracts with customers. However, if we elect to use a practical expedient, as discussed in "Lessor Accounting" within the "Lease Accounting" subsection of the "Recent Accounting Pronouncements" section in Note 2 - "Summary of Significant Accounting Policies," tenant recoveries for goods and services that are categorized as nonlease components but have the same timing and pattern of transfer as the related lease component may (subject to the predominance test) be accounted for under the new lease ASU. Tenant recoveries that do not qualify for the practical expedient will be accounted for under the ASU on recognition of revenue arising from contracts with customers upon adoption of the new lease ASU. Property services categorized as nonlease components that are reimbursed by our tenants may need to be presented on a net basis if it is determined that we hold an agent arrangement.

Entities had the option to transition to the ASU on recognition of revenue arising from contracts with customers using either the full retrospective or the modified retrospective method. We adopted this ASU using the modified retrospective method, which requires a cumulative adjustment for the effects of applying the new standard to periods prior to 2018 to be recorded in retained earnings as of January 1, 2018. We also elected to apply this ASU only to contracts not completed as of January 1, 2018. For all contracts within the scope of this ASU that were not completed as of January 1, 2018, we evaluated the revenue recognition under accounting standards in effect prior to January 1, 2018, and under the new ASU, and determined that amounts recognized and the pattern of revenue recognition were consistent. Therefore, the adoption of the ASU on recognition of revenue arising from contracts with customers did not result in an adjustment to our retained earnings on January 1, 2018.

2. Summary of significant accounting policies (continued)

The table below provides the detail of our consolidated revenues for the three and nine months ended September 30, 2018, by (i) revenues that are subject to the ASU on recognition of revenue arising from contracts with customers, and (ii) revenues subject to lease accounting and other accounting standards (in thousands):

	Date of ASU Adoption	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenues subject to the lease ASU:			
Rental revenues	1/1/19	\$ 243,951	\$ 716,552
Tenant recoveries	1/1/19	81,051	226,380
		325,002	942,932
Revenues subject to the revenue recognition ASU:			
Parking and other revenues	1/1/18	11,545	34,064
Other income	1/1/18	4,473	7,988
		16,018	42,052
Interest and other income within the scope of other existing accounting standards	N/A	803	2,012
Total revenues		\$ 341,823	\$ 986,996

Parking revenues subject to the new revenue recognition ASU, aggregating \$11.5 million and \$34.1 million for the three and nine months ended September 30, 2018, respectively, and classified in rental revenues in our consolidated income statements, consist primarily of short term rental revenues that are not considered lease revenue. Under the previous accounting standards, we recognized parking and other revenue when the amounts were fixed or determinable, collectibility was reasonably assured, and services were rendered. Under the new ASU, the recognition of such revenue occurs when the services are provided and the performance obligations are satisfied. Parking services are normally provided at a point in time; therefore, revenue recognition under the new ASU is substantially similar to the recognition pattern under accounting standards that were in effect prior to January 1, 2018.

Other income, subject to the new revenue recognition ASU, aggregating \$4.5 million and \$8.0 million for the three and nine months ended September 30, 2018, respectively, consists primarily of construction management fees. We earn construction management fees for the day-to-day management of third-party construction projects. Construction management services represent a series of services that are substantially the same and that can be combined into a single performance obligation. Under the previous accounting guidance, we recognized construction management fees using the percentage of completion method. Under the new ASU, we recognize construction management fees using the output method, which is substantially similar to the percentage of completion method used under the guidance in effect prior to January 1, 2018.

In addition to the analysis above, we evaluated the following qualitative and quantitative disclosure requirements outlined in this ASU during the nine months ended September 30, 2018, as follows:

Prior to the adoption of this ASU, we did not have material contract assets or contract liabilities related to contracts with customers subject to the new revenue recognition ASU, and no additional contract assets or contract liabilities were necessary subsequent to adoption on January 1, 2018.

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Parking and construction management services subject to the new revenue recognition ASU do not normally create obligations for returns, refunds, warranties, and other similar obligations. Therefore, no corresponding disclosures were necessary.

2. Summary of significant accounting policies (continued)

Recognition of revenue arising from contracts with noncustomers

On January 1, 2018, we also adopted a new ASU on the derecognition of nonfinancial assets in transactions, including real estate sales, with noncustomers. Our ordinary output activities consist of the leasing of space to our tenants in our operating properties, not the sales of real estate. Therefore, sales of real estate qualify as contracts with noncustomers and are subject to this new ASU.

The new ASU on the derecognition of nonfinancial assets requires entities to apply certain recognition and measurement principles consistent with the new ASU on recognition of revenue arising from contracts with customers. The derecognition model is based on the transfer of control. If a real estate sales contract includes ongoing involvement by the seller with the property, the seller must evaluate each promised good or service under the contract to determine whether it represents a separate performance obligation, constitutes a guarantee, or prevents the transfer of control. If a good or service is considered a separate performance obligation, an allocated portion of the transaction price should be recognized as revenue as the entity transfers the related good or service to the buyer.

The recognition of gain or loss on the sale of a partial interest also depends on whether the seller retains a controlling or noncontrolling interest. Under the new standards, a partial sale of real estate in which the seller retains a controlling interest results in the seller's continuing to reflect the asset at its current book value, recording a noncontrolling interest for the book value of the partial interest sold, and recognizing additional paid-in capital for the difference between the consideration received and the partial interest at book value, consistent with the prior accounting standards. Conversely, a partial sale of real estate in which a seller retains a noncontrolling interest results in the recognition by the seller of a gain or loss as if 100% of the real estate were sold.

We adopted the new ASU on the derecognition of nonfinancial assets using the modified retrospective method, the same transition method used to adopt the ASU on recognition of revenue arising from contracts with customers. We also elected to apply this ASU on the derecognition of nonfinancial assets only to contracts not completed as of January 1, 2018. We had no contracts with noncustomers that were not completed as of January 1, 2018; therefore, the adoption of the ASU on the derecognition of nonfinancial assets had no effect on our consolidated financial statements.

Recognition of rental income and tenant recoveries

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

Rental revenue from direct financing leases is recognized over the respective lease terms using the effective interest rate method. At lease inception, we record an asset within other assets in our consolidated balance sheets, which represents our net investment in the direct financing lease. This initial net investment is determined by aggregating the total future minimum lease payments attributable to the direct financing lease and the estimated residual value of the property less unearned income. Over the lease term, the investment in the direct financing lease is reduced and rental income is recognized as rental revenue in our consolidated statements of income and produces a constant periodic rate of return on the net investment in the direct financing lease.

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

Tenant receivables consist primarily of amounts due for contractual lease payments and tenant recoveries. These tenant receivables are expected to be collected within one year. We may maintain an allowance for estimated losses that may result from the inability of our tenants to make payments required under the terms of the lease and for tenant recoveries due. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of uncollectible tenant receivables and deferred rent arising from the straight-lining of rent. As of September 30, 2018, and December 31, 2017, no allowance for uncollectible tenant receivables and deferred rent was deemed necessary.

2. Summary of significant accounting policies (continued)

Monitoring tenant credit quality

During the term of each lease, we monitor the credit quality and any related material changes of our tenants by (i) monitoring the credit rating of tenants that are rated by a nationally recognized credit rating agency, (ii) reviewing financial statements of the tenants that are publicly available or that are required to be delivered to us pursuant to the applicable lease, (iii) monitoring news reports regarding our tenants and their respective businesses, and (iv) monitoring the timeliness of lease payments.

Income taxes

We are organized and operate as a REIT pursuant to the Internal Revenue Code (the “Code”). Under the Code, a REIT that distributes at least 90% of its REIT taxable income to its stockholders annually (excluding net capital gains) and meets certain other conditions is not subject to federal income tax on its distributed taxable income, but could be subject to certain federal, foreign, state, and local taxes. We distribute 100% of our taxable income annually; therefore, a provision for federal income taxes is not required. In addition to our REIT returns, we file federal, foreign, state, and local tax returns for our subsidiaries. We file with jurisdictions located in the U.S., Canada, India, China, and other international locations. Our tax returns are subject to routine examination in various jurisdictions for the 2012 through 2017 calendar years.

On December 22, 2017, the U.S. President signed a tax reform bill commonly referred to as the Tax Cuts and Jobs Act into law. The tax reform legislation is a far-reaching and complex revision to the U.S. federal income tax laws with disparate and, in some cases, countervailing effects on different categories of taxpayers and industries. The legislation is unclear in many respects and will require clarification and interpretation by the U.S. Treasury Department and the Internal Revenue Service (“IRS”) in the form of amendments, technical corrections, regulations, or other forms of guidance, any of which could lessen or increase the effect of the legislation on us or our stockholders. The outcome of this legislation on state and local tax authorities, and the response by such authorities, is also unclear. We continue to monitor changes made to, or as a result of, the federal tax law and its potential effect on us.

Employee and non-employee share-based payments

We account for forfeitures of share-based awards granted to employees and non-employees when they occur. This entity-wide accounting policy election only applies to service conditions; for performance conditions, we continue to assess the probability that such conditions will be achieved. As a result of this election, we recognize expense on share-based awards with time-based vesting conditions without reductions for an estimate of forfeitures. Expenses related to forfeited awards are reversed as forfeitures occur. In addition, all nonforfeitable dividends paid on share-based payment awards are initially recognized in retained earnings and reclassified to compensation cost only if forfeitures of the underlying awards occur. On July 1, 2018, we early adopted an ASU on share-based payments to non-employees. Under the new ASU, our non-employee share-based awards are measured on the grant date and are recognized over the required service period of the recipient, in the same way as share-based awards granted to employees. Under the previous guidance, non-employee share-based awards were remeasured to their fair value quarterly. The adoption of this ASU did not have a material effect on our consolidated financial statements.

Recent accounting pronouncements

Lease accounting

Overview related to both lessee and lessor accounting

In February 2016, the FASB issued an ASU that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a lease agreement (i.e., lessees and lessors). Subsequently, the FASB issued additional ASUs that further clarify the original ASU. The ASUs are effective for us no later than January 1, 2019, with early adoption permitted. We will adopt the new lease accounting standards on January 1, 2019. The ASUs require us to identify lease and nonlease components of a lease agreement. These ASUs will govern the recognition of revenue for lease components. Revenue related to nonlease components under our lease agreements will be subject to the new revenue recognition ASU, effective upon adoption of the new lease accounting standards. In July 2018, the FASB issued an ASU to modify the application of the original ASU by lessors to lease and nonlease components within lease agreements. See further discussion related to this update and other changes in the “Lessor Accounting” subsection below.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Lease accounting (continued)

The lease ASUs set new criteria for determining the classification of finance leases for lessees and sales-type leases for lessors. The criteria to determine if a lease should be accounted for as a finance (sales-type) lease include the following: (i) ownership is transferred from lessor to lessee by the end of the lease term, (ii) an option to purchase is reasonably certain to be exercised, (iii) the lease term is for the major part of the underlying asset's remaining economic life, (iv) the present value of lease payments equals or exceeds substantially all of the fair value of the underlying asset, and (v) the underlying asset is specialized and is expected to have no alternative use at the end of the lease term. If any of these criteria is met, a lease will be classified as a finance lease by the lessee and as a sales-type lease by the lessor. If none of the criteria are met, a lease will be classified as an operating lease by the lessee, but may still qualify as a direct financing lease or an operating lease for the lessor. The existence of a residual value guarantee from an unrelated third party other than the lessee may qualify the lease as a direct financing lease by the lessor. Otherwise, the lease will be classified as an operating lease by both the lessee and lessor.

The lease ASUs require the use of the modified retrospective transition method and do not allow for a full retrospective approach. However, they provide two options for the application of the modified retrospective transition method:

Under the first option, the ASUs require application of the standards to all leases that exist as of, or commence after, January 1, 2017 (the beginning of the earliest comparative period presented in the 2019 financial statements), with a cumulative adjustment to the opening balance of retained earnings on January 1, 2017, for the effect of applying the standards at the date of initial application, and restatement of the amounts presented prior to January 1, 2019.

Under the second option, an entity may elect a practical expedient package, which allows an entity not to reassess:

- Whether any expired or existing contracts are or contain leases;
- The lease classification for any expired or existing leases; and
- Initial direct costs for any existing leases.

The practical expedient package is available as a single election that must be consistently applied to all existing leases at the date of adoption. Lessors and lessees that adopt this package are not expected to reassess expired or existing leases at the date of initial application, which is January 1, 2017, under the ASUs. This option enables entities to "run off" their existing leases for the remainder of the respective lease terms, which eliminates the need to calculate a cumulative adjustment to the opening balance of retained earnings.

Furthermore, in July 2018, the FASB issued an ASU that provides an optional transition method to make the initial application date of the ASUs on January 1, 2019, rather than on January 1, 2017. Consequently, entities that elect both the practical expedient package and the optional transition method will apply the new lease ASUs prospectively to leases commencing or modified after January 1, 2019, and will not be required to apply the disclosures under the new lease ASUs to comparative periods.

Under either option above, lessees will be required to recognize a right-of-use asset and a lease liability for all operating leases on the date of the initial application based on the present value of the remaining minimum rental payments that were tracked and disclosed under current accounting standards.

The FASB has also clarified that the lease ASUs will require an assessment of whether a land easement meets the definition of a lease under the new lease ASUs. An entity with existing land easements that are not accounted for as leases under the current lease accounting standards, however, may elect a practical expedient to exclude those land easements from assessment under the new lease accounting standards. The new lease ASUs will be applied to all land easement arrangements entered into or modified on and after the ASUs' effective date; however, they are expected to have little or no effect on land easements that contain minimal or no consideration.

Lessor accounting

We recognized revenue from our lease agreements aggregating \$942.9 million for the nine months ended September 30, 2018. This revenue consisted primarily of rental revenues and tenant recoveries for the nine months ended September 30, 2018, aggregating \$716.6 million and \$226.4 million, respectively.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Lease accounting (continued)

Under current lease accounting standards, we recognize rental revenue from our operating leases on a straight-line basis over the respective lease terms. We commence recognition of rental revenue at the date the property is ready for its intended use and the tenant takes possession of, or controls the physical use of, the property. We recognize rental revenue from direct financing leases over the lease term by using the effective interest rate method.

Under current lease accounting standards, tenant recoveries related to payments of real estate taxes, insurance, utilities, repairs and maintenance, common area expenses, and other operating expenses are considered lease components. We recognize these tenant recoveries as revenue when services are rendered in an amount equal to the related operating expenses incurred that are recoverable under the terms of the applicable lease.

Under the new lease ASUs, each lease agreement will be evaluated to identify the lease components and nonlease components at lease inception. Tenant recoveries for utilities, repairs and maintenance, and common area expenses are considered nonlease components, and tenant recoveries for taxes and insurance are neither lease nor nonlease components under the new lease ASUs. Unless the practical expedient discussed below is elected, the total consideration in the lease agreement will be allocated to the lease and nonlease components based on their relative stand-alone selling prices. Upon adoption of the new lease accounting standards, the new lease ASUs will govern the recognition of revenue for lease components, and revenue related to nonlease components will be subject to the revenue recognition ASU. Lessors will continue to recognize the lease revenue component using an approach that is substantially equivalent to existing guidance for operating leases (straight-line basis).

In July 2018, the FASB issued an ASU that allows lessors to elect, as a practical expedient, not to allocate the total consideration to the lease and nonlease components based on their relative stand-alone selling prices. If adopted, this single component practical expedient will allow lessors to account for the lease component and nonlease component(s) associated with that lease as a single component if (i) the timing and pattern of transfer of the lease component and the nonlease component(s) associated with it are the same, and (ii) the lease component would be classified as an operating lease if it were accounted for separately. Nonlease components that do not meet the criteria of this practical expedient will be accounted for under the new revenue recognition ASU. The FASB also decided to require lessors to account for a combined component that meets these two criteria under the new revenue recognition ASU if the nonlease component is the predominant component. If the lease component is the predominant component, entities will be able to account for the combined component as an operating lease in accordance with the new lease ASUs.

The table below provides the detail of our consolidated revenues for the nine months ended September 30, 2018, by (i) lease revenues that meet the single component practical expedient criteria and qualify to be accounted for under the new lease ASUs, and (ii) revenues subject to other accounting standards, including the ASU on recognition of revenue arising from contracts with customers. The table below assumes that the new lease ASUs and the single component practical expedient were in effect as of and adopted on January 1, 2018 (in thousands):

	Date of ASU Adoption	Nine Months Ended September 30, 2018
Revenues subject to the new lease ASUs ⁽¹⁾ :		

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Rental revenues	1/1/19	\$ 716,552
Tenant recoveries	1/1/19	226,380
		942,932
Revenues subject to the revenue recognition ASU:		
Parking and other revenues	1/1/18	34,064
Other income	1/1/18	7,988
		42,052
Interest and other income within the scope of other existing accounting standards	N/A	2,012
Total revenues		\$ 986,996

(1) Assumes election of all practical expedients available under the new lease ASUs, as described on the prior page.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Lease accounting (continued)

If we elect the single component practical expedient described above, tenant recoveries that qualify for this expedient will be accounted for as a single component under the new lease ASUs, primarily as variable consideration. Tenant recoveries that do not qualify for the single component practical expedient and are considered nonlease components will be accounted for under the new revenue recognition ASU upon adoption of the new lease ASUs. Based on our preliminary analysis, we expect that most of our operating leases for which we are the lessor will qualify for the single component practical expedient accounting under the new lease ASUs.

The new lease ASUs also require a lessor to recognize lessor's costs (i.e., real estate taxes and insurance) paid directly by a lessee to a third party on a gross basis as lease revenue and lease expense. However, in August 2018, the FASB issued a proposed ASU that will require a lessor not to estimate lessor's costs paid by the lessee directly to a third party when the lessor cannot reasonably determine the amount of those costs. In these cases, lessors will not recognize these costs in their income statements. This proposed ASU has not been finalized as of the date of this report.

