

ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-K
February 05, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

95-4502084

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

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

(Address of principal executive offices) (Zip code)

(626) 578-0777

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth 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

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

The aggregate market value of the shares of Common Stock held by non-affiliates of registrant was approximately \$13.0 billion based on the closing price for such shares on the New York Stock Exchange on June 29, 2018.

As of January 15, 2019, 112,728,422 shares of common stock were outstanding.

Documents Incorporated by Reference

Part III of this annual report on Form 10-K incorporates certain information by reference from the registrant’s definitive proxy statement to be filed within 120 days of the end of the fiscal year covered by this annual report on Form 10-K in connection with the registrant’s annual meeting of stockholders to be held on or about May 9, 2019.

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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
FDIC	Federal Deposit Insurance Corporation
FFO	Funds From Operations
GAAP	U.S. Generally Accepted Accounting Principles
GRESB	Global Real Estate Sustainability Benchmark
HVAC	Heating, Ventilation, and Air Conditioning
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IRS	Internal Revenue Service
JV	Joint Venture
LEED®	Leadership in Energy and Environmental Design
LIBOR	London Interbank Offered Rate
Nareit	National Association of Real Estate Investment Trusts
NAV	Net Asset Value
NYSE	New York Stock Exchange
REIT	Real Estate Investment Trust
RSF	Rentable Square Feet/Foot
SEC	Securities and Exchange Commission
SF	Square Feet/Foot
SoMa	South of Market submarket of San Francisco
U.S.	United States
VIE	Variable Interest Entity

PART I

Certain information and statements included in this annual report on Form 10-K, including, without limitation, statements containing the words “forecast,” “guidance,” “goals,” “projects,” “estimates,” “anticipates,” “believes,” “expects,” “may,” “plans,” “seeks,” “should,” or “will,” or the negative of these words or similar words, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, results of operations, and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by the forward-looking statements, including, but not limited to, the description of risks and uncertainties in “Item 1A. Risk Factors” in this annual report on Form 10-K. Additional information regarding risk factors that may affect us is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K. Readers of our annual report on Form 10-K should also read our SEC and other publicly filed documents for further discussion regarding such factors.

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

ITEM 1. BUSINESS

Overview

We are a Maryland corporation, formed in October 1994, that has elected to be taxed as a REIT for federal income tax purposes. We are an S&P 500[®] company and an urban office REIT uniquely focused on collaborative life science and technology campuses in AAA innovation cluster locations. We consider AAA locations to be highly desirable for tenancy by life science and technology entities because of their close proximity to concentrations of specialized skills, knowledge, institutions, and related businesses. Such locations are generally characterized by high barriers to entry for new landlords, high barriers to exit for tenants, and a limited supply of available space. Founded in 1994, Alexandria pioneered this niche and has since established a significant market presence in key locations, including Greater Boston, San Francisco, New York City, San Diego, Seattle, Maryland, and Research Triangle Park.

Alexandria develops dynamic urban cluster campuses and vibrant ecosystems that enable and inspire the world’s most brilliant minds and innovative companies to create life-changing scientific and technological breakthroughs. We believe in the utmost professionalism, humility, and teamwork. Alexandria manages its properties through fully integrated regional teams with real estate, life science, and technology expertise. Our tenants include multinational pharmaceutical companies; public and private biotechnology companies; life science product, service, and medical device companies; digital health, and technology companies; academic and medical research institutions; U.S. government research agencies; non-profit companies; and venture capital firms. Alexandria has a longstanding and proven track record of developing Class A properties clustered in urban life science and technology campuses that provide its 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 risk capital to transformative life science and technology companies through its venture capital arm. We believe our unique business model and diligent underwriting ensure a high-quality and diverse tenant base that should result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value.

As of December 31, 2018, Alexandria’s total market capitalization was \$18.4 billion and our asset base in North America consisted of 33.1 million SF. The asset base in North America includes 22.4 million RSF of operating

properties and 3.9 million RSF of development and redevelopment of new Class A properties currently undergoing construction and pre-construction activities with target delivery dates ranging from 2019 through 2020. Additionally, the asset base in North America includes 6.8 million SF of intermediate-term and future development projects. These operating properties and development projects include 11 properties that are held by consolidated real estate joint ventures and six properties that are held by unconsolidated real estate joint ventures. The occupancy percentage of our operating properties in North America was 97.3% as of December 31, 2018. Our 10-year average occupancy rate of operating properties as of December 31, 2018, was 96%. Investment-grade or publicly traded large cap tenants represented 52% of our annual rental revenue in effect as of December 31, 2018. Additional information regarding our consolidated and unconsolidated real estate joint ventures is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K. Additional information regarding risk factors that may affect us is

included in “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K.