Under the new lease ASUs, sales-type and direct financing leases will be accounted for as financing transactions, with the lease payments allocated to principal and interest utilizing the effective interest rate method.

Costs to execute leases

The new lease ASUs will require that lessors and lessees capitalize, as initial direct costs, only incremental costs of a lease that would not have been incurred if the lease had not been obtained. Under these ASUs, costs that would have been incurred to negotiate or arrange a lease regardless of its outcome such as fixed employee compensation, tax or legal advice to negotiate lease terms, lessor costs related to advertising or soliciting potential tenants will be expensed as incurred. We will have the option, under the practical expedient package provided by the new lease ASUs, to continue amortizing previously capitalized initial direct costs incurred prior to the adoption of the ASUs. We expect that upon adoption of the new lease ASUs, a portion of initial direct leasing costs will be expensed. We are still evaluating the effect of these rule changes on our consolidated financial statements.

Lessee accounting

Under the new lease ASUs, lessees are required to apply a dual approach by classifying leases as either finance or operating leases based on the principle of whether the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, which corresponds to a similar evaluation performed by lessors. In addition to this classification, a lessee is also required to recognize a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification, whereas a lessor is not required to recognize a right-of-use asset and a lease liability for any operating leases.

Lessees will be permitted to make an accounting policy election to account for short-term leases (i.e., leases with a term of 12 months or less) in a manner similar to the one permitted under existing guidance for operating leases (i.e., on a straight-line basis). As a practical expedient, lessees will also be allowed to make an accounting policy election to not separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component.

The new lease ASUs require the recognition of a right-of-use asset and a related liability to account for our future obligations under our ground and office lease agreements for which we are the lessee. At the date of initial application, depending on the practical expedients we elect as discussed above, we will be required to recognize a lease liability measured based on the present value of the remaining lease payments. The present value of the remaining lease payments will be calculated using the rate implicit in the lease, and, if not determinable, the incremental borrowing rate, which is the interest rate that we estimate we would have to pay to borrow on a collateralized basis over a similar term for an amount equal to the lease payments. The right-of-use asset will be equal to the corresponding lease liability, adjusted for initial direct leasing costs and any other consideration exchanged with the landlord prior to the commencement of the lease.

As of September 30, 2018, the remaining contractual payments under our ground and office lease agreements for which we are the lessee aggregated \$607.2 million, and the estimated present value of these payments is in the range from \$200.0 million to \$230.0 million. This estimated present value range is based on a weighted-average remaining term of our existing ground leases and a

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Lease accounting (continued)

preliminary estimate of our weighted-average borrowing rate over that remaining lease term. The actual lease liability and right-of-use asset to be recognized upon adoption of the new lease ASUs will vary depending on changes to our incremental borrowing rate and the practical expedients we elect as discussed above.

All of our existing ground and office leases for which we are the lessee are currently classified as operating leases. Under the practical expedient package provided by the lease ASUs, we will have the option to continue classifying these leases as operating leases upon adoption of the lease ASUs. We are still evaluating the effect on our consolidated financial statements of the initial recognition of each lease asset and liability upon adoption.

Allowance for credit losses

In June 2016, the FASB issued an ASU that changes the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the other-than-temporary impairment model. The ASU will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures (i.e., loan commitments). The ASU is effective for reporting periods beginning after December 15, 2019, with early adoption permitted, and will be applied as a cumulative adjustment to retained earnings as of the effective date. We are currently assessing the potential effect the adoption of this ASU will have on our consolidated financial statements.

Fair value measurement disclosures

In August 2018, the FASB issued an ASU that modifies certain fair value disclosure requirements, including those related to investments measured at NAV as a practical expedient to estimate their fair value. Entities that use this practical expedient will be required to disclose the timing of liquidation of an investee's assets and the date when redemption restrictions will lapse, but only if the investee has communicated this information to the entity or announced it publicly. If the timing is unknown, entities will be required to disclose that fact. We early adopted this guidance effective on July 1, 2018. The adoption of this ASU had no effect on our consolidated financial statements.

Joint venture distributions

On January 1, 2018, we adopted an ASU that provides guidance on the classification in the statement of cash flows of cash distributions received from equity method investments, including unconsolidated joint ventures. The ASU provides two approaches to determine the classification of cash distributions received from equity method investees: (i) the "cumulative earnings" approach, under which distributions up to the amount of cumulative equity in earnings recognized are classified as cash inflows from operating activities, and those in excess of that amount are classified as cash inflows from investing activities, and (ii) the "nature of the distribution" approach, under which distributions are classified based on the nature of the underlying activity that generated cash distributions. An entity could elect either the "cumulative earnings" or the "nature of the distribution" approach. If the "nature of the distribution" approach is elected and the entity lacks the information necessary to apply it in the future, that entity will have to apply the "cumulative earnings" approach as an accounting change on a retrospective basis. We adopted this ASU using the "nature of the distribution" approach and applied it retrospectively, as required by the ASU. We previously presented distributions from our equity method investees by utilizing the "nature of the distribution" approach; therefore, the adoption of this

ASU had no effect on our consolidated financial statements.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Restricted cash

On January 1, 2018, we adopted an ASU that requires entities to include restricted cash with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown in the statement of cash flows. The ASU requires disclosure of a reconciliation between the balance sheet and the statement of cash flows when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. An entity with material restricted cash and restricted cash equivalents balances is required to disclose the nature of the restrictions. The ASU required a retrospective application to all periods presented. Subsequent to the adoption of this ASU, restricted cash balances are included with cash and cash equivalents balances as of the beginning and ending of each period presented in our consolidated statements of cash flows; separate line items reconciling changes in restricted cash balances to the changes in cash and cash equivalents are no longer presented within the operating, investing, and financing sections of our consolidated statements of cash flows.

Hedge accounting

On January 1, 2018, we adopted an ASU that simplifies hedge accounting. The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The purpose of this ASU is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. For cash flow hedges that are highly effective, the new standard requires all changes (effective and ineffective components) in the fair value of the hedging instrument to be recorded in accumulated other comprehensive income within total equity and to be reclassified into earnings only when the hedged item affects earnings.

Prior to the adoption of this ASU, a quantitative assessment was made on an ongoing basis to determine whether a hedge is highly effective in offsetting changes in cash flows associated with the hedged item. Previously applied hedge accounting guidance required hedge ineffectiveness to be recognized in earnings. Under the new ASU, an entity is still required to perform an initial quantitative test. However, the new standard allows an entity to elect to subsequently perform only a qualitative assessment, unless facts and circumstances change. We made this election upon adoption of the new ASU on January 1, 2018.

We utilize interest rate hedge agreements to hedge a portion of our exposure to variable interest rates primarily associated with borrowings based on LIBOR. As a result, all of our interest rate hedge agreements are designated as cash flow hedges. For cash flow hedges in existence at the date of adoption, an entity is required to apply a cumulative-effect adjustment for previously recognized ineffectiveness from retained earnings to accumulated other comprehensive income as of the beginning of the fiscal year when an entity adopts the amendments in this ASU.

We performed an analysis of all our cash flow hedges existing on January 1, 2018, and determined that all hedges had been highly effective since their inception; therefore, no cumulative-effect adjustment of previously recognized ineffectiveness from retained earnings to accumulated other comprehensive income was needed. The adoption of this ASU had no effect on our consolidated financial statements.

Additionally, in October 2018, the FASB issued an ASU that expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting to include the Overnight Index Swap ("OIS") rate based on the Secured Overnight Financing Rate ("SOFR"). SOFR is a new index calculated by reference to short-term repurchase agreements backed by Treasury securities. It was selected as a preferred replacement for U.S. dollar LIBOR, which will be phased out by the end of 2021. Currently we use LIBOR as our benchmark interest rate to account for our interest rate hedge

instruments associated with certain of our existing LIBOR-based variable-rate debt. The ASU is effective for us no later than January 1, 2019, with early adoption permitted, and will be applied prospectively for new or redesignated hedging relationships entered into on or after the date of adoption. We expect to adopt the new standard on January 1, 2019. At this time we are evaluating the potential effect this new benchmark interest rate option will have on our consolidated financial statements.

3. Investments in real estate

Our consolidated investments in real estate consisted of the following as of September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Land (related to rental properties)	\$ 1,576,898	\$ 1,312,072
Buildings and building improvements	9,660,891	9,000,626
Other improvements	906,597	780,117
Rental properties	12,144,386	11,092,815
Development and redevelopment of new Class A properties:		
Development and redevelopment projects (under construction, marketing, or pre-construction)	1,518,264	955,218
Future development projects	62,860	96,112
Gross investments in real estate	13,725,510	12,144,145
Less: accumulated depreciation	(2,166,330)	(1,875,810)
Net investments in real estate – North America	11,559,180	10,268,335
Net investments in real estate – Asia	28,132	29,684
Investments in real estate	\$ 11,587,312	\$ 10,298,019

Acquisitions

Our real estate asset acquisitions during the nine months ended September 30, 2018, and subsequently, consisted of the following (dollars in thousands):

Market	Number of Properties	Square Footage			Future Development	Purchase Price
		Operating	Operating with Future Redevelopment	Active Development/Redevelopment		
San Francisco	6	148,951	—	642,312	—	\$ 167,950
San Diego	4	316,531	—	—	50,000	148,650
Other	1	21,745	—	58,186	—	22,800
Three months ended March 31, 2018	11	487,227	—	700,498	50,000	339,400
Greater Boston	1	200,431	—	—	300,000	87,250
Seattle	1	197,136	—	—	—	95,000
Maryland	8	376,106	39,505	—	—	146,500
Other	1	8,715	—	—	493,000	77,105
Three months ended June 30, 2018	11	782,388	39,505	—	793,000	405,855
New York City	1	—	349,947	—	230,000	203,000
Seattle	—	—	—	—	217,000	33,500
Other	1	45,626	—	—	—	20,500
Three months ended September 30, 2018	2	45,626	349,947	—	447,000	257,000
Subsequent acquisition	1	—	36,661	140,098	—	75,000
Total acquisitions	25	1,315,241	426,113	840,596	1,290,000	\$ 1,077,255

3. Investments in real estate (continued)

We evaluated each acquisition to determine whether the integrated set of assets and activities acquired met the definition of a business. Acquisitions that do not meet the definition of a business are accounted for as asset acquisitions. An integrated set of assets and activities does not qualify as a business if substantially all of the fair value of the gross assets is concentrated in either a single identifiable asset or a group of similar identifiable assets, or if the acquired assets do not include a substantive process.

We evaluated each of the completed acquisitions and determined that substantially all of the fair value related to each acquisition is concentrated in a single identifiable asset or a group of similar identifiable assets, or is a land parcel with no operations. Accordingly, each transaction did not meet the definition of a business and consequently was accounted for as an asset acquisition. In each of these transactions, we allocated the total consideration for each acquisition to the individual assets and liabilities acquired on a relative fair value basis.

Sales of real estate assets

During the three months ended June 30, 2018, we classified a land parcel located in Northern Virginia as held for sale. As a result, we recognized an impairment charge of \$6.3 million to lower the carrying amount to the estimated fair value less selling costs during the three months ended June 30, 2018. We completed the sale of the land parcel in July 2018 for a sales price of \$6.0 million with no gain or loss.

In January 2017, we completed the sale of a vacant property at 6146 Nancy Ridge Drive, located in our Sorrento Mesa submarket of San Diego, for a sales price of \$3.0 million and recognized a gain of \$270 thousand.

In June 2017, we recognized an impairment charge of \$203 thousand on a 20,580 RSF property located in a non-cluster market. We completed the sale of this property in July 2017 for a gross sales price of \$800 thousand with no gain or loss.

4. Consolidated and unconsolidated real estate joint ventures

From time to time, we enter into joint venture agreements through which we own a partial interest in real estate entities that own, develop, and operate real estate properties. As of September 30, 2018, we had the following properties that were held by our real estate joint ventures:

Property ⁽¹⁾	Market	Submarket	Our Ownership Interest	RSF
Consolidated joint ventures:				
225 Binney Street	Greater Boston	Cambridge	30.0 %	305,212
409 and 499 Illinois Street	San Francisco	Mission Bay/SoMa	60.0 %	455,069
1500 Owens Street	San Francisco	Mission Bay/SoMa	50.1 %	158,267
Campus Pointe by Alexandria	San Diego	University Town Center	55.0 %	798,799
9625 Towne Centre Drive	San Diego	University Town Center	50.1 %	163,648
Unconsolidated joint ventures:				
Menlo Gateway	San Francisco	Greater Stanford	33.7 % ⁽²⁾	772,983
1401/1413 Research Boulevard	Maryland	Rockville	65.0 % ⁽³⁾	(4)
704 Quince Orchard Road	Maryland	Gaithersburg	56.8 % ⁽³⁾	79,931
1655 and 1725 Third Street	San Francisco	Mission Bay/SoMa	10.0 %	593,765

In addition to the consolidated real estate joint ventures listed, various partners hold insignificant noncontrolling (1) interests in four other joint ventures in North America, and we hold an insignificant noncontrolling interest in one unconsolidated real estate joint venture in North America.

(2) As of September 30, 2018, we have an ownership interest in Menlo Gateway of 33.7% and expect our ownership to increase to 49% through future funding of construction costs in 2019.

(3) Represents our ownership interest; our voting interest is limited to 50%.

(4) Joint venture with a distinguished retail real estate developer for the development of an approximate 90,000 RSF retail shopping center.

Our consolidation policy is fully described under the “Consolidation” section within Note 2 – “Summary of Significant Accounting Policies” to these unaudited consolidated financial statements. Consolidation accounting is highly technical, but its framework is primarily based on the controlling financial interests and benefits of the joint ventures. We generally consolidate a joint venture that is a legal entity that we control (i.e., we have the power to direct the activities of the joint venture that most significantly affect its economic performance) through contractual rights, regardless of our ownership interest, and where we determine that we have benefits through the allocation of earnings or losses and fees paid to us that could be significant to the joint venture (the “VIE model”). We also generally consolidate joint ventures when we have a controlling financial interest through voting rights and where our voting interest is greater than 50% (the “voting model”). Voting interest differs from ownership interest for some joint ventures. We account for joint ventures that do not meet the consolidation criteria under the equity method of accounting by recognizing our share of income and losses. The table below shows our categorization of our existing joint ventures under the consolidation framework:

Property	Consolidation Model	Voting Interest	Consolidation Analysis	Conclusion
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225 Binney Street 409 and 499 Illinois Street 1500 Owens Street	VIE model	Not applicable under VIE model	We have control and benefits that can be significant to the joint venture; therefore, we are the primary beneficiary of each VIE	Consolidated
Campus Pointe by Alexandria 9625 Towne Centre Drive Menlo Gateway 1401/1413 Research Boulevard 704 Quince Orchard Road 1655 and 1725 Third Street	Voting model	Does not exceed 50%	We do not control the joint venture and therefore are not the primary beneficiary Our voting interest is 50% or less	Equity method of accounting

4. Consolidated and unconsolidated real estate joint ventures (continued)

Consolidated VIEs' balance sheet information

The table below aggregates the balance sheet information of our consolidated VIEs as of September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Investments in real estate	\$ 1,105,290	\$ 1,047,472
Cash and cash equivalents	38,783	41,112
Other assets	71,823	68,754
Total assets	\$ 1,215,896	\$ 1,157,338
Secured notes payable	\$ —	\$ —
Other liabilities	74,463	52,201
Total liabilities	74,463	52,201
Redeemable noncontrolling interests	759	—
Alexandria Real Estate Equities, Inc.'s share of equity	611,894	584,160
Noncontrolling interests' share of equity	528,780	520,977
Total liabilities and equity	\$ 1,215,896	\$ 1,157,338

In determining whether to aggregate the balance sheet information of our consolidated VIEs, we considered the similarity of each VIE, including the primary purpose of these entities to own, manage, operate, and lease real estate properties owned by the VIEs, and the similar nature of our involvement in each VIE as a managing member. Due to the similarity of the characteristics, we present the balance sheet information of these entities on an aggregated basis. For each of our consolidated VIEs, none of its assets have restrictions that limit their use to settle specific obligations of the VIE. There are no creditors or other partners of our consolidated VIEs that have recourse to our general credit. Our maximum exposure to our consolidated VIEs is limited to our variable interests in each VIE.

Unconsolidated real estate joint ventures

As of September 30, 2018, our investments in unconsolidated real estate joint ventures accounted for under the equity method of accounting presented in our consolidated balance sheet consist of the following (in thousands):

Property	September 30, 2018
Menlo Gateway	\$ 150,632
1401/1413 Research Boulevard	7,958
704 Quince Orchard Road	4,484
1655 and 1725 Third Street	34,387
Other	509
	\$ 197,970

Our maximum exposure to our unconsolidated VIEs is limited to our investment in each VIE.

We had a 27.5% ownership interest in an unconsolidated real estate joint venture that owned a building aggregating 210,709 RSF, located in our Longwood Medical Area submarket of Greater Boston. In September 2018, we sold our partial interest in this unconsolidated real estate joint venture for a contractual sales price, net of debt repaid, of \$70.0 million, which represents a sales price of \$1,659 per RSF. We received proceeds of \$68.6 million, net of closing costs. We have elected as an accounting policy to reflect unconsolidated joint venture distributions in our consolidated

statements of cash flows using the nature of the distribution approach. Accordingly, the net proceeds were classified as return of capital from unconsolidated real estate joint ventures within the investing activities section of our consolidated statements of cash flows for the nine months ended September 30, 2018. For the three and nine months ended September 30, 2018, in connection with the sale, we recognized a gain of \$35.7 million, net of closing costs and other liabilities of the joint venture, which is reflected in equity in earnings of unconsolidated real estate joint ventures.