Business objective and strategies

Our primary business objective is to maximize long-term asset value and shareholder returns based on a multifaceted platform of internal and external growth. A key element of our strategy is our unique focus on Class A properties clustered in urban campuses located in AAA innovation cluster locations. 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.

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

Acquisitions

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

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

Development, pre-construction, and redevelopment

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

We seek to meet growing demand from our stakeholders and continuously improve the efficiency of our buildings. We have committed to significant building goals to promote wellness and productivity for our buildings’ occupants, including targeting a minimum of LEED® Gold certification on all new ground-up construction projects.

Pre-construction activities include entitlements, permitting, design, site work, and other activities preceding commencement of construction of aboveground building improvements, which are focused on reducing the time required to deliver projects to prospective tenants. These critical activities add significant value to our future ground-up development and are required for the vertical construction of buildings. We normally do not commence vertical construction of new projects prior to achieving significant pre-leasing.

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

Non-real estate investments

We also hold equity investments in publicly traded companies, limited partnerships, and privately held entities primarily involved in the life science and technology industries. We invest in highly innovative entities whose focus on the development of therapeutic products that advance health and transform patients' lives is aligned with Alexandria's purpose of making a positive and meaningful impact on the health, safety, and well-being of the global community. Our status as a REIT limits our ability to make such non-real estate investments. Therefore, we conduct, and will continue to conduct, our non-real estate investment activities in a manner that complies with REIT requirements.

Balance sheet and financial strategy

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

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

Realizing contractual rental rate escalations; and

- Implementing effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures.

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Competition

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

Financial information about our reportable segment

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

Regulation

General

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

Americans with Disabilities Act

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

Environmental matters

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

industrial and other purposes, so those properties may contain some level of environmental contamination. The presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability or may materially adversely affect our ability to sell, lease, or develop the real estate or to borrow using the real estate as collateral.

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

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

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

Insurance

With respect to our properties, we carry commercial general liability, all-risk property, and business interruption insurance, including loss of rental income coverage. We select policy specifications and insured limits that we believe to be appropriate given the relative risk of loss, the cost of the coverage, and industry practice. In our opinion, the properties in our portfolio are currently adequately insured. In addition, we have obtained earthquake insurance for certain properties located in the vicinity of known active earthquake zones in an amount and with deductibles we believe are commercially reasonable. We also carry environmental insurance and title insurance policies on our properties. We generally obtain our title insurance policies when we acquire the property, with each policy covering an amount equal to the initial purchase price of each property. Accordingly, any of our title insurance policies may be in an amount less than the current value of the related property. Additional information regarding risk factors that may affect us is included in "Item 1A. Risk Factors" in this annual report on Form 10-K.

Available information

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

Employees

As of December 31, 2018, we had 386 employees. We believe that we have good relations with our employees. We have adopted a Business Integrity Policy that applies to all of our employees. Its receipt and review by each employee is documented and verified annually.

ITEM 1A. RISK FACTORS

Forward-looking statements

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

Operating factors

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

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

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

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

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

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

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

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

We may fail to obtain the financial results expected from development or redevelopment projects.

There are significant risks associated with development and redevelopment projects, including the possibility that:

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

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

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

If we default under the terms of a ground lease obligation, we may lose the ownership rights to the property subject to the lease. Upon expiration of a ground lease and all of its options, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase in rental expense could

have a material adverse effect on our financial condition, results of operations, and cash flows, and our ability to satisfy our debt service obligations and pay distributions to our stockholders, as well as the market price of our common stock. Refer to “Ground Lease Obligations” in the “Sources and Uses of Capital” section under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this annual report on Form 10-K for additional information on our ground lease obligations.

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

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

Our properties may not perform as we expect;

We may have to lease space at rates below our expectations;

We may not be able to obtain financing on acceptable terms; and

We may underestimate the cost of improvements required to maintain or improve space to meet standards established for the market position intended for that property.

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

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

As of December 31, 2018, we had several consolidated and unconsolidated real estate joint ventures in which we shared ownership and decision-making power with one or more parties. Our joint venture partners must agree in order for the applicable joint venture to take specific major actions, including budget approvals, acquisitions, sales of assets, debt financing, execution of lease agreements, and vendor approvals. Under these joint venture arrangements, any disagreements between us and our partners may result in delayed decisions. Our inability to take unilateral actions that we believe are in our best interests may result in missed opportunities and an ineffective allocation of resources and could have an adverse effect on the financial performance of the joint venture and our operating results.