4. Consolidated and unconsolidated real estate joint ventures (continued)

In August 2018, our unconsolidated real estate joint venture at Menlo Gateway, located in our Greater Stanford submarket of San Francisco refinanced the secured note payable related to Phase I of the project. The new \$145.0 million loan bears interest at a fixed rate of 4.15%, and the net proceeds were used to repay the outstanding balance of \$133.1 million of the previous secured note payable. For the three and nine months ended September 30, 2018, in connection with the refinancing, we recognized a gain on early extinguishment of debt of \$761 thousand related to our share of the write-off of unamortized premiums, which is reflected in equity in earnings of unconsolidated real estate joint ventures.

As of September 30, 2018, our unconsolidated real estate joint ventures have the following non-recourse secured loans that include the following key terms (dollars in thousands):

Unconsolidated Joint Venture	Our Share	Maturity Date	Stated Interest Rate	Interest Rate ⁽¹⁾	100% at Joint Venture Level	
					Debt Balance ⁽²⁾	Remaining Commitments
1401/1413 Research Boulevard	65.0%	5/17/20	L+2.50%	5.60%	\$18,415	\$ 9,131
1655 and 1725 Third Street	10.0%	6/29/21	L+3.70%	5.80%	121,889	253,111
704 Quince Orchard Road	56.8%	3/16/23	L+1.95%	4.36%	2,932	11,901
Menlo Gateway, Phase II	33.7%	5/1/35	4.53%	N/A	—	157,270
Menlo Gateway, Phase I	33.7%	8/1/35	4.15%	4.18%	144,336	N/A
					\$287,572	\$ 431,413

(1) Includes interest expense, amortization of loan fees, and amortization of premiums (discounts) as of September 30, 2018.

(2) Represents outstanding principal, net of unamortized deferred financing costs and premiums (discounts) as of September 30, 2018.

5. Cash, cash equivalents, and restricted cash

Cash, cash equivalents, and restricted cash consisted of the following as of September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$204,181	\$254,381
Restricted cash:		
Funds held in trust under the terms of certain secured notes payable	20,837	12,301
Funds held in escrow related to construction projects and investing activities	5,054	4,546
Other	3,808	5,958
	29,699	22,805
Total	\$233,880	\$277,186

6. Investments

We hold investments in publicly traded companies and privately held entities primarily involved in the life science and technology industries. On January 1, 2018, we adopted a new ASU on financial instruments that prospectively changed how we recognize, measure, present, and disclose these investments.

Key differences between prior accounting standards and the new ASU

Prior to January 1, 2018:

Investments in publicly traded companies were presented at fair value in our consolidated balance sheet, with changes in fair value recognized in other comprehensive income classified in accumulated other comprehensive income within total equity.

Investments in privately held entities were accounted for under the cost method of accounting.

Gains or losses were recognized in net income upon the sale of an investment.

Investments in privately held entities required accounting under the equity method unless our interest in the entity was deemed to be so minor that we had virtually no influence over the entity's operating and financial policies. Under the equity method of accounting, we recognized our investment initially at cost and adjusted the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

We had no investments accounted for under the equity method as of December 31, 2017.

Investments were evaluated for impairment, with other-than-temporary impairments recognized in net income.

Effective January 1, 2018:

Investments in publicly traded companies are presented at fair value in our consolidated balance sheet, with changes in fair value recognized in net income.

Investments in privately held entities without readily determinable fair values previously accounted for under the cost method are accounted for as follows:

Investments in privately held entities that report NAV are presented at fair value using NAV as a practical expedient, with changes in fair value recognized in net income.

Investments in privately held entities that do not report NAV are carried at cost, adjusted for observable price changes and impairments, with changes recognized in net income.

One-time adjustments recognized upon adoption on January 1, 2018, are as follows:

For investments in publicly traded companies, reclassification of net unrealized gains as of December 31, 2017, aggregating \$49.8 million, from accumulated other comprehensive income to retained earnings.

For investments in privately held entities without readily determinable fair values that were previously accounted for under the cost method:

Adjustment to investments for unrealized gains aggregating \$90.8 million related to investments in privately held entities that report NAV, representing the difference between fair value as of December 31, 2017, using NAV as a practical expedient and the carrying value of the investments as of December 31, 2017, with a corresponding adjustment to retained earnings.

No adjustment was required for investments in privately held entities that do not report NAV. The ASU requires a prospective transition approach for investments in privately held entities that do not report NAV. The FASB clarified that it would be difficult for entities to determine the last observable transaction price existing prior to the adoption of this ASU. Therefore, unlike our investments in privately held entities that report NAV that were adjusted to reflect fair values upon adoption of the new ASU, our investments in privately held entities that do not report NAV were not retrospectively adjusted to fair values upon adoption. As such, any initial valuation adjustments made for investments in privately held entities that do not report NAV subsequent to January 1, 2018, as a result of future observable price changes will include recognition of unrealized gains or losses equal to the difference between the carrying basis of the investment and the observable price at the date of remeasurement.

Investments in privately held entities continue to require accounting under the equity method unless our interest in the entity is deemed to be so minor that we have virtually no influence over the entity's operating and financial policies.

Under the equity method of accounting, we initially recognize our investment at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. We had no investments accounted for under the equity method as of September 30, 2018.

We recognize changes in fair value for investments in publicly traded companies and changes in NAV, as a practical expedient to estimate fair value, reported by limited partnerships, as unrealized gains and losses within investment income in our consolidated income statements.

6. Investments (continued)

For investments in privately held entities without readily determinable fair values, we adjust the cost basis and record unrealized gains or losses within investment income in our consolidated income statements, whenever such investments have an observable price change or impairment. Further adjustments to these revised carrying amounts are not made until another price change, if any, is observed. For further information regarding the new ASU, refer to the “Investments” section within Note 2 – “Summary of Significant Accounting Policies” to these unaudited consolidated financial statements.

The following tables summarize our investments as of September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018			December 31, 2017		
	Cost	Adjustments	Carrying Amount	Cost	Adjustments	Total
Investments at fair value:						
Publicly traded companies	\$ 119,634	\$ 136,310	\$ 255,944	\$ 59,740	\$ 49,771	\$ 109,511
Entities that report NAV	186,098	139,891	325,989			
Entities that do not report NAV:						
Entities with observable price changes since January 1, 2018	30,522	59,206	89,728	148,627	N/A	148,627
Entities without observable price changes since January 1, 2018	285,695	—	285,695	265,116	N/A	265,116
Total investments	\$ 621,949	\$ 335,407	\$ 957,356	\$ 473,483	\$ 49,771	\$ 523,254

Adjustments recorded in investments in privately held entities that do not report NAV aggregating \$59.2 million as of September 30, 2018, consisted of upward adjustments representing unrealized gains of \$59.4 million and downward adjustments representing unrealized losses of \$200 thousand. We adjusted our investments in privately held entities that do not report NAV based on observable price changes from subsequent equity offerings. The subsequent equity offerings observed were for similar securities to those we hold as the securities had similar voting rights, distribution preferences, and conversion rights.

Investments in privately held entities that report NAV

Investments in privately held entities that report NAV consist primarily of investments in limited partnerships. We are committed to funding approximately \$199.1 million for all investments, primarily consisting of \$196.4 million related to investments in limited partnerships. Our funding commitments expire at various dates during the next 11 years, with a weighted-average expiration of 8.5 years.

These investments are not redeemable by us, but we normally receive distributions from these investments throughout their term. Our investments in privately held entities that report NAV generally have expected initial terms in excess of 10 years. The weighted-average remaining term during which these investments are expected to be liquidated was 8.8 years as of September 30, 2018.

6. Investments (continued)

Our investment income for the three and nine months ended September 30, 2018, consisted of the following (in thousands):

	Three Months Ended September 30, 2018		
	Unrealized Gains	Realized Gains	Total
Investments at fair value, held at period end:			
Publicly traded companies	\$40,342	\$ —	\$40,342
Entities that report NAV	28,948	—	28,948
Entities that do not report NAV with observable price changes since July 1, 2018, held at period end:	48,917	—	48,917
Total investments at fair value, held at period end	118,207	—	118,207
Investment dispositions during the period:			
Recognized in the current period	—	3,996	3,996
Previously recognized gains	(1,019)	1,019	—
Total investment dispositions during the period	(1,019)	5,015	3,996
Investment income	\$117,188	\$ 5,015	\$122,203
	Nine Months Ended September 30, 2018		
	Unrealized Gains	Realized Gains	Total
Investments at fair value, held at period end:			
Publicly traded companies	\$92,148	\$—	\$92,148
Entities that report NAV	48,718	—	48,718
Entities that do not report NAV with observable price changes since January 1, 2018, held at period end:	59,206	—	59,206
Total investments at fair value, held at period end	200,072	—	200,072
Investment dispositions during the period:			
Recognized in the current period	—	20,222	20,222
Previously recognized gains	(5,588)	5,588	—
Total investment dispositions during the period	(5,588)	25,810	20,222
Investment income	\$194,484	\$25,810	\$220,294

During the three and nine months ended September 30, 2017, we recognized unrealized gains of \$17.0 million and \$23.4 million, respectively, on our equity securities classified as available-for-sale as of September 30, 2017. These unrealized gains were recognized in our other comprehensive income and classified in accumulated other comprehensive income within total equity, in accordance with the accounting standards in effect prior to January 1, 2018.

7. Other assets

The following table summarizes the components of other assets as of September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Acquired below-market ground leases	\$ 17,529	\$ 12,684
Acquired in-place leases	140,129	64,979
Deferred compensation plan	20,110	15,534
Deferred financing costs – \$2.2 billion unsecured senior line of credit	16,640	10,525
Deposits	8,315	10,576
Furniture, fixtures, and equipment	12,958	11,070
Interest rate hedge assets	4,724	5,260
Net investment in direct financing lease	38,954	38,382
Notes receivable	550	614
Prepaid expenses	17,179	10,972
Property, plant, and equipment	71,080	32,073
Other assets	19,864	15,784
Total	\$ 368,032	\$ 228,453

The components of our net investment in direct financing lease as of September 30, 2018, and December 31, 2017, are summarized in the table below (in thousands):

	September 30, 2018	December 31, 2017
Gross investment in direct financing lease	\$ 262,514	\$ 263,719
Less: unearned income	(223,560)	(225,337)
Net investment in direct financing lease	\$ 38,954	\$ 38,382

Future minimum lease payments to be received under our direct financing lease as of September 30, 2018, were as follows (in thousands):

Year	Total
2018	\$ 403
2019	1,655
2020	1,705
2021	1,756
2022	1,809
Thereafter	255,186
Total	\$ 262,514

8. Fair value measurements

We provide fair value information about all financial instruments for which it is practicable to estimate fair value. We measure and disclose the estimated fair value of financial assets and liabilities by utilizing a fair value hierarchy that distinguishes between data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. This hierarchy consists of three broad levels, as follows: (i) quoted prices in active markets for identical assets or liabilities (Level 1), (ii) significant other observable inputs (Level 2), and (iii) significant unobservable inputs (Level 3). Significant other observable inputs can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves. Significant unobservable inputs are typically based on an entity's own assumptions, since there is little, if any, related market activity. In instances in which the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers between the levels in the fair value hierarchy during the nine months ended September 30, 2018.

The following tables set forth the assets and liabilities that we measure at fair value on a recurring basis by level within the fair value hierarchy as of September 30, 2018, and December 31, 2017 (in thousands):

Description	Total	September 30, 2018		
		Quoted Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments in publicly traded companies	\$255,944	\$255,944	\$ —	\$ —
Interest rate hedge agreements	\$4,724	\$—	\$ 4,724	\$ —

Description	Total	December 31, 2017		
		Quoted Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments in publicly traded companies	\$109,511	\$109,511	\$ —	\$ —
Interest rate hedge agreements	\$5,260	\$—	\$ 5,260	\$ —
Liabilities:				
Interest rate hedge agreements	\$103	\$—	\$ 103	\$ —

Our investments in publicly traded companies have been recognized at fair value. Investments in privately held entities are excluded from the fair value hierarchy above as required by the fair value standards. Refer to Note 6 – “Investments” to these unaudited consolidated financial statements for further details.

Our interest rate hedge agreements have been recognized at fair value. Refer to Note 10 – “Interest Rate Hedge Agreements” to these unaudited consolidated financial statements for further details. The carrying values of cash and cash equivalents, restricted cash, tenant receivables, other assets, accounts payable, accrued expenses, and tenant security deposits approximate fair value.

8. Fair value measurements (continued)

The fair values of our secured notes payable, unsecured senior notes payable, \$2.2 billion unsecured senior line of credit, and unsecured senior bank term loans were estimated using widely accepted valuation techniques, including discounted cash flow analyses using significant other observable inputs such as available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Because the valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate. Additionally, the use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

As of September 30, 2018, and December 31, 2017, the book and estimated fair values of our investments in privately held entities that report NAV, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	September 30, 2018		December 31, 2017	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
Investments in privately held entities that report NAV	\$ 325,989	\$ 325,989	N/A	N/A
Liabilities:				
Secured notes payable	\$ 632,792	\$ 623,887	\$ 771,061	\$ 776,222
Unsecured senior notes payable	\$ 4,290,906	\$ 4,294,053	\$ 3,395,804	\$ 3,529,713
Unsecured senior line of credit	\$ 413,000	\$ 411,428	\$ 50,000	\$ 49,986
Unsecured senior bank term loans	\$ 347,306	\$ 346,743	\$ 547,942	\$ 549,361

Nonrecurring fair value measurements

Refer to Note 6 – “Investments” and Note 15 – “Assets Classified as Held for Sale” to these unaudited consolidated financial statements for further discussion.

9. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt as of September 30, 2018 (dollars in thousands):

	Fixed-Rate/Hedged		Unhedged Variable-Rate Debt	Total	Percentage	Weighted-Average Interest Remaining	
	Variable-Rate Debt	Variable-Rate Debt				Rate (1)	Term (in years)
Secured notes payable	\$ 439,689	\$ 193,103	\$ 632,792	11.1	%	4.42	% 3.0
Unsecured senior notes payable	4,290,906	—	4,290,906	75.5		4.15	6.6
\$2.2 billion unsecured senior line of credit	250,000	163,000	413,000	7.3		2.79	5.3
Unsecured senior bank term loan	347,306	—	347,306	6.1		2.21	5.3
Total/weighted average	\$ 5,327,901	\$ 356,103	\$ 5,684,004	100.0	%	3.96	% 6.1
Percentage of total debt	94	% 6	% 100	%			

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

9. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding indebtedness and respective principal payments as of September 30, 2018 (dollars in thousands):

Debt	Stated Rate	Interest Rate ⁽¹⁾ ⁽²⁾	Maturity Date	Principal	Unamortized (Deferred Financing Cost), (Discount) Premium	Total
Secured notes payable						
Greater Boston	L+1.50	% 3.94	1/28/19	⁽³⁾ \$193,103	\$ (228)	) \$192,875
Greater Boston, San Diego, Seattle, and Maryland	7.75	% 8.15	4/1/20	106,999	(501)	) 106,498
San Diego	4.66	% 4.90	1/1/23	33,773	(280)	) 33,493
Greater Boston	3.93	% 3.19	3/10/23	81,276	2,435	83,711
Greater Boston	4.82	% 3.40	2/6/24	201,269	14,195	215,464
San Francisco	6.50	% 6.50	7/1/36	751	—	751
Secured debt weighted-average interest rate/subtotal	4.87	% 4.42		617,171	15,621	632,792
\$2.2 billion unsecured senior line of credit	L+0.825	% 2.79	1/28/24	413,000	—	413,000
Unsecured senior bank term loan	L+0.90	% 2.21	1/28/24	350,000	(2,694)	) 347,306
Unsecured senior notes payable	2.75	% 2.96	1/15/20	400,000	(1,041)	) 398,959
Unsecured senior notes payable	4.60	% 4.75	4/1/22	550,000	(2,277)	) 547,723
Unsecured senior notes payable	3.90	% 4.04	6/15/23	500,000	(2,800)	) 497,200
Unsecured senior notes payable	4.00	% 4.18	1/15/24	450,000	(3,867)	) 446,133
Unsecured senior notes payable	3.45	% 3.62	4/30/25	600,000	(5,740)	) 594,260
Unsecured senior notes payable	4.30	% 4.50	1/15/26	300,000	(3,531)	) 296,469
Unsecured senior notes payable	3.95	% 4.13	1/15/27	350,000	(4,158)	) 345,842
Unsecured senior notes payable	3.95	% 4.07	1/15/28	425,000	(3,921)	) 421,079
Unsecured senior notes payable	4.50	% 4.60	7/30/29	300,000	(2,398)	) 297,602
Unsecured senior notes payable	4.70	% 4.81	7/1/30	450,000	(4,361)	) 445,639
Unsecured debt weighted average/subtotal		3.90		5,088,000	(36,788)	) 5,051,212
Weighted-average interest rate/total		3.96 %		\$5,705,171	\$ (21,167)	) \$5,684,004

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

(2) Reflects any extension options that we control.

(3) We have two one-year options to extend the stated maturity date to January 28, 2021, subject to certain conditions.

(3) We expect to exercise the first right to extend the maturity date to January 28, 2020.

4.00% and 4.70% Unsecured senior notes payables

In June 2018, we completed an offering of \$900.0 million of unsecured senior notes for net proceeds of \$891.4 million. The offering consisted of \$450.0 million of 4.00% unsecured senior notes payable on January 15, 2024

("4.00% Unsecured Senior Notes"), which will be used to fund certain eligible green development and redevelopment projects that have received or are expected to receive LEED® Gold or Platinum certification, and \$450.0 million of 4.70% unsecured senior notes payable on July 1, 2030 ("4.70% Unsecured Senior Notes").

Amendment of unsecured senior line of credit and unsecured senior bank term loan

On September 28, 2018, we amended our unsecured senior line of credit and unsecured senior bank term loan to extend the maturity date of each to January 28, 2024, including two six-month extension options related to our unsecured senior line of credit, and to increase the aggregate commitment for our unsecured senior line of credit to \$2.2 billion from \$1.65 billion.

As a result of the amendment and improvement in our Moody's credit rating during the three months ended September 30, 2018, the overall applicable interest rate margin decreased to 0.825% from 1.00% for our unsecured senior line of credit, and to 0.90% from 1.10% for our unsecured senior bank term loan. The facility fee related to our unsecured senior line of credit also decreased to 0.15% from 0.20%. In connection with these amendments, we recognized a loss on early extinguishment of debt of approximately \$634 thousand related to the write-off of unamortized loan fees.

9. Secured and unsecured senior debt (continued)

Repayment of unsecured senior bank term loan

During the three months ended September 30, 2018, we repaid the remaining \$200.0 million balance under our 2019 unsecured senior bank term loan and recognized a loss on early extinguishment of debt of \$189 thousand related to the write-off of unamortized loan fees.

Repayment of secured construction loan

In July 2018, we repaid \$150.0 million of the outstanding balance of our secured construction loan and reduced aggregate commitments to \$200.0 million. In connection with the partial repayment of the secured construction loan, we recognized a loss on early extinguishment of debt of \$299 thousand related to the write-off of unamortized loan fees.

Interest expense

The following table summarizes interest expense for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross interest	\$59,675	\$48,123	\$163,574	\$137,888
Capitalized interest	(17,431)	(17,092)	(46,318)	(45,325)
Interest expense	\$42,244	\$31,031	\$117,256	\$92,563

10. Interest rate hedge agreements

We use interest rate derivatives to hedge the variable cash flows associated with certain of our existing LIBOR-based variable-rate debt, including our \$2.2 billion unsecured senior line of credit, unsecured senior bank term loan, and secured notes payable, and to manage our exposure to interest rate volatility.

The fair value of each interest rate hedge agreement is determined using widely accepted valuation techniques, including discounted cash flow analyses on the expected cash flows of each derivative. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The fair values of our interest rate hedge agreements are determined using the market-standard methodology of netting the discounted future fixed-cash payments and the discounted expected variable-cash receipts. The variable-cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair value calculation also includes an amount for risk of non-performance of our counterparties using “significant unobservable inputs” such as estimates of current credit spreads to evaluate the likelihood of default, which we have determined to be insignificant to the overall fair value of our interest rate hedge agreements.

Changes in fair value, including accrued interest and adjustments for non-performance risk, on our interest rate hedge agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. During the next 12 months, we expect to reclassify approximately \$4.2 million from accumulated other comprehensive income to earnings as a decrease of interest expense. As of September 30, 2018, and December 31, 2017, the fair values of our interest rate hedge agreements aggregating an asset balance were classified in other assets, and the fair values of our interest rate hedge agreements aggregating a liability balance were classified in accounts payable, accrued expenses, and tenant security deposits, based upon their respective fair values, without any offsetting pursuant to master netting agreements. Refer to Note 8 – “Fair Value Measurements” to these unaudited consolidated financial statements for further details. Under our interest rate hedge agreements, we have no collateral posting requirements.

We have agreements with certain of our derivative counterparties that contain a provision wherein we could be declared in default on our derivative obligations (i) if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness, or (ii) if we default on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender. If we had breached any of these provisions, we could have been required to settle our obligations under the agreements at their termination value. As of September 30, 2018, none of our interest rate hedge agreements were in a liability position, so there were no associated termination obligations.

We had the following outstanding interest rate hedge agreements that were designated as cash flow hedges of interest rate risk as of September 30, 2018 (dollars in thousands):

Effective Date	Maturity Date	Number of Contracts	Weighted-Average Interest Pay Rate ⁽¹⁾	Fair Value	Notional Amount in Effect as of		
				as of 9/30/18	9/30/18	12/31/18	12/31/19
March 29, 2018	March 31, 2019	8	1.16%	\$ 3,732	\$600,000	\$600,000	\$—
March 29, 2019	March 31, 2020	1	1.89%	992	—	—	100,000

Total	\$ 4,724	\$ 600,000	\$ 600,000	\$ 100,000
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In addition to the interest pay rate for each swap agreement, interest is payable at an applicable margin over
(1) LIBOR for borrowings outstanding as of September 30, 2018, as listed under the column heading “Stated Rate” in our summary table of outstanding indebtedness and respective principal payments under Note 9 – “Secured and Unsecured Senior Debt” to these unaudited consolidated financial statements.

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

The following table summarizes the components of accounts payable, accrued expenses, and tenant security deposits as of September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Accounts payable and accrued expenses	\$ 445,943	\$ 349,884
Acquired below-market leases	128,011	88,184
Conditional asset retirement obligations	13,195	7,397
Deferred rent liabilities	28,977	27,953
Interest rate hedge liabilities	—	103
Unearned rent and tenant security deposits	237,589	248,924
Other liabilities	53,379	41,387
Total	\$ 907,094	\$ 763,832

Some of our properties may contain asbestos, which, under certain conditions, requires remediation. Although we believe that the asbestos is appropriately contained in accordance with environmental regulations, our practice is to remediate the asbestos upon the development or redevelopment of the affected property. We recognize a liability for the fair value of a conditional asset retirement obligation (including asbestos) when the fair value of the liability can be reasonably estimated. For certain properties we do not recognize an asset retirement obligation when there is an indeterminate settlement date for the obligation because the period in which we may remediate the obligation may not be estimated with any level of precision to provide for a meaningful estimate of the retirement obligation.

12. Earnings per share

In January 2018, we entered into forward equity sales agreements to sell an aggregate of 6.9 million shares of our common stock (including the exercise of underwriters' option) at a public offering price of \$123.50 per share, before underwriting discounts. The remaining forward equity sales agreements expire no later than April 2019; we expect to settle these agreements with shares of common stock prior to the expiration in April 2019.

In March 2017, we entered into agreements to sell an aggregate of 6.9 million shares of our common stock, which consisted of an initial issuance of 2.1 million shares and 4.8 million shares subject to forward equity sales agreements, at a public offering price of \$108.55 per share less issuance costs, underwriters' discount, and further adjustments as provided in the sales agreements. We issued the initial 2.1 million shares at closing in March 2017 and settled the remaining 4.8 million shares of common stock in December 2017.

Refer to Note 13 – "Stockholders' Equity" to these unaudited consolidated financial statements for a discussion related to our forward equity sales agreements executed in January 2018 and March 2017.

To account for the forward equity sales agreements, we considered the accounting guidance governing financial instruments and derivatives and concluded that our forward equity sales agreements were not liabilities as they did not embody obligations to repurchase our shares, nor did they embody obligations to issue a variable number of shares for which the monetary value was predominantly fixed, varying with something other than the fair value of our shares, or varying inversely in relation to our shares. We then evaluated whether the agreements met the derivatives and hedging guidance scope exception to be accounted for as equity instruments and concluded that the agreements can be classified as equity contracts based on the following assessment: (i) none of the agreements' exercise contingencies were based on observable markets or indices besides those related to the market for our own stock price and operations; and (ii) none of the settlement provisions precluded the agreements from being indexed to our own stock.

12. Earnings per share (continued)

We also considered the potential dilution resulting from the forward equity sales agreements on the EPS calculations. At inception, the agreements do not have an effect on the computation of basic EPS as no shares are delivered until settlement. We use the treasury stock method to determine the dilution resulting from the forward equity sales agreements during the period of time prior to settlement. The common shares issued upon the settlement of the forward equity sales agreements, weighted for the period these common shares were outstanding, are included in the denominator of basic EPS. The number of weighted-average shares outstanding – diluted used in the computation of EPS for the three and nine months ended September 30, 2018 and 2017, includes the effect from the assumed issuance of common stock pursuant to the settlement of forward equity sales agreements outstanding during the period at the contractual price, less the assumed repurchase of common shares at the average market price using the net proceeds, adjusted as provided in the forward equity sales agreements. The effect on our weighted-average shares – diluted for the three and nine months ended September 30, 2018, was 462 thousand and 363 thousand weighted-average incremental shares, respectively. For the three and nine months ended September 30, 2017, the effect on our weighted-average shares – diluted from the forward equity sales agreements entered into in March 2017 was 698 thousand and 430 thousand weighted-average incremental shares, respectively. The common shares issued upon the partial settlement of the forward equity sales agreements were weighted for the period these common shares were outstanding and were included in the denominator of basic EPS for the three and nine months ended September 30, 2018.

For purposes of calculating diluted EPS, we assumed conversion of our 7.00% Series D cumulative convertible preferred stock (“Series D Convertible Preferred Stock”) for the three months ended September 30, 2018 since the result was dilutive to EPS attributable to Alexandria Real Estate Equities, Inc.’s common stockholders from continuing operations during the period. The result was antidilutive to EPS attributable to Alexandria Real Estate Equities, Inc.’s common stockholders from continuing operations during the nine months ended September 30, 2018 and three and nine months ended September 30, 2017. Refer to Note 13 – “Stockholders’ Equity” to these unaudited consolidated financial statements for further discussion of the partial repurchases of our Series D Convertible Preferred Stock.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of EPS using the two-class method. Our Series D Convertible Preferred Stock and forward equity sales agreements are not participating securities and therefore are not included in the computation of EPS using the two-class method. Under the two-class method, we allocate net income (after amounts attributable to noncontrolling interests, dividends on preferred stock, and preferred stock redemption charge) to common stockholders and unvested restricted stock awards by using the weighted-average shares of each class outstanding for quarter-to-date and year-to-date periods independently, based on their respective participation rights to dividends declared (or accumulated) and undistributed earnings.

12. Earnings per share (continued)

The table below is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three and nine months ended September 30, 2018 and 2017 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$219,359	\$59,546	\$421,424	\$148,597
Net income attributable to noncontrolling interests	(5,723)	(5,773)	(17,428)	(18,892)
Dividends on preferred stock	(1,301)	(1,302)	(3,905)	(6,364)
Preferred stock redemption charge	—	—	—	(11,279)
Net income attributable to unvested restricted stock awards	(3,395)	(1,198)	(6,010)	(3,498)
Numerator for basic EPS – net income attributable to Alexandria Real Estate Equities, Inc.’s common stockholders	208,940	51,273	394,081	108,564
Dilutive effect of Series D Convertible Preferred Stock	1,301	—	—	—
Numerator for diluted EPS – net income attributable to Alexandria Real Estate Equities, Inc.’s common stockholders	\$210,241	\$51,273	\$394,081	\$108,564
Denominator for basic EPS – weighted-average shares of common stock outstanding	104,179	92,598	101,991	90,336
Dilutive effect of forward equity sales agreements	462	698	363	430
Dilutive effect of Series D Convertible Preferred Stock	744	—	—	—
Denominator for diluted EPS – weighted-average shares of common stock outstanding	105,385	93,296	102,354	90,766
Net income per share attributable to Alexandria Real Estate Equities, Inc.’s common stockholders:				
Basic	\$2.01	\$0.55	\$3.86	\$1.20
Diluted	\$1.99	\$0.55	\$3.85	\$1.20

13. Stockholders' equity

ATM common stock offering programs

In August 2017, we established an ATM common stock offering program that allows us to sell up to an aggregate of \$750.0 million of our common stock. The following table presents a detail of shares of common stock sold and the remaining aggregate amount available for future sales of common stock under this program since its inception (dollars in thousands, except per share amounts):

	Shares Issued	Average Issue Price per Share	Gross Proceeds	Net Proceeds
Three Months Ended				
September 30, 2017	2,083,526	\$ 119.94	\$ 249,895	\$ 245,785
December 31, 2017	689,792	\$ 125.70	86,708	85,375
	2,773,318		336,603	331,160
March 31, 2018	—	—	—	—
June 30, 2018	2,456,037	\$ 124.46	305,675	300,837
September 30, 2018	703,625	\$ 127.91	90,000	88,548
	3,159,662		395,675	389,385
Cumulative activity through September 30, 2018	5,932,980		732,278	\$ 720,545
Remaining availability as of September 30, 2018			17,722	
Total August 2017 ATM common stock offering program			\$ 750,000	

In August 2018, we established a new ATM common stock offering program that allows us to sell up to an aggregate of \$750.0 million of our common stock. The following table presents a detail of shares of common stock sold and the remaining aggregate amount available for future sales of common stock under our new ATM program (dollars in thousands, except per share amounts):

	Shares Issued	Average Issue Price per Share	Gross Proceeds	Net Proceeds
Three months ended September 30, 2018	855,458	\$ 127.45	\$ 109,031	\$ 106,956
Remaining availability as of September 30, 2018			640,969	
Total August 2018 ATM common stock offering program			\$ 750,000	

Forward equity sales agreements

In January 2018, we entered into forward equity sales agreements to sell an aggregate of 6.9 million shares of our common stock (including the exercise of underwriters' option) at a public offering price of \$123.50 per share, before underwriting discounts. The following table presents a summary of shares of common stock settled and the amount remaining available for future settlement under the forward equity sales agreements entered into in January 2018 for the sale of an aggregate of 6.9 million shares of our common stock (dollars in thousands, except per share amounts):

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	Number of Shares	Average Issue Price per Share	Net Proceeds
Forward equity sales agreements settled during the three months ended:			
March 31, 2018	843,600	\$ 118.74	\$ 100,169
June 30, 2018	—	—	—
September 30, 2018	857,700	116.62	100,022
Activity during the nine months ended September 30, 2018	1,701,300		200,191
Remaining forward equity sales agreements to settle no later than April 2019, as of September 30, 2018	5,198,700		
Total under our forward equity sales agreements	6,900,000		\$ 806,537

13. Stockholders' equity (continued)

We expect to receive additional proceeds of \$606.3 million, to be further adjusted as provided in the sales agreements, upon settlement of the remaining forward equity sales agreements by April 2019. The proceeds of \$606.3 million were calculated assuming the forward equity sales agreements will be settled entirely by the full physical delivery of shares of our common stock in exchange for cash proceeds. Although we expect to settle remaining forward equity sales agreements by the full physical delivery of shares of our common stock, we may elect cash settlement or net share settlement for all or a portion of our obligations under these agreements, either of which could result in no additional cash proceeds to us.

7.00% Series D cumulative convertible preferred stock repurchases

As of September 30, 2018 and 2017, we had 3.0 million shares of our Series D Convertible Preferred Stock outstanding. During the nine months ended September 30, 2017, we repurchased, in privately negotiated transactions, 501,115 outstanding shares of our Series D Convertible Preferred Stock at an aggregate price of \$17.9 million, or \$35.79 per share. We recognized a preferred stock redemption charge of \$5.8 million during the nine months ended September 30, 2017, including the write-off of original issuance costs of approximately \$391 thousand.

In October 2018, we repurchased, in privately negotiated transactions, 214,000 shares of our Series D Convertible Preferred Stock for \$7.5 million, or \$35.00 per share, and recognized a preferred stock redemption charge of \$2.3 million.

6.45% Series E cumulative redeemable preferred stock redemption

In March 2017, we announced the redemption of our 6.45% Series E cumulative redeemable preferred stock ("Series E Redeemable Preferred Stock") and recognized a preferred stock redemption charge of \$5.5 million related to the write-off of original issuance costs. On April 14, 2017, we completed the redemption of all 5.2 million outstanding shares of our Series E Redeemable Preferred Stock at a redemption price of \$25.00 per share, or an aggregate of \$130.0 million, plus accrued dividends, using funds primarily from the proceeds of our March 2017 common stock offering.

Dividends

In September 2018, we declared cash dividends on our common stock for the three months ended September 30, 2018, aggregating \$100.0 million, or \$0.93 per share. Also in September 2018, we declared cash dividends on our Series D Convertible Preferred Stock for the three months ended September 30, 2018, aggregating approximately \$1.3 million, or \$0.4375 per share. In October 2018, we paid the cash dividends on our common stock and Series D Convertible Preferred Stock declared for the three months ended September 30, 2018.

For the nine months ended September 30, 2018, our declared cash dividends on our common stock aggregated \$289.6 million, or \$2.76 per share, and our declared cash dividends on our Series D Convertible Preferred Stock aggregated \$3.9 million, or \$1.3125 per share.

13. Stockholders' equity (continued)

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) attributable to Alexandria Real Estate Equities, Inc.'s stockholders consists of the following (in thousands):

	Net Unrealized Gain (Loss) on:			Total
	Available-for-Sale Equity Securities	Interest Rate Hedge Agreements	Foreign Currency Translation	
Balance as of December 31, 2017	\$49,771	\$ 5,157	\$ (4,904)	\$50,024
Amounts reclassified from other comprehensive income to retained earnings	(49,771) ⁽¹⁾	—	—	(49,771)
Other comprehensive income (loss) before reclassifications	—	2,808	(3,631)	(823)
Amounts reclassified from other comprehensive income to net income	—	(3,241)	—	(3,241)
Net other comprehensive loss	—	(433)	(3,631)	(4,064)
Balance as of September 30, 2018	\$—	\$ 4,724	\$ (8,535)	\$(3,811)

(1) Refer to Note 6 – “Investments” to these unaudited consolidated financial statements for additional information.

Common stock, preferred stock, and excess stock authorizations

Our charter authorizes the issuance of 200.0 million shares of common stock, of which 105.8 million shares were issued and outstanding as of September 30, 2018. Our charter also authorizes the issuance of up to 100.0 million shares of preferred stock, of which 3.0 million shares were issued and outstanding as of September 30, 2018. In addition, 200.0 million shares of “excess stock” (as defined in our charter) are authorized, none of which were issued and outstanding as of September 30, 2018.

14. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities owned 11 properties as of September 30, 2018, and are included in our unaudited consolidated financial statements. Noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements. During the nine months ended September 30, 2018 and 2017, we distributed \$24.4 million and \$17.4 million, respectively, to our consolidated real estate joint venture partners.

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

value are recognized only to the extent that previous increases have been recognized.