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

Our properties are subject to increases in operating expenses, including insurance, property taxes, utilities, administrative costs, and other costs associated with security, landscaping, and repairs and maintenance of our properties. As of December 31, 2018, approximately 97% of our leases (on an RSF basis) were triple net leases, which require tenants to pay substantially all real estate and other rent-related taxes, insurance, utilities, common area expenses, and other operating expenses (including increases thereto) in addition to base rent.

Our operating expenses may increase as a result of tax reassessments that our properties are subject to on a regular basis (e.g., annually, triennially, etc.), which normally result in increases in property taxes over time as property values increase. In California, however, pursuant to the existing state law commonly referred to as Proposition 13, properties are reassessed to market value only at the time of change in ownership or completion of construction, and thereafter, annual property reassessments are limited to 2% of previously assessed values. As a result, Proposition 13 generally results in significant below-market assessed values over time. From time to time, including recently, lawmakers and political coalitions have initiated efforts to repeal or amend Proposition 13 to eliminate its application to commercial and industrial properties. If successful, a repeal of Proposition 13 could substantially increase the assessed values and property taxes for some of our properties in California.

In addition, in June 2018, San Francisco voters approved a commercial rent tax measure, which establishes a new 3.5% gross receipts tax rate on rental revenues received by landlords of commercial properties within the city of San Francisco effective January 1, 2019. Following the election, business organizations challenged this measure in the California Superior Court in San Francisco, asserting that the new tax, which passed by a simple majority, required a two thirds majority to pass under state law. This dispute had not been resolved as of the scheduled effective date of the

new 3.5% gross receipts tax, and the measure went into effect on January 1, 2019. The new gross receipts tax results in an incremental tax liability imposed on our commercial properties in the city of San Francisco, specifically in our Mission Bay/SoMa submarket of San Francisco. Unless the court rules in favor of the plaintiff (the dispute was still ongoing as of the date of this report), we expect an increase in the range from \$3.7 million to \$4.6 million in our rental operating expenses associated with the operations of our commercial properties in the City of San Francisco. Approximately 90% of the incremental tax expense is expected to be recoverable from our tenants and will be included in our rental revenues.

Our triple net leases allow us to pass through, among other costs, substantially all real estate and rent-related taxes to our tenants in the form of additional rent. We cannot be certain that we will be able to continue to negotiate pass-through provisions

related to taxes in tenant leases in the future, which could lead to a decrease in our tenant recovery revenue. If our operating expenses increase without a corresponding increase in revenues, our profitability could diminish. In addition, we cannot be certain that increased costs will not lead our current or prospective tenants to seek space outside of the city of San Francisco and the state of California, which could significantly hinder our ability to increase our rents or to maintain existing occupancy levels. A repeal of Proposition 13 in California and a new 3.5% gross receipts tax rate in the city of San Francisco may significantly increase occupancy costs for some of our tenants and may adversely impact their financial condition, ability to make rental payments and ability to renew lease agreements, which in turn could adversely affect our financial condition, results of operations, cash flows, and our ability to make distributions to our stockholders.

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

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

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

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

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

Our revenues are derived primarily from rental payments and reimbursement of operating expenses under our leases. If our tenants, especially significant tenants, fail to make rental payments under their leases, our financial condition, cash flows, and ability to make distributions to our stockholders could be adversely affected. Additionally, the inability of the U.S. Congress to enact a budget for a fiscal year or the occurrence of partial or complete U.S. government shutdowns may result in financial difficulties for tenants that are dependent on federal funding, which could adversely affect the ability of those tenants to pay us rent.

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

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

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

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

Our properties may have defects that are unknown to us.

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

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

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses, and bacteria. Indoor exposure to airborne toxins or irritants above certain levels may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants, and others if property damage or health concerns arise.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Restrict our ability to incur additional indebtedness;
- Restrict our ability to make certain investments;
- Restrict our ability to merge with another company;
- Restrict our ability to make distributions to our stockholders;

Require us to maintain financial coverage ratios; and
Require us to maintain a pool of qualified unencumbered assets.