15. Assets classified as held for sale

As of September 30, 2018, two buildings aggregating 389,018 RSF were classified as held for sale, neither of which met the criteria for classification as discontinued operations in our consolidated financial statements.

The following is a summary of net assets as of September 30, 2018, and December 31, 2017, for our real estate investments that were classified as held for sale as of each respective date (in thousands):

	September 30, December 31,	
	2018	2017
Total assets	\$ 35,812	\$ 31,578
Total liabilities	(1,899)	(1,809)
Total accumulated other comprehensive income (loss)	735	(1,021)
Net assets classified as held for sale	\$ 34,648	\$ 28,748

16. Subsequent events

In October 2018, we completed the acquisition of a redevelopment building at 30-02 48th Avenue for a purchase price of \$75.0 million, aggregating 176,759 RSF, in New York City, of which 140,098 RSF is undergoing conversion from existing office space to office/laboratory space. We also have the opportunity to convert the remaining space of 36,661 RSF, which is currently occupied, from existing office space to office/laboratory space through future redevelopment.

In October 2018, we repurchased, in privately negotiated transactions, 214,000 shares of our 7.00% Series D cumulative convertible preferred stock for \$7.5 million, or \$35.00 per share, and recognized a preferred stock redemption charge of \$2.3 million.

17. Condensed consolidating financial information

Alexandria Real Estate Equities, Inc. (the “Issuer”) has sold certain debt securities registered under the Securities Act of 1933, as amended, that are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P. (the “LP” or the “Guarantor Subsidiary”), an indirectly 100% owned subsidiary of the Issuer. The Issuer’s other subsidiaries, including, but not limited to, the subsidiaries that own substantially all of its real estate (collectively, the “Combined Non-Guarantor Subsidiaries”), will not provide a guarantee of such securities, including the subsidiaries that are partially or 100% owned by the LP. The following condensed consolidating financial information presents the condensed consolidating balance sheets as of September 30, 2018, and December 31, 2017, the condensed consolidating statements of income and comprehensive income for the three and nine months ended September 30, 2018 and 2017, and the condensed consolidating statements of cash flows for the nine months ended September 30, 2018 and 2017, for the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries, as well as the eliminations necessary to arrive at the information on a consolidated basis. In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Issuer’s interests in the Guarantor Subsidiary and the Combined Non-Guarantor Subsidiaries, (ii) the Guarantor Subsidiary’s interests in the Combined Non-Guarantor Subsidiaries, and (iii) the Combined Non-Guarantor Subsidiaries’ interests in the Guarantor Subsidiary, where applicable, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries have been eliminated, as shown in the column “Eliminations.” All assets and liabilities have been allocated to the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries generally based on legal entity ownership.

17. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of September 30, 2018
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate	\$—	\$—	\$11,587,312	\$—	\$11,587,312
Investments in unconsolidated real estate JVs	—	—	197,970	—	197,970
Cash and cash equivalents	94,559	—	109,622	—	204,181
Restricted cash	175	—	29,524	—	29,699
Tenant receivables	—	—	11,041	—	11,041
Deferred rent	—	—	511,680	—	511,680
Deferred leasing costs	—	—	238,295	—	238,295
Investments	—	1,757	955,599	—	957,356
Investments in and advances to affiliates	11,966,279	10,610,856	216,136	(22,793,271)	—
Other assets	60,814	—	307,218	—	368,032
Total assets	\$12,121,827	\$10,612,613	\$14,164,397	\$(22,793,271)	\$14,105,566
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	\$—	\$—	\$632,792	\$—	\$632,792
Unsecured senior notes payable	4,290,906	—	—	—	4,290,906
Unsecured senior line of credit	413,000	—	—	—	413,000
Unsecured senior bank term loans	347,306	—	—	—	347,306
Accounts payable, accrued expenses, and tenant security deposits	96,748	—	810,346	—	907,094
Dividends payable	101,084	—	—	—	101,084
Total liabilities	5,249,044	—	1,443,138	—	6,692,182
Redeemable noncontrolling interests	—	—	10,771	—	10,771
Alexandria Real Estate Equities, Inc.'s stockholders' equity	6,872,783	10,612,613	12,180,658	(22,793,271)	6,872,783
Noncontrolling interests	—	—	529,830	—	529,830
Total equity	6,872,783	10,612,613	12,710,488	(22,793,271)	7,402,613
Total liabilities, noncontrolling interests, and equity	\$12,121,827	\$10,612,613	\$14,164,397	\$(22,793,271)	\$14,105,566

17. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of December 31, 2017
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate	\$—	\$—	\$10,298,019	\$—	\$10,298,019
Investments in unconsolidated real estate JVs	—	—	110,618	—	110,618
Cash and cash equivalents	130,364	9	124,008	—	254,381
Restricted cash	152	—	22,653	—	22,805
Tenant receivables	—	—	10,262	—	10,262
Deferred rent	—	—	434,731	—	434,731
Deferred leasing costs	—	—	221,430	—	221,430
Investments	—	1,655	521,599	—	523,254
Investments in and advances to affiliates	9,949,861	9,030,994	183,850	(19,164,705)	—
Other assets	45,108	—	183,345	—	228,453
Total assets	\$10,125,485	\$9,032,658	\$12,110,515	\$(19,164,705)	\$12,103,953
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	\$—	\$—	\$771,061	\$—	\$771,061
Unsecured senior notes payable	3,395,804	—	—	—	3,395,804
Unsecured senior line of credit	50,000	—	—	—	50,000
Unsecured senior bank term loans	547,942	—	—	—	547,942
Accounts payable, accrued expenses, and tenant security deposits	89,928	—	673,904	—	763,832
Dividends payable	92,145	—	—	—	92,145
Total liabilities	4,175,819	—	1,444,965	—	5,620,784
Redeemable noncontrolling interests	—	—	11,509	—	11,509
Alexandria Real Estate Equities, Inc.'s stockholders' equity	5,949,666	9,032,658	10,132,047	(19,164,705)	5,949,666
Noncontrolling interests	—	—	521,994	—	521,994
Total equity	5,949,666	9,032,658	10,654,041	(19,164,705)	6,471,660
Total liabilities, noncontrolling interests, and equity	\$10,125,485	\$9,032,658	\$12,110,515	\$(19,164,705)	\$12,103,953

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended September 30, 2018
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$ —	\$ —	\$ 255,496	\$ —	\$ 255,496
Tenant recoveries	—	—	81,051	—	81,051
Other income	5,017	—	5,723	(5,464)	5,276
Total revenues	5,017	—	342,270	(5,464)	341,823
Expenses:					
Rental operations	—	—	99,759	—	99,759
General and administrative	21,803	—	6,321	(5,464)	22,660
Interest	37,236	—	5,008	—	42,244
Depreciation and amortization	1,506	—	118,094	—	119,600
Loss on early extinguishment of debt	823	—	299	—	1,122
Total expenses	61,368	—	229,481	(5,464)	285,385
Equity in earnings of unconsolidated real estate JVs	—	—	40,718	—	40,718
Equity in earnings of affiliates	269,987	147,999	2,912	(420,898)	—
Investment income	—	111	122,092	—	122,203
Net income	213,636	148,110	278,511	(420,898)	219,359
Net income attributable to noncontrolling interests	—	—	(5,723)	—	(5,723)
Net income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	213,636	148,110	272,788	(420,898)	213,636
Dividends on preferred stock	(1,301)	—	—	—	(1,301)
Net income attributable to unvested restricted stock awards	(3,395)	—	—	—	(3,395)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 208,940	\$ 148,110	\$ 272,788	\$ (420,898)	\$ 208,940

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended September 30, 2017
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$ —	\$ —	\$ 216,021	\$—	\$ 216,021
Tenant recoveries	—	—	67,058	—	67,058
Other income	3,230	(2,589)	5,736	(4,086)	2,291
Total revenues	3,230	(2,589)	288,815	(4,086)	285,370
Expenses:					
Rental operations	—	—	83,469	—	83,469
General and administrative	16,598	—	5,124	(4,086)	17,636
Interest	23,958	—	7,073	—	31,031
Depreciation and amortization	1,787	—	106,001	—	107,788
Total expenses	42,343	—	201,667	(4,086)	239,924
Equity in earnings of unconsolidated real estate JVs	—	—	14,100	—	14,100
Equity in earnings of affiliates	92,886	88,900	1,702	(183,488)	—
Net income	53,773	86,311	102,950	(183,488)	59,546
Net income attributable to noncontrolling interests	—	—	(5,773)	—	(5,773)
Net income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	53,773	86,311	97,177	(183,488)	53,773
Dividends on preferred stock	(1,302)	—	—	—	(1,302)
Net income attributable to unvested restricted stock awards	(1,198)	—	—	—	(1,198)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 51,273	\$ 86,311	\$ 97,177	\$ (183,488)	\$ 51,273

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Nine Months Ended September 30, 2018
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$ —	\$ —	\$ 750,616	\$ —	\$ 750,616
Tenant recoveries	—	—	226,380	—	226,380
Other income	14,106	—	11,760	(15,866)	10,000
Total revenues	14,106	—	988,756	(15,866)	986,996
Expenses:					
Rental operations	—	—	283,438	—	283,438
General and administrative	66,694	—	17,192	(15,866)	68,020
Interest	100,470	—	16,786	—	117,256
Depreciation and amortization	4,830	—	347,841	—	352,671
Impairment of real estate	—	—	6,311	—	6,311
Loss on early extinguishment of debt	823	—	299	—	1,122
Total expenses	172,817	—	671,867	(15,866)	828,818
Equity in earnings of unconsolidated real estate JVs	—	—	42,952	—	42,952
Equity in earnings of affiliates	562,707	345,676	6,809	(915,192)	—
Investment income	—	487	219,807	—	220,294
Net income	403,996	346,163	586,457	(915,192)	421,424
Net income attributable to noncontrolling interests	—	—	(17,428)	—	(17,428)
Net income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	403,996	346,163	569,029	(915,192)	403,996
Dividends on preferred stock	(3,905)	—	—	—	(3,905)
Net income attributable to unvested restricted stock awards	(6,010)	—	—	—	(6,010)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 394,081	\$ 346,163	\$ 569,029	\$ (915,192)	\$ 394,081

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Nine Months Ended September 30, 2017
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$ —	\$ —	\$ 635,156	\$ —	\$ 635,156
Tenant recoveries	—	—	188,874	—	188,874
Other income	11,337	(2,577)	10,199	(13,683)	5,276
Total revenues	11,337	(2,577)	834,229	(13,683)	829,306
Expenses:					
Rental operations	—	—	237,536	—	237,536
General and administrative	55,272	—	14,510	(13,683)	56,099
Interest	72,907	—	19,656	—	92,563
Depreciation and amortization	5,217	—	303,852	—	309,069
Impairment of real estate	—	—	203	—	203
Loss of early extinguishment of debt	670	—	—	—	670
Total expenses	134,066	—	575,757	(13,683)	696,140
Equity in earnings of unconsolidated real estate JVs	—	—	15,050	—	15,050
Equity in earnings of affiliates	252,434	242,345	4,694	(499,473)	—
Gain on sales of real estate – rental properties	—	—	270	—	270
Gain on sales of real estate – land parcels	—	—	111	—	111
Net income	129,705	239,768	278,597	(499,473)	148,597
Net income attributable to noncontrolling interests	—	—	(18,892)	—	(18,892)
Net income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	129,705	239,768	259,705	(499,473)	129,705
Dividends on preferred stock	(6,364)	—	—	—	(6,364)
Preferred stock redemption charge	(11,279)	—	—	—	(11,279)
Net income attributable to unvested restricted stock awards	(3,498)	—	—	—	(3,498)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 108,564	\$ 239,768	\$ 259,705	\$ (499,473)	\$ 108,564

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended September 30, 2018
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 213,636	\$ 148,110	\$ 278,511	\$(420,898)	\$ 219,359
Other comprehensive loss:					
Unrealized losses on interest rate hedge agreements:					
Unrealized interest rate hedge gains arising during the period	165	—	—	—	165
Reclassification adjustment for amortization of interest income included in net income	(1,432)	—	—	—	(1,432)
Unrealized losses on interest rate hedge agreements, net	(1,267)	—	—	—	(1,267)
Unrealized losses on foreign currency translation:					
Unrealized foreign currency translation losses arising during the period	—	—	(59)	—	(59)
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	—	—	—	—
Unrealized losses on foreign currency translation, net	—	—	(59)	—	(59)
Total other comprehensive loss	(1,267)	—	(59)	—	(1,326)
Comprehensive income	212,369	148,110	278,452	(420,898)	218,033
Less: comprehensive income attributable to noncontrolling interests	—	—	(5,723)	—	(5,723)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	\$ 212,369	\$ 148,110	\$ 272,729	\$(420,898)	\$ 212,310

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended September 30, 2017

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 53,773	\$ 86,311	\$ 102,950	\$ (183,488)	\$ 59,546
Other comprehensive income:					
Unrealized gains on available-for-sale equity securities:					
Unrealized holding gains arising during the period	—	65	16,953	—	17,018
Reclassification adjustment for losses included in net income	—	—	—	—	—
Unrealized gains on available-for-sale equity securities, net	—	65	16,953	—	17,018
Unrealized gains (losses) on interest rate hedge agreements:					
Unrealized interest rate hedge gains (losses) arising during the period	174	—	(29)	—	145
Reclassification adjustment for amortization of interest expense included in net income	195	—	3	—	198
Unrealized gains (losses) on interest rate hedge agreements, net	369	—	(26)	—	343
Unrealized gains on foreign currency translation:					
Unrealized foreign currency translation gains arising during the period	—	—	3,836	—	3,836
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	—	—	—	—
Unrealized gains on foreign currency translation, net	—	—	3,836	—	3,836
Total other comprehensive income	369	65	20,763	—	21,197
Comprehensive income	54,142	86,376	123,713	(183,488)	80,743
Less: comprehensive income attributable to noncontrolling interests	—	—	(5,783)	—	(5,783)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	\$ 54,142	\$ 86,376	\$ 117,930	\$ (183,488)	\$ 74,960

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Nine Months Ended September 30, 2018

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 403,996	\$ 346,163	\$ 586,457	\$ (915,192)	\$ 421,424
Other comprehensive loss:					
Unrealized losses on interest rate hedge agreements:					
Unrealized interest rate hedge gains arising during the period	2,808	—	—	—	2,808
Reclassification adjustment for amortization of interest income included in net income	(3,241)	—	—	—	(3,241)
Unrealized losses on interest rate hedge agreements, net	(433)	—	—	—	(433)
Unrealized losses on foreign currency translation:					
Unrealized foreign currency translation losses arising during the period	—	—	(3,631)	—	(3,631)
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	—	—	—	—
Unrealized losses on foreign currency translation, net	—	—	(3,631)	—	(3,631)
Total other comprehensive loss	(433)	—	(3,631)	—	(4,064)
Comprehensive income	403,563	346,163	582,826	(915,192)	417,360
Less: comprehensive income attributable to noncontrolling interests	—	—	(17,428)	—	(17,428)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	\$ 403,563	\$ 346,163	\$ 565,398	\$ (915,192)	\$ 399,932

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Nine Months Ended September 30, 2017

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 129,705	\$ 239,768	\$ 278,597	\$(499,473)	\$ 148,597
Other comprehensive income:					
Unrealized gains on available-for-sale equity securities:					
Unrealized holding gains arising during the period	—	20	23,394	—	23,414
Reclassification adjustment for losses included in net income	—	4	2,478	—	2,482
Unrealized gains on available-for-sale equity securities, net	—	24	25,872	—	25,896
Unrealized gains (losses) on interest rate hedge agreements:					
Unrealized interest rate hedge gains (losses) arising during the period	1,062	—	(250)	—	812
Reclassification adjustment for amortization of interest expense included in net income	1,804	—	6	—	1,810
Unrealized gains (losses) on interest rate hedge agreements, net	2,866	—	(244)	—	2,622
Unrealized gains on foreign currency translation:					
Unrealized foreign currency translation gains arising during the period	—	—	7,592	—	7,592
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	—	2,421	—	2,421
Unrealized gains on foreign currency translation, net	—	—	10,013	—	10,013
Total other comprehensive income	2,866	24	35,641	—	38,531
Comprehensive income	132,571	239,792	314,238	(499,473)	187,128
Less: comprehensive income attributable to noncontrolling interests	—	—	(18,914)	—	(18,914)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	\$ 132,571	\$ 239,792	\$ 295,324	\$(499,473)	\$ 168,214

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Nine Months Ended September 30, 2018
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Net income	\$ 403,996	\$ 346,163	\$ 586,457	\$(915,192)	\$ 421,424
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Depreciation and amortization	4,830	—	347,841	—	352,671
Loss on early extinguishment of debt	823	—	299	—	1,122
Impairment of real estate	—	—	6,311	—	6,311
Equity in earnings of unconsolidated real estate JVs	—	—	(42,952)	—	(42,952)
Distributions of earnings from unconsolidated real estate JVs	—	—	430	—	430
Amortization of loan fees	6,685	—	1,185	—	7,870
Amortization of debt discounts (premiums)	587	—	(2,382)	—	(1,795)
Amortization of acquired below-market leases	—	—	(16,588)	—	(16,588)
Deferred rent	—	—	(75,960)	—	(75,960)
Stock compensation expense	25,209	—	—	—	25,209
Equity in earnings of affiliates	(562,707)	(345,676)	(6,809)	915,192	—
Investment loss (income)	—	(487)	(219,807)	—	(220,294)
Changes in operating assets and liabilities:					
Tenant receivables	—	—	(807)	—	(807)
Deferred leasing costs	—	—	(42,821)	—	(42,821)
Other assets	(14,955)	—	(6,674)	—	(21,629)
Accounts payable, accrued expenses, and tenant security deposits	(4,371)	—	26,268	—	21,897
Net cash (used in) provided by operating activities	(139,903)	—	553,991	—	414,088
Investing Activities					
Proceeds from sales of real estate	—	—	5,748	—	5,748
Additions to real estate	—	—	(663,688)	—	(663,688)
Purchases of real estate	—	—	(947,013)	—	(947,013)
Deposits for investing activities	—	—	2,500	—	2,500
Investments in subsidiaries	(1,453,711)	(1,234,186)	(25,477)	2,713,374	—
	—	—	(35,922)	—	(35,922)

Acquisitions of interests in unconsolidated real estate JVs					
Investments in unconsolidated real estate JVs	—	—	(77,501	) —	(77,501)
Return of capital from unconsolidated real estate joint ventures	—	—	68,592	—	68,592
Additions to investments	—	—	(174,195	) —	(174,195)
Sales of investments	—	420	56,910	—	57,330
Net cash used in investing activities	\$ (1,453,711)	\$ (1,233,766)	\$ (1,790,046)	\$ 2,713,374	\$ (1,764,149)

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)

for the Nine Months Ended September 30, 2018

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities Inc. (Issuer)	Alexandria Real Estate Equities L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Financing Activities					
Borrowings from secured notes payable	\$ —	\$ —	\$ 17,784	\$ —	\$ 17,784
Repayments of borrowings from secured notes payable	—	—	(155,155)	—	(155,155)
Proceeds from issuance of unsecured senior notes payable	899,321	—	—	—	899,321
Borrowings from unsecured senior line of credit	3,894,000	—	—	—	3,894,000
Repayments of borrowings from unsecured senior line of credit	(3,531,000)	—	—	—	(3,531,000)
Repayments of borrowings from unsecured senior bank term loans	(200,000)	—	—	—	(200,000)
Transfers to/from parent company	102,582	1,233,757	1,377,035	(2,713,374)	—
Payment of loan fees	(19,066)	—	—	—	(19,066)
Proceeds from the issuance of common stock	696,532	—	—	—	696,532
Dividends on common stock	(280,632)	—	—	—	(280,632)
Dividends on preferred stock	(3,905)	—	—	—	(3,905)
Contributions from noncontrolling interests	—	—	15,837	—	15,837
Distributions to and purchases of noncontrolling interests	—	—	(25,910)	—	(25,910)
Net cash provided by financing activities	1,557,832	1,233,757	1,229,591	(2,713,374)	1,307,806
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	(1,051)	—	(1,051)
Net decrease in cash, cash equivalents, and restricted cash	(35,782)	(9)	(7,515)	—	(43,306)
Cash, cash equivalents, and restricted cash as of the beginning of period	130,516	9	146,661	—	277,186
Cash, cash equivalents, and restricted cash as of the end of period	\$ 94,734	\$ —	\$ 139,146	\$ —	\$ 233,880
Supplemental Disclosure of Cash Flow Information:					
Cash paid during the period for interest, net of interest capitalized	\$ 81,888	\$ —	\$ 17,750	\$ —	\$ 99,638
Non-Cash Investing Activities:					
Change in accrued construction	\$ —	\$ —	\$ 69,654	\$ —	\$ 69,654

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Nine Months Ended September 30, 2017
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Net income	\$ 129,705	\$ 239,768	\$ 278,597	\$(499,473)	\$ 148,597
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Depreciation and amortization	5,217	—	303,852	—	309,069
Loss on early extinguishment of debt	670	—	—	—	670
Gain on sales of real estate – rental properties	—	—	(270)	—	(270)
Impairment of real estate	—	—	203	—	203
Gain on sales of real estate – land parcels	—	—	(111)	—	(111)
Equity in earnings of unconsolidated real estate JVs	—	—	(15,050)	—	(15,050)
Distributions of earnings from unconsolidated real estate JVs	—	—	249	—	249
Amortization of loan fees	5,665	—	2,913	—	8,578
Amortization of debt discounts (premiums)	441	—	(2,314)	—	(1,873)
Amortization of acquired below-market leases	—	—	(14,908)	—	(14,908)
Deferred rent	—	—	(74,362)	—	(74,362)
Stock compensation expense	18,649	—	—	—	18,649
Equity in earnings of affiliates	(252,434)	(242,345)	(4,694)	499,473	—
Investment loss (income)	—	2,582	(4,589)	—	(2,007)
Changes in operating assets and liabilities:					
Tenant receivables	—	—	(224)	—	(224)
Deferred leasing costs	—	—	(39,925)	—	(39,925)
Other assets	(10,576)	—	(86)	—	(10,662)
Accounts payable, accrued expenses, and tenant security deposits	(9,813)	(9)	40,441	—	30,619
Net cash (used in) provided by operating activities	(112,476)	(4)	469,722	—	357,242
Investing Activities					
Proceeds from sales of real estate	—	—	4,263	—	4,263
Additions to real estate	—	—	(660,877)	—	(660,877)
Purchases of real estate	—	—	(590,884)	—	(590,884)
Deposits for investing activities	—	—	4,700	—	4,700

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Investments in subsidiaries	(753,137) (588,808) (12,160) 1,354,105	—
Investments in unconsolidated real estate JVs	—	—	(248) —	(248
Return of capital from unconsolidated real estate JVs	—	—	38,576	—	38,576
Additions to investments	—	—	(128,190	) —	(128,190
Sales of investments	—	204	18,692	—	18,896
Net cash used in investing activities	\$ (753,137	) \$ (588,604	) \$ (1,326,128	) \$ 1,354,105	\$ (1,313,764)

17. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)

for the Nine Months Ended September 30, 2017

(In thousands)

(Unaudited)

	Alexandria Real Estate Equities Inc. (Issuer)	Alexandria Real Estate Equities L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Financing Activities					
Borrowings from secured notes payable	\$ —	\$ —	\$ 145,272	\$ —	\$ 145,272
Repayments of borrowings from secured notes payable	—	—	(2,882)	—	(2,882)
Proceeds from issuance of unsecured senior notes payable	424,384	—	—	—	424,384
Borrowings from unsecured senior line of credit	2,634,000	—	—	—	2,634,000
Repayments of borrowings from unsecured senior line of credit	(2,348,000)	—	—	—	(2,348,000)
Repayments of borrowings from unsecured bank term loans	(200,000)	—	—	—	(200,000)
Transfers to/from parent company	47,558	588,608	717,939	(1,354,105)	—
Payment of loan fees	(3,956)	—	(387)	—	(4,343)
Repurchase of 7.00% Series D cumulative convertible preferred stock	(17,934)	—	—	—	(17,934)
Redemption of 6.45% Series E cumulative redeemable preferred stock	(130,350)	—	—	—	(130,350)
Proceeds from the issuance of common stock	705,391	—	—	—	705,391
Dividends on common stock	(229,814)	—	—	—	(229,814)
Dividends on preferred stock	(8,317)	—	—	—	(8,317)
Contributions from noncontrolling interests	—	—	9,877	—	9,877
Distributions to noncontrolling interests	—	—	(17,432)	—	(17,432)
Net cash provided by financing activities	872,962	588,608	852,387	(1,354,105)	959,852
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	1,579	—	1,579
Net increase (decrease) in cash, cash equivalents, and restricted cash	7,349	—	(2,440)	—	4,909
Cash, cash equivalents, and restricted cash as of the beginning of period	30,705	—	110,661	—	141,366
Cash, cash equivalents, and restricted cash as of the end of period	\$ 38,054	\$ —	\$ 108,221	\$ —	\$ 146,275
Supplemental Disclosure of Cash Flow Information:					
Cash paid during the period for interest, net of interest capitalized	\$ 67,091	\$ —	\$ 19,141	\$ —	\$ 86,232

Non-Cash Investing Activities:

Change in accrued construction	\$ —	\$	—\$ (38,767)	\$	—	\$ (38,767)
Contribution of real estate to an unconsolidated real estate JV	\$ —	\$	—\$ 6,998	\$	—	\$ 6,998

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

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

- Operating factors such as a failure to operate our business successfully in comparison to market expectations or in comparison to our competitors, our inability to obtain capital when desired or refinance debt maturities when desired, and/or a failure to maintain our status as a REIT for federal tax purposes.

- Market and industry factors such as adverse developments concerning the life science and technology industries and/or our tenants.

- Government factors such as any unfavorable effects resulting from federal, state, local, and/or foreign government policies, laws, and/or funding levels.

- Global factors such as negative economic, political, financial, credit market, and/or banking conditions.

- Other factors such as climate change, cyber intrusions, and/or changes in laws, regulations, and financial accounting standards.

This list of risks and uncertainties is not exhaustive. Additional information regarding risk factors that may affect us is included under "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our annual report on Form 10-K for the year ended December 31, 2017. Readers of this quarterly report on Form 10-Q should also read our other documents filed publicly with the SEC for further discussion regarding such factors.

In addition, on December 22, 2017, the U.S. President signed a tax reform bill commonly referred to as the Tax Cuts and Jobs Act into law. The tax reform legislation is a far-reaching and complex revision to the U.S. federal income tax laws with disparate and, in some cases, countervailing effects on different categories of taxpayers and industries. The legislation is unclear in many respects and will require clarification and interpretation by the U.S. Treasury Department and the IRS in the form of amendments, technical corrections, regulations, or other forms of guidance, any of which could lessen or increase the effect of the legislation on us or our stockholders. The outcome of this legislation on state and local tax authorities, and the response by such authorities, is also unclear. We continue to monitor changes made to, or as a result of, the federal tax law and its potential effect on us.

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 S&P 500® urban office REIT uniquely focused on collaborative life science and technology campuses in AAA innovation cluster locations with a total market capitalization of \$19.1 billion and an asset base in North America of 32.2 million SF as of September 30, 2018. The asset base in North America includes 21.6 million RSF of operating properties and 2.6 million RSF of development and redevelopment of new Class A properties currently undergoing construction and pre-construction activities with target delivery dates ranging from 2018 through 2019. Additionally, the asset base in North America includes 8.0 million SF of intermediate-term and future development projects. Founded in 1994, we pioneered this niche and have 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. We have 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. Alexandria also provides strategic capital to transformative life science and technology companies through our venture capital arm. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value.

As of September 30, 2018:

- Investment-grade or publicly traded large cap tenants represented 52% of our total annual rental revenue;
- Approximately 97% of our leases (on an RSF basis) were triple net leases, which require tenants to pay substantially all real estate taxes, insurance, utilities, repairs and maintenance, common area expenses, and other operating expenses (including increases thereto) in addition to base rent;
- Approximately 94% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from approximately 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 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 primary business objective is to maximize stockholder value by providing our stockholders with the greatest possible total return and long-term asset value based on a multifaceted platform of internal and external growth. A key element of our strategy is our unique focus on Class A 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.

Executive summary

Core asset sale

We expect to sell a partial joint venture interest in a Class A property located in our Cambridge submarket with proceeds of approximately \$400 million or greater. We can provide no assurance this transaction will be completed.

Key sale of unconsolidated real estate joint venture interest

In September 2018, we sold our remaining 27.5% ownership interest in our 360 Longwood Avenue unconsolidated real estate joint venture, located in our Longwood Medical Area submarket at a sales price of \$1,659 per RSF, with capitalization rates of 5.1% and 4.7% (cash basis). Our share of the contractual sales price, net of debt repaid, was \$70.0 million, and our gain on sale was \$35.7 million.

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Credit rating upgrade

In September 2018, Moody’s Investors Service upgraded our corporate issuer credit rating to Baa1/Stable from Baa2/Stable. The rating upgrade reflects the continued and significant improvement of Alexandria’s credit profile resulting from a diversified portfolio of life science properties in key markets with consistently high occupancy and high-quality tenants, many of which are less sensitive to economic cyclicality.

A REIT Industry Leading Tenant Roster

52% of annual rental revenue from investment-grade or publicly traded large cap tenants.

Continuation of strong rental rate growth

Solid rental rate increases for the three months ended September 30, 2018, of 35.4% and 16.9% (cash basis). Rental rate increase of 35.4% represents the highest increase during the past 10 years.

Increased common stock dividend

Common stock dividend for the three months ended September 30, 2018, of \$0.93 per common share, up 7 cents, or 8.1%, over the three months ended September 30, 2017; represents the continuation of our strategy to share growth in cash flows from operating activities with our stockholders while also retaining a significant portion for reinvestment.

Strong internal growth

Total revenues:

\$341.8 million, up 19.8%, for the three months ended September 30, 2018, compared to \$285.4 million for the three months ended September 30, 2017

\$987.0 million, up 19.0%, for the nine months ended September 30, 2018, compared to \$829.3 million for the nine months ended September 30, 2017

Net operating income (cash basis) of \$867.1 million for the three months ended September 30, 2018, annualized, up \$48.4 million, or 5.9%, compared to the three months ended June 30, 2018, annualized, and up \$173.9 million, or 25.1%, compared to the three months ended December 31, 2017, annualized.

Same property net operating income growth:

3.4% and 8.9% (cash basis) for the three months ended September 30, 2018, compared to the three months ended September 30, 2017

3.8% and 9.9% (cash basis) for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017

Continued solid leasing activity and strong rental rate growth, in light of modest contractual lease expirations at the beginning of 2018, and a highly leased value-creation pipeline:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Total leasing activity – RSF	696,468	3,163,628
Lease renewals and re-leasing of space:		

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Rental rate increases	35.4%	26.9%
Rental rate increases (cash basis)	16.9%	15.0%
RSF (included in total leasing activity above)	475,863	1,437,676

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Strong external growth; disciplined allocation of capital to visible, multiyear, highly leased value-creation pipeline

Highly leased value-creation pipeline with deliveries targeted for 2018 and 2019:

Target Delivery	Property Leased %	Unlevered Yields	
		Initial Stabilized	Initial Stabilized (Cash)
2018 489,363 RSF	78%	7.5%	7.0%
2019 2,119,260 RSF ⁽¹⁾	89%	7.3%	6.7%
2,608,623 RSF	86%	7.3%	6.8%

(1) Commencement during the three months ended September 30, 2018 includes our redevelopment project aggregating 142,400 RSF at 681 Gateway Boulevard in our South San Francisco submarket.

We expect to present our value-creation pipeline with deliveries targeted for 2019, 2020, 2021, and 2022 at our annual Investor Day event on November 28, 2018.

Recent and future growth in net operating income (cash basis) driven by recently delivered projects

Strong near-term contractual growth in annual cash rents of \$29 million related to initial free rent granted on development and redevelopment projects recently placed into service (and no longer included in our value-creation pipeline) that are currently generating rental revenue.

Completed strategic acquisitions

Refer to “Acquisitions” under the “Investments in Real Estate” section within this Item 2 of this report for information on our opportunistic acquisitions that are completed or under contract.

Operating results

On January 1, 2018, we adopted a new accounting standard which requires us, on a prospective basis, to generally present our equity investments at fair value with changes in fair value reflected in earnings. During the three and nine months ended September 30, 2018, we recognized unrealized gains from changes in fair value of our equity investments aggregating \$117.2 million and \$194.5 million, respectively.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017

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

In millions	\$210.2	\$51.3	\$394.1	\$108.6
Per share	\$1.99	\$0.55	\$3.85	\$1.20

Funds from operations attributable to Alexandria’s common stockholders – diluted, as adjusted:

In millions	\$173.6	\$140.8	\$504.0	\$407.5
Per share	\$1.66	\$1.51	\$4.92	\$4.49

The operating results shown above include certain items related to corporate-level investing and financing decisions. Refer to the tabular presentation of these items at the beginning of the “Results of Operations” section within this Item 2

for additional information.

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Core operating metrics as of or for the quarter ended September 30, 2018

High-quality revenues and cash flows and operational excellence

Percentage of annual rental revenue in effect from:

Investment-grade or publicly traded large cap tenants: 52%

Class A properties in AAA locations: 77%

Occupancy of operating properties in North America: 97.3%

Operating margin: 71%

Adjusted EBITDA margin: 69%

Weighted-average remaining lease term:

All tenants: 8.6 years

Top 20 tenants: 12.3 years

See “Strong Internal Growth” in the above section for information on our total revenues, same property net operating income growth, leasing activity, and rental rate growth.

Balance sheet management

Key metrics

\$19.1 billion of total market capitalization

\$2.9 billion of liquidity

	Three Months Ended		Goal for Fourth Quarter of 2018
	September 30, 2018 Quarter Annualized	Trailing 12 Months	
Net debt to Adjusted EBITDA	5.7x	6.1x	Less than 5.5x
Fixed-charge coverage ratio	4.1x	4.3x	Greater than 4.0x
Unhedged variable-rate debt as a percentage of total debt	6%	N/A	Less than 5%
Current and future value-creation pipeline as a percentage of gross investments in real estate in North America	12%	N/A	8% to 12%

Key capital events

During three months ended September 30, 2018, we amended our unsecured senior line of credit and unsecured senior bank term loan to extend the maturity date of each to January 28, 2024. We recognized a loss on early extinguishment of debt of \$634 thousand related to the write-off of unamortized loan fees associated with these amendments. The key changes are summarized below:

	Amended Agreement		Change	
	Line of Credit	Term Loan	Line of Credit	Term Loan
Aggregate commitments	\$2.2 billion	\$350.0 million	Up \$550 million	No change
Maturity date	January 2024	January 2024	Extended by 27 months	Extended by 36 months
Interest rate	L+0.825%	L+0.90%	Down 17.5 bps ⁽¹⁾	Down 20 bps ⁽¹⁾

Includes interest rate reduction of 10 bps and 15 bps on our unsecured senior line of credit and unsecured senior (1) bank term loan, respectively, associated with the upgrade of our corporate issuer credit rating from Moody’s Investors Service. See “Credit Rating Upgrade” on the previous page for additional information.