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

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

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

- Our cash flows from operations may not be sufficient to meet required payments of principal and interest;
- We may be forced to dispose of one or more of our properties, possibly on disadvantageous terms, to make payments on our debt;
- If we default on our debt obligations, the lenders or mortgagees may foreclose on our properties that secure those loans;
- A foreclosure on one of our properties could create taxable income without any accompanying cash proceeds to pay the tax;
- A default under a loan that has cross-default provisions may cause us to automatically default on another loan or interest rate hedge agreement;
- We may not be able to refinance or extend our existing debt;
- The terms of any refinancing or extension may not be as favorable as the terms of our existing debt;
- We may be subject to a significant increase in the variable interest rates on our unsecured senior line of credit, unsecured senior bank term loan, and certain other borrowings, which could adversely impact our cash flows and operations; and
- The terms of our debt obligations may require a reduction in our distributions to stockholders.

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

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

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

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

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

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

Market volatility may negatively affect our business.

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

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

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

- The status of the economy;
- The status of capital markets, including availability and cost of capital;
- Changes in financing terms available to us;
- Negative developments in the operating results or financial condition of tenants, including, but not limited to, their ability to pay rent;
- Our ability to re-lease space at similar rates as vacancies occur;
- Our ability to reinvest sale proceeds in a timely manner at rates similar to the rate at which assets are sold;
- Regulatory approval and market acceptance of the products and technologies of tenants;
- Liability or contract claims by or against tenants;
- Unanticipated difficulties and/or expenditures relating to future acquisitions;
- Environmental laws affecting our properties;
- Changes in rules or practices governing our financial reporting; and
- Other legal and operational matters, including REIT qualification and key management personnel recruitment and retention.

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

The price per share of our stock may fluctuate significantly.

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

- The availability and cost of debt and/or equity capital;
- The condition of our balance sheet;
- Actual or anticipated capital requirements;
- The condition of the financial and banking industries;
- Actual or anticipated variations in our quarterly operating results or dividends;
- The amount and timing of debt maturities and other contractual obligations;
- Changes in our net income, funds from operations, or projections;
-

The publication of research reports and articles about us, our tenants, the real estate industry, or the life science and technology industries;

• The general reputation of REITs and the attractiveness of their equity securities in comparison to other debt or equity securities (including securities issued by other real estate-based companies);

• General stock and bond market conditions, including changes in interest rates on fixed-income securities, that may lead prospective stockholders to demand a higher annual yield from future dividends;

• Fluctuations from general market volatility;

• Changes in our analyst ratings;

• Changes in our corporate credit rating or credit ratings of our debt or other securities;

- Changes in market valuations of similar companies;
- Adverse market reaction to any additional debt we incur in the future;
- Additions, departures, or other announcements regarding our key management personnel;
- Actions by institutional stockholders;
- Speculation in the press or investment community;
- Terrorist activity adversely affecting the markets in which our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;
- Government regulatory action and changes in tax laws;
- Fiscal policies or inaction at the U.S. federal government level which may lead to federal government shutdowns or negative impacts on the U.S. economy;
- The realization of any of the other risk factors included in this annual report on Form 10-K; and
- General market and economic conditions.

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

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

We cannot predict the effect, if any, of future sales of shares of our common stock or the market price of our common stock. Sales of substantial amounts of capital stock (including the conversion or redemption of preferred stock), or the perception that such sales may occur, could adversely affect prevailing market prices for our common stock. Refer to “Other Sources” in the “Sources and Uses of Capital” subsection of the “Capital Resources” section under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this annual report on Form 10-K.

We have reserved a number of shares of common stock for issuance to our directors, officers, and employees pursuant to our Amended and Restated 1997 Stock Award and Incentive Plan (sometimes referred to herein as our “equity incentive plan”). We have filed a registration statement with respect to the issuance of shares of our common stock pursuant to grants under our equity incentive plan. In addition, any shares issued under our equity incentive plan will be available for sale in the public market from time to time without restriction by persons who are not our “affiliates” (as defined in Rule 144 adopted under the Securities Act of 1933, as amended). Affiliates will be able to sell shares of our common stock subject to restrictions under Rule 144.

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

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

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

Our distributions to stockholders may decline at any time.

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

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

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

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

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

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

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

- Adverse effects of changes in exchange rates for foreign currencies;
- Challenges and/or taxation with respect to the repatriation of foreign earnings or repatriation of proceeds from the sale of one or more of our foreign investments;
- Changes in foreign political, regulatory, and economic conditions, including nationally, regionally, and locally;
- Challenges in managing international operations;
- Challenges in hiring or retaining key management personnel;
- Challenges of complying with a wide variety of foreign laws and regulations, including those relating to real estate, corporate governance, operations, taxes, employment, and legal proceedings;
- Differences in lending practices;
- Differences in languages, cultures, and time zones;
- Changes in applicable laws and regulations in the U.S. that affect foreign operations;
- Future partial or complete U.S. federal government shutdowns, trade disagreements with other countries, or uncertainties that could affect business transactions within the U.S. and with foreign entities;
- Changes in tax and local regulations with potentially adverse tax consequences and penalties; and
- Foreign ownership and transfer restrictions.