Debt repayments during the three months ended September 30, 2018 consisted of the following (dollars in thousands):

Debt	Payment Date	Stated Rate	Amount	(Loss) Gain on Early Extinguishment of Debt
2019 Unsecured Senior Bank Term Loan	September 2018	L+1.20%	\$ 200,000	\$ (189)
Secured construction loan	July 2018	L+1.50%	\$ 150,000	\$ (299)
Menlo Gateway, Phase I ⁽¹⁾	August 2018	L+2.50%	\$ 133,137	\$ 761 ⁽¹⁾

This loan for our unconsolidated real estate joint venture was refinanced with a new loan for \$145.0 million that (1) bears an interest rate of 4.15%. Gain on early extinguishment of debt is included in equity in earnings of unconsolidated real estate joint ventures in our consolidated statements of income under Item 1 of this report.

In September 2018, we settled 857,700 shares from our January 2018 forward equity sales agreements and received proceeds of \$100.0 million, net of underwriting discounts and adjustments provided in the agreements. We expect to receive additional proceeds of \$606.3 million, to be further adjusted as provided in the sales agreements, upon settlement of the remaining outstanding forward equity sales agreements by April 2019. The proceeds of \$606.3 million were calculated assuming the forward equity sales agreements will be settled entirely by the full physical delivery of shares of our common stock in exchange for cash proceeds. Although we expect to settle remaining forward equity sales agreements by the full physical delivery of shares of our common stock, we may elect cash settlement or net share settlement for all or a portion of our obligations under these agreements, either of which could result in no additional cash proceeds to us.

In August 2018, we entered into a new ATM common stock offering program, which allows us to sell up to an aggregate of \$750.0 million of our common stock. During the three months ended September 30, 2018, activities under our existing and new ATM common stock offering programs were as follows:

	Three Months Ended September 30, 2018
(Dollars in thousands, except per share amounts)	
Shares issued	1,559,083
Average price per share	\$ 127.66
Net proceeds	\$ 195,504
Remaining availability	\$ 658,691

Corporate responsibility and industry leadership

During the three months ended September 30, 2018, we received the following awards and recognitions:

- Second consecutive “Green Star” designation and first “A” disclosure score by GRESB, and were recognized as the #1 real estate company in the world in GRESB’s Health & Well-being Module

- Two design awards related to our interior build-out at 505 Brannan Street in our Mission Bay/SoMa submarket:

- Architizer A+ Award for Commercial Office Interiors greater than 25,000 SF

- Award of Merit for Best Projects 2018 from ENR California

- First place in the High-Rise category of the City of Seattle’s 2017 People’s Choice Urban Design Awards for our 400 Dexter Avenue North building

- Sustainable Design Awards winner in the Sustainable Private Organization category from the San Diego Green Building Council

Silver Tier recognition in SANDAG's Diamond Awards program for our commuting programs that encourage alternative transportation

Subsequent events

In October 2018, we initiated the development of the North Tower at the Alexandria Center® for Life Science – New York City, with the signing of an amendment to our long-term ground lease with the New York City Health and Hospitals Corporation and New York City Economic Development Corporation. The amendment enables us to begin due diligence, design, and permitting for the North Tower, the campus's third tower, which has been increased from the originally planned 420,000 RSF to approximately 550,000 RSF. The Alexandria Center® for Life Science – New York City currently comprises 728,000 RSF in the East and West Towers, and upon completion of the North Tower, the campus will consist of nearly 1.3 million RSF.

Operating summary

Favorable Same Property Net
 Lease Operating Income
 Structure⁽¹⁾ Growth

Stable
 cash
 flows
 Percentage
 of
 triple 97%
 net
 leases

Increasing
 cash
 flows
 Percentage
 of
 leases
 contain 94%
 annual
 rent
 escalations

Lower
 capex
 burden
 Percentage
 of
 leases
 providing
 for 95%
 the
 recapture
 of
 capital
 expenditures

Margins⁽²⁾ Rental Rate Growth:
 Renewed/Re-Leased
 Space

Adjusted
 Operating
 EBITDA
 69% 71%

(1) Percentages calculated based on RSF as of September 30, 2018.

(2) Represents percentages for the three months ended September 30, 2018.

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

Annual Rental
Revenue⁽¹⁾ from
Investment-Grade
or Publicly Traded
Large Cap
Tenants

A REIT Industry-Leading
Tenant Roster
52%

Tenant Mix

Percentage of
ARE's Annual
Rental Revenue⁽¹⁾

(1) Represents annual rental revenue in effect as of September 30, 2018.

(2) Our annual rental revenue from technology tenants consists of:

39% from investment-grade credit rated or publicly traded large cap tenants

52% from Uber Technologies, Inc., Stripe, Inc., and Pinterest, Inc.

9% from all other technology tenants

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

Class A Properties in
AAA Locations AAA Locations

77%
of ARE's
Annual Rental Revenue⁽¹⁾
Percentage of ARE's Annual Rental Revenue⁽¹⁾

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

Solid Historical
Occupancy⁽²⁾ Occupancy across Key Locations

96%
Over 10 Years

(1) Represents annual rental revenue in effect as of September 30, 2018.

(2) Average occupancy of operating properties in North America as of each December 31 for the last 10 years and as of September 30, 2018.

Leasing

The following table summarizes our leasing activity at our properties:

	Three Months Ended September 30, 2018 Including Straight-Line Rent		Nine Months Ended September 30, 2018 Including Straight-Line Rent		Year Ended December 31, 2017 Including Straight-Line Rent	
	Cash Basis		Cash Basis		Cash Basis	
(Dollars per RSF)						
Leasing activity:						
Renewed/re-leased space ⁽¹⁾						
Rental rate changes	35.4%	16.9% ⁽²⁾	26.9%	15.0% ⁽²⁾	25.1%	12.7%
New rates	\$69.64	\$64.71	\$55.97	\$53.29	\$51.05	\$47.99
Expiring rates	\$51.44	\$55.36	\$44.12	\$46.32	\$40.80	\$42.60
Rentable square footage	475,863		1,437,676		2,525,099	
Tenant improvements/leasing commissions	\$33.53 ⁽³⁾		\$21.75		\$18.74	
Weighted-average lease term	6.9 years		5.8 years		6.2 years	
Developed/redeveloped/previously vacant space leased						
New rates	\$55.42	\$53.12	\$66.49	\$56.23	\$47.56	\$42.93
Rentable square footage	220,605		1,725,952		2,044,083	
Tenant improvements/leasing commissions	\$15.67		\$13.76		\$9.83	
Weighted-average lease term	7.0 years		12.8 years		10.1 years	
Leasing activity summary (totals):						
New rates	\$65.14	\$61.04	\$61.71	\$54.90	\$49.49	\$45.72
Rentable square footage	696,468		3,163,628		4,569,182	
Tenant improvements/leasing commissions	\$27.88		\$17.39		\$14.75	
Weighted-average lease term	7.0 years		9.6 years		7.9 years	
Lease expirations: ⁽¹⁾						
Expiring rates	\$46.82	\$50.90	\$43.01	\$45.65	\$39.99	\$41.71
Rentable square footage	745,839		2,072,452		2,919,259	

Leasing activity includes 100% of results for properties in which we have an investment in North America. Refer to the "Non-GAAP Measures" section within this Item 2 for a description of the basis used to compute the measures above.

(1) Excludes month-to-month leases aggregating 40,020 RSF and 37,006 RSF as of September 30, 2018, and December 31, 2017, respectively.

Includes rental rate increases related to the early re-leasing and re-tenanting of space subject to significantly below-market leases at our Alexandria Center[®] at One Kendall Square campus in our Cambridge submarket. Since our acquisition of the campus during the three months ended December 31, 2016, we have re-leased and renewed approximately 291,000 RSF of below-market space, or four times the volume we initially forecasted to be executed through the three months ended September 30, 2018, at rental rate (cash basis) increases of approximately 27%.

(3)

Includes \$8.4 million of tenant improvements related to the 12-year lease renewal of 129,424 RSF with Alnylam Pharmaceuticals, Inc. at 300 Third Street in our Cambridge submarket. The increase in rental rates, net of tenant improvements and leasing commissions per RSF, on this renewal was 77%. Excluding this lease, new tenant improvements and leasing commissions for renewed/re-leased space was \$16.25 per RSF during the three months ended September 30, 2018.

During the nine months ended September 30, 2018, we granted tenant concessions/free rent averaging 1.9 months (4) with respect to the 3,163,628 RSF leased. Approximately 61% of the leases executed during the nine months ended September 30, 2018, did not include concessions for free rent.

Summary of contractual lease expirations

The following table summarizes information with respect to the contractual lease expirations at our properties as of September 30, 2018:

Year	Number of Leases	RSF	Percentage of Occupied RSF	Annual Rental Revenue (per RSF) ⁽¹⁾	Percentage of Total Annual Rental Revenue
2018 ⁽²⁾	22	267,899	1.3 %	\$44.66	1.2 %
2019	94	1,299,961	6.2 %	\$40.99	5.4 %
2020	116	1,853,802	8.8 %	\$37.69	7.0 %
2021	98	1,562,885	7.5 %	\$39.65	6.2 %
2022	91	1,596,193	7.6 %	\$44.34	7.1 %
2023	79	2,178,296	10.4 %	\$43.45	9.5 %
2024	45	1,673,364	8.0 %	\$48.08	8.1 %
2025	32	1,469,393	7.0 %	\$46.49	6.9 %
2026	23	860,002	4.1 %	\$43.05	3.7 %
2027	24	1,928,376	9.2 %	\$43.84	8.5 %
Thereafter	57	6,277,695	29.9 %	\$57.83	36.4 %

(1) Represents amounts in effect as of September 30, 2018.

(2) Excludes month-to-month leases for 40,020 RSF as of September 30, 2018.

The following tables present information by market with respect to our lease expirations in North America as of September 30, 2018, for the remainder of 2018 and all of 2019:

Market	2018 Contractual Lease Expirations (in RSF)					Annual Rental Revenue (per RSF) ⁽²⁾
	Leased	Negotiating/ Anticipating	Targeted for Redevelopment	Remaining Expiring Leases	Total ⁽¹⁾	
Greater Boston	61,244	3,404	—	—	64,648	\$ 66.10
San Francisco	3,994	9,122	—	—	13,116	51.10
New York City	3,573	—	—	11,168	14,741	N/A
San Diego	—	14,685	—	57,177	71,862	28.29
Seattle	—	—	—	7,770	7,770	N/A
Maryland	—	—	—	11,326	11,326	19.51
Research Triangle Park	—	9,307	—	16,027	25,334	19.36
Canada	31,006	8,889	—	15,070	54,965	19.61
Non-cluster markets	—	—	—	4,137	4,137	14.86
Total	99,817	45,407	—	122,675	267,899	\$ 44.66
Percentage of expiring leases	37 %	17 %	— %	46 %	100 %	%

Market	2019 Contractual Lease Expirations (in RSF)				Annual Rental Revenue (per
	Leased	Negotiating/ Anticipating	Targeted for Redevelopment	Remaining Expiring Leases ⁽³⁾	
				Total	Revenue

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						RSF) ⁽²⁾
Greater Boston	99,744	9,071	—	222,773	331,588	\$ 51.11
San Francisco	19,415	12,778	—	175,936	208,129	42.08
New York City	—	—	—	4,467	4,467	N/A
San Diego	90,193	—	—	190,039	280,232	32.40
Seattle	106,003	75,545	—	60,689	242,237	43.96
Maryland	—	47,180	—	72,606	119,786	29.30
Research Triangle Park	—	2,923	—	46,913	49,836	22.13
Canada	—	—	—	—	—	—
Non-cluster markets	3,508	6,178	—	54,000	63,686	33.31
Total	318,863	153,675	—	827,423	1,299,961	\$ 40.99
Percentage of expiring leases	25	% 12	% —%	63	% 100	%

(1) Excludes month-to-month leases for 40,020 RSF as of September 30, 2018.

(2) Represents amounts in effect as of September 30, 2018.

(3) Includes 116,556 RSF expiring in June 2019 at 3545 Cray Court in our Torrey Pines submarket, which is under evaluation for options to renovate as a Class A office/laboratory building. The next largest contractual lease expiration in 2019 is 50,400 RSF, which is under evaluation for renewal.

Top 20 tenants

79% of Top 20 Annual Rental Revenue from Investment-Grade or Publicly Traded Large Cap Tenants⁽¹⁾

Our properties are leased to a high-quality and diverse group of tenants, with no individual tenant accounting for more than 3.5% of our annual rental revenue in effect as of September 30, 2018. The following table sets forth information regarding leases with our 20 largest tenants in North America based upon annual rental revenue in effect as of September 30, 2018 (dollars in thousands, except market cap):

Tenant	Remaining Lease Term in Years ⁽¹⁾	Aggregate RSF	Annual Rental Revenue ⁽¹⁾	Percentage of Aggregate Annual Rental Revenue ⁽¹⁾	Investment-Grade Average Credit Ratings		Market Cap ⁽²⁾ (in billions)
					Moody's	S&P	
1 Illumina, Inc.	11.9	891,495	\$ 34,826	3.5%	—	BBB	\$ 38.1
2 Bristol-Myers Squibb Company Takeda	9.3	475,661	30,861	3.1	A2	A+	\$ 98.1
3 Pharmaceutical Company Ltd.	11.5	386,111	30,614	3.0	A2	A-	\$ 38.9
4 Sanofi	9.4	494,693	30,324	3.0	A1	AA	\$ 106.7
5 Eli Lilly and Company	11.1	467,521	29,203	2.9	A2	AA-	\$ 94.8
6 Celgene Corporation	7.7	614,082	29,195	2.9	Baa2	BBB+	\$ 71.5
7 Novartis AG	8.4	361,180	27,732	2.8	A1	AA-	\$ 212.9
8 Uber Technologies, Inc.	74.2 ⁽³⁾	422,980	22,185	2.2	—	—	N/A
9 New York University	11.9	209,224	20,718	2.1	Aa2	AA-	N/A
10 bluebird bio, Inc.	8.3	262,261	20,104	2.0	—	—	\$ 8.6
11 Moderna Therapeutics, Inc.	10.1	356,975	19,857	2.0	—	—	N/A
12 Roche	5.2	357,928	19,023	1.9	Aa3	AA	\$ 204.5
13 Stripe, Inc.	9.0	295,333	17,736	1.8	—	—	N/A
14 Pfizer Inc.	6.1	416,143	17,353	1.7	A1	AA	\$ 219.9
15 Amgen Inc.	5.5	407,369	16,838	1.7	Baa1	A	\$ 126.9
16 Massachusetts Institute of Technology	6.7	256,126	16,729	1.7	Aaa	AAA	N/A
17 Facebook, Inc.	11.5	382,883	15,434	1.5	—	—	\$ 520.3
18 United States Government	6.9	264,358	15,089	1.5	Aaa	AA+	N/A
19 FibroGen, Inc.	5.1	234,249	14,198	1.4	—	—	\$ 4.5
20 Biogen Inc.	10.0	305,212	13,278	1.3	Baa1	A-	\$ 65.7
Total/weighted average	12.3 ⁽³⁾	7,861,784	\$ 441,297	44.0%			

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

(1)

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Based on percentage of aggregate annual rental revenue in effect as of September 30, 2018. Refer to the “Non-GAAP Measures” section within this Item 2 for our methodologies on annual rental revenue for unconsolidated properties.

(2) Average daily market capitalization for the 12-months ended September 30, 2018. Refer to the “Non-GAAP Measures” section within this Item 2 for additional information.

(3) Represents a ground lease with Uber Technologies, Inc. at 1455 and 1515 Third Street in our Mission Bay/SoMa submarket. Excluding the ground lease, the weighted-average remaining lease term for our top 20 tenants was 9.0 years as of September 30, 2018.

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 September 30, 2018, in North America of our properties by market (dollars in thousands, except per RSF amounts):

Market	RSF			Total	% of Total	Number of Properties	Annual Rental Revenue		
	Operating	Development	Redevelopment				Total	% of Total	Per RSF
Greater Boston	6,227,321	164,000	31,858	6,423,179	27 %	54	\$381,000	38 %	\$62.18
San Francisco	4,517,876	1,627,088	190,947	6,335,911	26	44	221,029	22	50.81
New York City	1,077,621	—	—	1,077,621	4	3	75,875	8	72.42
San Diego	4,344,153	—	163,648	4,507,801	19	56	159,091	15	38.89
Seattle	1,235,055	198,000	—	1,433,055	6	13	58,752	6	48.72
Maryland	2,462,116	—	103,225	2,565,341	11	37	66,375	6	27.85
Research Triangle Park	1,088,869	—	129,857	1,218,726	5	16	27,672	3	26.32
Canada	256,967	—	—	256,967	1	3	6,717	1	26.52
Non-cluster markets	323,030	—	—	323,030	1	8	8,188	1	30.83
Properties held for sale	54,874	—	—	54,874	—	1	997	—	—
North America	21,587,882	1,989,088	619,535	24,196,505	100%	235	\$1,005,696	100%	\$48.36
		2,608,623							

Summary of occupancy percentages in North America

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

Market	Operating Properties			Operating and Redevelopment Properties		
	9/30/18	6/30/18	9/30/17	9/30/18	6/30/18	9/30/17
Greater Boston	98.4 %	97.2 %	95.9 %	97.9%	96.7 %	95.0 %
San Francisco	100.0	99.8	100.0	95.9	98.8	100.0
New York City	97.2	100.0	99.8	97.2	100.0	99.8
San Diego	94.2	(1) 95.8	92.4	90.8	(1) 92.3	88.6
Seattle	97.6	97.2	98.2	97.6	97.2	98.2
Maryland	97.2	95.7	93.6	93.3	91.9	91.6
Research Triangle Park	96.6	96.5	98.1	86.3	85.3	84.0
Subtotal	97.5	97.4	96.1	94.7	95.2	93.9
Canada	98.6	98.6	99.2	98.6	98.6	99.2
Non-cluster markets	82.2	77.9	88.6	82.2	77.9	88.6
North America	97.3 %	97.1 %	96.1 %	94.6%	95.0 %	93.9 %

Refer to the “Non-GAAP Measures” section within this Item 2 for additional information.

(1)The decline in occupancy relates primarily to the vacancy during the three months ended September 30, 2018 of 44,034 RSF at 4110 Campus Point Court, a property we recently acquired during the three months ended December 31, 2017 in our University Town Center submarket. We are reviewing various options to renovate this

space.

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Investments in real estate

A key component of our business model is our disciplined allocation of capital to the development and redevelopment of new Class A properties located in collaborative life science and technology campuses in AAA urban innovation clusters. These projects are focused on providing high-quality, generic, and reusable spaces that meet the real estate requirements of, and are reusable by, a wide range of tenants. 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, higher rental income, higher returns, and greater long-term asset values. Our pre-construction activities are undertaken in order to get the property ready for its intended use and include entitlements, permitting, design, site work, and other activities preceding commencement of construction of aboveground building improvements. Our investments in real estate consisted of the following as of September 30, 2018 (dollars in thousands):

	Investments in Real Estate	Square Feet		Intermediate-Term and Future Projects	Total
		Operating	Construction		
Investments in real estate:					
Rental properties:					
Consolidated	\$ 12,144,386	21,314,142	—	—	21,314,142
Unconsolidated ⁽¹⁾	N/A	273,740	—	—	273,740
	12,144,386	21,587,882	—	—	21,587,882
New Class A development and redevelopment properties:					
2018 deliveries	259,000	—	489,363	—	489,363
2019 deliveries					
Consolidated	459,266	—	946,321	—	946,321
Unconsolidated ⁽¹⁾	N/A	—	1,172,939	—	1,172,939
2019 deliveries	459,266	—	2,119,260	—	2,119,260
New Class A development and redevelopment properties undergoing construction	718,266	—	2,608,623	—	2,608,623
Intermediate-term and future development and redevelopment projects:					
Intermediate-term	799,998	—	—	5,585,832	5,585,832
Future	62,860	—	—	3,105,608	3,105,608
Portion of development and redevelopment square feet that will replace existing RSF included in rental properties ⁽²⁾	N/A	—	—	(701,132)	(701,132)
Intermediate-term and future development and redevelopment projects, excluding RSF related to rental properties	862,858	—	—	7,990,308	7,990,308
Gross investments in real estate	13,725,510	21,587,882	2,608,623	7,990,308	32,186,813
		24,196,505			
Less: accumulated depreciation	(2,166,330)				
Net investments in real estate – North America	11,559,180				

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Net investments in real estate – Asia	28,132
Investments in real estate	\$11,587,312

(1) Our share of the cost basis associated with unconsolidated square feet is classified in investments in unconsolidated real estate joint ventures in our unaudited consolidated balance sheets.

(2) Refer to footnotes 1, 3, and 4 to the table in the “New Class A Development and Redevelopment Properties: Summary of Pipeline” section within this Item 2 for additional information.

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Acquisitions

Our real estate asset acquisitions for the nine months ended September 30, 2018 and October 2018, consisted of the following (dollars in thousands):

Property	Submarket/Market	Date of Purchase	Number of Properties	Operating Occupancy	Operating Square Footage	Operating with Future Redevelopment	Active Development	Future Development
Value-creation								
701 Dexter Avenue North 1655 and 1725 Third Street (10% interest in unconsolidated JV)	Lake Union/Seattle	7/20/18	—	N/A	—	—	—	217,000
Other	Various	Various	— 2	N/A	— —	— —	— 593,765	493,000 710,000
Operating with value-creation								
219 East 42nd Street Summers Ridge Science Park	New York City/ New York City	7/10/18	1	100%	—	349,947 ⁽²⁾	—	230,000
Alexandria PARC	Sorrento Mesa/ San Diego	1/5/18	4	100%	316,531	—	—	50,000
100 Tech Drive	Greater Stanford/San Francisco	1/25/18	4	100%	148,951	—	48,547	—
704 Quince Orchard Road (56.8% interest in unconsolidated JV)	Route 128/ Greater Boston	4/13/18	1	100%	200,431	—	—	300,000
	Gaithersburg/Maryland	3/16/18	1	100%	21,745	—	58,186	—
			11		687,658	349,947	106,733	580,000
Operating Maryland Life Science Portfolio								
2301 5th Avenue	Rockville/Gaithersburg/Maryland	5/8/18	8	100%	376,106	39,505	—	—
Other	Lake Union/Seattle	6/1/18	1	97%	197,136	—	—	—
	Various	Various	2 11	100%	54,341 627,583	— 39,505	— —	— —

October										
Acquisition										
30-02 48th Avenue	New York City/ New York City	10/9/18	1	100%	—	36,661	(4)	140,098	(4)	—
Total			25			1,315,241	426,113	840,596	1,290,	

(1) We expect to provide total estimated costs and related yields in the future around the commencement of development and redevelopment.

(2) Refer to the “New Class A Development and Redevelopment Properties: Summary of Pipeline” section within this Item 2 for additional information.

(3) Includes, among others, the last two installment payments related to our November 2016 acquisition of 1455 and 1515 Third Street of \$18.9 million per installment, which were paid during the three months ended March 31, 2018 and June 30, 2018, respectively.

(4) We acquired a 176,759 RSF building, of which 79% is undergoing conversion from existing office space to office/laboratory space through redevelopment and 21% is office space that is leased and occupied. Upon expiration of the in-place leases, we have the opportunity to convert this office space to office/laboratory space through redevelopment.

Real estate asset sales

Our real estate asset sales completed during the nine months ended September 30, 2018, consisted of the following (dollars in thousands):

Property/Submarket/Market	Date of Sale	At 100%					Our Share			Ga
		RSF	Sales Price	Debt Repaid	Sales Price per RSF	Capitalization Rate	Capitalization Rate (Cash Basis)	Sales Price	Sales Price, Net of Debt	
360 Longwood Avenue/Longwood Medical Area/Greater Boston ⁽¹⁾	9/26/18	210,709	\$349,500	\$95,000	\$1,659	5.1%	4.7%	\$96,113	\$69,988	\$33
Land Parcel/Northern Virginia/Maryland	7/2/18	N/A	N/A	N/A	N/A	N/A	N/A	6,000	6,000	—

(1) We sold our remaining 27.5% ownership interest in this unconsolidated real estate joint venture.

(2) During the three months ended June 30, 2018, we entered into an agreement to sell this land parcel and recognized an impairment of \$6.3 million to lower its carrying amount to estimated fair value less selling costs.

Disciplined management of ground-up developments

(1) Represents developments commenced since January 1, 2008, comprising 28 projects aggregating 7.1 million RSF.

(2) Annual rental revenue from ground-up developments commenced since January 1, 2008, is comprised of:

63% from investment-grade credit rated or publicly traded large cap tenants

16% from Uber Technologies, Inc., Stripe, Inc., and Pinterest, Inc.

21% from all other tenants

(3) Represents developments commenced and delivered since January 1, 2008, comprising 22 projects aggregating 5.2 million RSF.

- (1) For the years ended December 31, 2016 and 2017. We expect to disclose data for the year ending December 31, 2018 in 2019.
- (2) Upon completion of 13 projects in process targeting LEED certification.
- (3) Upon completion of three projects in process targeting WELL certification.
- (4) Upon completion of 12 projects in process targeting Fitwel certification.

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New Class A development and redevelopment properties: 2018 deliveries

100 Binney Street
Greater Boston/Cambridge
432,931 RSF

Bristol-Myers Squibb Company
Facebook, Inc.

399 Binney Street
Greater Boston/Cambridge
164,000 RSF
Rubius Therapeutics, Inc.
Relay Therapeutics, Inc.
Celsius Therapeutics, Inc.

266 and 275 Second Avenue
Greater Boston/Route 128
203,757 RSF

Otsuka Pharmaceutical Co., Ltd.

9625 Towne Centre Drive
San Diego/University Town Center
163,648 RSF

Takeda Pharmaceutical Company Ltd.

5 Laboratory Drive
Research Triangle Park/RTP
175,000 RSF
Boragen, Inc.
Elo Life Systems, Inc.
Indigo Ag, Inc.

New Class A development and redevelopment properties: 2019 deliveries

213 East Grand Avenue	9900 Medical Center Drive	279 East Grand Avenue	Alexandria PARC	188 East Blaine Street
San Francisco/South San Francisco	Maryland/Rockville	San Francisco/South San Francisco	San Francisco/Greater Stanford	Seattle/Lake Union
300,930 RSF	45,039 RSF	211,405 RSF	48,547 RSF	198,000 RSF
Merck & Co., Inc.	Lonza Walkersville, Inc. Multi-Tenant/Marketing	Verily Life Sciences, LLC insitro, Inc.	Adaptive Insights, Inc.	bluebird bio, Inc. Seattle Cancer Care Alliance Multi-Tenant/Marketing
681 Gateway Boulevard	704 Quince Orchard Road	Menlo Gateway	1655 and 1725 Third Street	
San Francisco/South San Francisco	Maryland/Gaithersburg	San Francisco/Greater Stanford	San Francisco/Mission Bay/SoMa	
142,400 RSF	58,186 RSF	520,988 RSF	593,765 RSF	
Twist Bioscience Corporation	Multi-Tenant/Marketing	Facebook, Inc.	Uber Technologies, Inc.	2,119,260 RSF
Multi-Tenant/Marketing				89% Leased

New Class A development and redevelopment properties: 2018 and 2019 deliveries

The following table sets forth a summary of our new Class A development and redevelopment properties projected to be delivered in 2018 and 2019, as of September 30, 2018:

Property/Market/Submarket	Dev/Redev	RSF		Total	Percentage		Project Start	Occupancy ⁽¹⁾		
		In Service	CIP		Leased	Leased/Net		Initial	Stabilized	
2018 deliveries: consolidated projects										
266 and 275 Second Avenue/Greater Boston/Route 128	Redev	171,899	31,858	203,757	85 %	90 %	3Q17	1Q18	2019	
5 Laboratory Drive/Research Triangle Park/RTP	Redev	45,143	129,857	175,000	51	98	2Q17	2Q18	2019	
9625 Towne Centre Drive/San Diego/University Town Center	Redev	—	163,648	163,648	100	100	3Q15	4Q18	4Q18	
399 Binney Street/Greater Boston/Cambridge	Dev	—	164,000	164,000	75	98	4Q17	4Q18	2019	
2018 deliveries		217,042	489,363	706,405	78	96				
2019 deliveries: consolidated projects										
213 East Grand Avenue/San Francisco/South San Francisco	Dev	—	300,930	300,930	100	100	2Q17	1Q19	1Q19	
9900 Medical Center Drive/Maryland/Rockville	Redev	—	45,039	45,039	58	58	3Q17	1Q19	2019	
279 East Grand Avenue/San Francisco/South San Francisco	Dev	—	211,405	211,405	100	100	4Q17	1Q19	2020	
Alexandria PARC/San Francisco/Greater Stanford	Redev	148,951	48,547	197,498	100	100	1Q18	2Q19	2Q19	
188 East Blaine Street/Seattle/Lake Union ⁽²⁾	Dev	—	198,000	198,000	33	64	2Q18	2Q19	2020	
681 Gateway Boulevard/San Francisco/South San Francisco ⁽³⁾	Redev	—	142,400	142,400	43	97	3Q18	2Q19	2020	
		148,951	946,321	1,095,272	79	91				
2019 deliveries: unconsolidated joint venture projects ⁽⁴⁾										
704 Quince Orchard Road/Maryland/Gaithersburg	Redev	21,745	58,186	79,931	38	50	1Q18	1Q19	2020	
Menlo Gateway/San Francisco/Greater Stanford	Dev	251,995	520,988	772,983	100	100	4Q17	4Q19	4Q19	
1655 and 1725 Third Street/San Francisco/Mission Bay/SoMa	Dev	—	593,765	593,765	100	100	1Q18	4Q19	4Q19	
		273,740	1,172,939	1,446,679	97	97				

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2019 deliveries	422,691	2,119,260	2,541,951	89	95
2018 and 2019 deliveries	639,733	2,608,623	3,248,356	86 %	95 %

- (1) Initial occupancy dates are subject to leasing and/or market conditions. Stabilized occupancy may vary depending on single tenancy versus multi-tenancy.
- (2) Formerly 1818 Fairview Avenue East.
- (3) Conversion of single tenant office space to multi-tenant office/laboratory space through redevelopment.
- (4) Refer to the “Consolidated and Unconsolidated Real Estate Joint Ventures” section within this Item 2 for additional information.

New Class A development and redevelopment properties: 2018 and 2019 deliveries (continued)

The following table sets forth a summary of our new Class A development and redevelopment properties projected to be delivered in 2018 and 2019, as of September 30, 2018 (dollars in thousands):

Property/Market/Submarket	Our Ownership Interest	In Service	CIP	Cost to Complete			Unlevered Yields	
				Construction Loan	ARE Funding	Total at Completion	Initial Stabilized	Initial Stabilized (Cash)
2018 deliveries: consolidated projects under construction								
266 and 275 Second Avenue/Greater Boston/Route 128	100 %	\$73,635	\$10,215	\$—	\$5,150	\$89,000	8.4%	7.1 %
5 Laboratory Drive/Research Triangle Park/RTP	100 %	9,722	29,899	—	22,879	62,500	7.7	7.6
9625 Towne Centre Drive/San Diego/University Town Center	50.1 %	—	78,815	—	14,185	93,000	7.0	7.0
399 Binney Street/Greater Boston/Cambridge	100 %	—	140,071	—	33,929	174,000	7.3	6.7
2018 deliveries		83,357	259,000	—	76,143	418,500	7.5	7.0
2019 deliveries: consolidated projects under construction								
213 East Grand Avenue/San Francisco/South San Francisco	100 %	—	208,561	—	51,439	260,000	7.2	6.4
9900 Medical Center Drive/Maryland/Rockville	100 %	—	9,977	—	4,323	14,300	8.4	8.4
279 East Grand Avenue/San Francisco/South San Francisco	100 %	—	80,770	—	70,230	151,000	7.8	8.1
Alexandria PARC/San Francisco/Greater Stanford	100 %	95,097	33,412	—	21,491	150,000	7.3	6.1
188 East Blaine Street/Seattle/Lake Union ⁽¹⁾	100 %	—	78,085	—	111,915	190,000	6.7	6.7
681 Gateway Boulevard/San Francisco/South San Francisco	100 %	—	48,461	—	59,539	108,000	8.5	7.9
		95,097	459,266	—	318,937	873,300	7.4	6.9
2019 deliveries: unconsolidated joint venture projects ⁽²⁾ (amounts represent our share)								
704 Quince Orchard Road/Maryland/Gaithersburg	56.8 %	1,207	5,386	5,801	906	13,300	8.9	8.8
Menlo Gateway/San Francisco/Greater Stanford	33.7 %	87,846	104,081	99,094	138,979	430,000	6.9	6.3
1655 and 1725 Third Street/San Francisco/Mission Bay/SoMa	10.0 %	—	49,798	25,311	2,891	78,000	7.8	6.0
		89,053	159,265	130,206	142,776	521,300	7.1	6.3

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2019 deliveries	184,150	618,531	130,206	461,713	1,394,600	7.3	6.7
2018 and 2019 deliveries	\$267,507	\$877,531	\$130,206	\$537,856	\$1,813,100	7.3%	6.8%

(1) Formerly 1818 Fairview Avenue East.

(2) Refer to the “Consolidated and Unconsolidated Real Estate Joint Ventures” section within this Item 2 for additional information.

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New Class A development and redevelopment properties: summary of pipeline

The following table summarizes the key information for all our development and redevelopment projects in North America as of September 30, 2018 (dollars in thousands):

Property/Submarket	Our Ownership Interest		Book Value	Square Footage		Intermediate-Term Projects	Future	Total ⁽¹⁾
				Projected Deliveries 2018	2019			
Greater Boston								
Undergoing construction								
399 Binney (Alexandria Center® at One Kendall Square)/Cambridge	100	%	\$140,071	164,000	—	—	—	164,000
266 and 275 Second Avenue/Route 128	100	%	10,215	31,858	—	—	—	31,858
Intermediate-term development								
325 Binney Street/Cambridge	100	%	97,484	—	—	208,965	—	208,965
Future development								
Alexandria Technology Square®/Cambridge	100	%	7,787	—	—	—	100,000	100,000
100 Tech Drive/Route 128	100	%	—	—	—	—	300,000	300,000
Other value-creation projects	100	%	13,205	—	—	—	405,599	405,599
			268,762	195,858	—	208,965	805,599	1,210,422
San Francisco								
Undergoing construction								
1655 and 1725 Third Street/Mission Bay/SoMa	10.0	%	—	(2)	—	593,765	—	593,765
213 East Grand Avenue/South San Francisco	100	%	208,561	—	300,930	—	—	300,930
279 East Grand Avenue/South San Francisco	100	%	80,770	—	211,405	—	—	211,405
681 Gateway Boulevard/South San Francisco	100	%	48,461	—	142,400	—	—	142,400
Menlo Gateway/Greater Stanford	33.7	%	—	(2)	—	520,988	—	520,988
Alexandria PARC/Greater Stanford	100	%	33,412	—	48,547	—	—	48,547
Intermediate-term development								
88 Bluxome Street/Mission Bay/SoMa	100	%	173,338	—	—	1,070,925	(1)	1,070,925
505 Brannan Street, Phase II/Mission Bay/SoMa	99.7	%	16,263	—	—	165,000	—	165,000
201 Haskins Way/South San Francisco	100	%	46,159	—	—	280,000	—	280,000
960 Industrial Road/Greater Stanford	100	%	79,659	—	—	533,000	(1)(3)	533,000
	100	%	123,986	—	—	530,000	—	530,000

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825 and 835 Industrial Road/Greater Stanford Future development East Grand Avenue/South San Francisco	100	%	5,988	—	—	—	90,000	90,000
Other value-creation projects	100	%	1,944	—				