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

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

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

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

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

- Upon bankruptcy of non-wholly owned partnerships, limited liability companies, or joint venture entities, we may become liable for the liabilities of the partnership, limited liability company, or joint venture;

- We may share certain approval rights over major decisions with third parties;

- We may be required to contribute additional capital if our partners fail to fund their share of any required capital contributions;

- Our partners, co-members, or joint venture partners might have economic or other business interests or goals that are inconsistent with our business interests or goals and that could affect our ability to lease or re-lease the property, operate the property, or maintain our qualification as a REIT;

- Our ability to sell the interest on advantageous terms when we so desire may be limited or restricted under the terms of our agreements with our partners; and

- We may not continue to own or operate the interests or assets underlying such relationships or may need to purchase such interests or assets at an above-market price to continue ownership.

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

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

We hold equity investments in certain publicly traded companies, limited partnerships, and privately held entities primarily involved in the life science and technology industries. The valuation of these investments is affected by many external factors beyond our control, including, but not limited to, market prices, market conditions, the effect of healthcare reform legislation, prospects for favorable or unfavorable clinical trial results, new product initiatives, the manufacturing and distribution of new products, product safety and efficacy issues, and new collaborative agreements. In addition, partial or complete future government shutdowns that may result in temporary closures of agencies such as the FDA and SEC may adversely affect the processing of initial public offerings, business operations, financial results, and funding for projects of the companies in which we hold equity investments. Unfavorable developments

with respect to any of these factors may have an adverse impact on the valuation of our equity investments.

Market and other external factors may negatively impact the liquidity of our equity investments.

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

We face risks associated with short-term liquid investments.

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

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

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

Our insurance may not adequately cover all potential losses.

If we experience a loss at any of our properties that is not covered by insurance, that exceeds our insurance policy limits, or that is subject to a policy deductible, we could lose the capital invested in the affected property and, possibly, future revenues from that property. In addition, we could continue to be obligated on any mortgage indebtedness or other obligations related to the affected properties. All properties carry comprehensive liability, fire, extended coverage, and rental loss insurance with respect to our properties, including properties partially owned through joint ventures that are managed by our joint venture partners.

We have obtained earthquake insurance for our properties that are located in the vicinity of active earthquake zones in an amount and with deductibles we believe are commercially reasonable. However, a significant portion of our real estate portfolio is located in seismically active regions, such as San Francisco, San Diego, and Seattle, and a damaging earthquake in any of these regions could significantly impact multiple properties. As a result, the amount of our earthquake insurance coverage may be insufficient to cover our losses, and aggregate deductible amounts may be material, which could adversely affect our business, financial condition, results of operations, and cash flows. We also carry environmental insurance and title insurance policies for our properties. We generally obtain our title insurance policies when we acquire a property, with each policy covering an amount equal to the initial purchase price of each property. Accordingly, any of our title insurance policies may be in an amount less than the current value of the related property.

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

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

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

Competition for skilled personnel could increase labor costs.

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

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

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

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

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

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

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

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

From time to time, we dispose of properties in transactions qualified as Section 1031 Exchanges. If a transaction intended to qualify as a Section 1031 Exchange is later determined by the IRS to be taxable or if we are unable to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange or if the laws surrounding Section 1031 Exchanges are amended or repealed, we may not be able to dispose of properties on a tax deferred basis. In such a case, our earnings and profits and our taxable income would increase, which could increase the dividend income and reduce the return of capital to our stockholders. As a result, we may be required to

pay additional dividends to stockholders, or if we do not pay additional dividends, our corporate income tax liability could increase and we may be subject to interest and penalties.

We may not be able to participate in certain sales that the IRS characterizes as “prohibited transactions”. The tax imposed on REITs engaging in prohibited transactions is a 100% tax on net income from the transaction. Generally, “prohibited transactions” are sales or other dispositions of property, other than foreclosures, characterized as held primarily for sale to customers in the ordinary course of business. A sale will not be considered a prohibited transaction if it meets certain safe harbor requirements. Otherwise, whether or not the transaction is characterized as a prohibited transaction is a factual matter. Although we do not intend to participate in prohibited transactions, there is no guarantee that the IRS would agree with our characterization of our properties or that we will meet the safe harbor requirements.

Federal income tax rules are constantly under review by Congress and the IRS. Changes to tax laws could adversely affect our investors or our tenants, and we cannot predict how those changes may affect us in the future. New legislation, U.S. Treasury Department regulations, administrative interpretations, or court decisions could significantly and negatively affect our ability to qualify as a REIT, the federal income tax consequences of such qualification, or an investment in our stock. Also, laws relating to the tax treatment of investment in other types of business entities could change, making an investment in such other entities more attractive relative to an investment in a REIT.

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

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

We rely on a limited number of vendors to provide utilities and certain other services at our properties, and disruption in these services may have a significant adverse effect on our business operations, financial condition, and cash flows.

We rely on a limited number of vendors to provide key services, including, but not limited to, utilities and construction services at certain of our properties. Our business and property operations may be adversely affected if key vendors fail to adequately provide key services at our properties, as a result of natural disasters (such as fires, floods, earthquakes, etc.), power interruptions, bankruptcies, war, acts of terrorism, public health emergencies, cyber-attacks or other unanticipated catastrophic events. If a vendor encounters financial difficulty such as bankruptcy or other events beyond our control that causes it to fail to adequately provide utilities, construction, or other important services, we may experience significant interruptions in service and disruptions to business operations at our properties, incur remediation costs, and become subject to claims and damages to our reputation.

In addition, difficulties encountered by key vendors in providing necessary services at our properties could result in a significant market rate increases for such services. Our triple net leases allow us to pass through substantially all operating expenses and certain capital expenditures to our tenants in the form of additional rent. However, we cannot be certain that we will be able to continue to negotiate pass-through provisions in tenant leases in the future, which could lead to a decrease in our recovery of operating expenses. If our operating expenses increase without a corresponding increase in revenues, our profitability could diminish. In addition, we cannot be certain that increased costs will not lead our current or prospective tenants to seek space elsewhere, which could significantly hinder our ability to increase our rents or to maintain existing occupancy levels. Additionally, this may significantly increase occupancy costs for some of our tenants and may adversely impact their financial condition, ability to make rental payments, and ability to renew their lease agreements.

On January 29, 2019, in response to potential liabilities arising from a series of catastrophic wildfires that occurred in Northern California in 2017 and 2018, PG&E Corporation and its regulated utility subsidiary, Pacific Gas and Electric Company (together, "PG&E"), initiated voluntary reorganization proceedings under Chapter 11 of the U.S. Bankruptcy Code. PG&E is the primary public utility company providing electrical and gas service to residential and commercial customers in northern California, including the San Francisco Bay Area. Most of our properties located in our San Francisco market depend on PG&E for the delivery of these essential services. PG&E has stated that it does not expect any impact to electric or natural gas service for its customers as a result of the Chapter 11 proceedings. While bankruptcies of utilities as large and complex as PG&E are relatively infrequent, based on the experience in other large utility bankruptcy proceedings (including PG&E's own previous Chapter 11 proceedings in 2001-2004) and the course of Chapter 11 practice generally, we currently consider it highly unlikely that utility service disruptions will

occur as a result of the PG&E bankruptcy proceedings. However, in the unexpected event that such service disruptions were to occur at our properties in connection with the bankruptcy proceedings and continue for an extended period, they could result in adverse consequences to us similar to those described earlier in this risk factor.

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

We may change our business policies without stockholder approval.

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

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

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

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

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

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

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

The constructive ownership rules are complex and may cause shares of our common stock owned directly or constructively by a group of related individuals or entities to be constructively owned by one individual or entity. A transfer of shares to a person who, as a result of the transfer, violates these limits shall be void or these shares shall be exchanged for shares of excess stock and transferred to a trust for the benefit of one or more qualified charitable organizations designated by us. In that case, the intended transferee will have only a right to share, to the extent of the transferee's original purchase price for such shares, in proceeds from the trust's sale of those shares and will effectively forfeit its beneficial ownership of the shares. These ownership limits could delay, defer, or prevent a transaction or a change in control that might involve a premium price for the holders of our common stock or that might otherwise be desired by such holders.

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

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

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

Market and industry factors

We face substantial competition in our target markets.

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

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

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

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

Our properties are primarily located in the following markets:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

sometimes included reduced allocations to the NIH and other U.S. government agencies that fund research and development activities. Additionally, the inability of the U.S. Congress to enact a budget for a fiscal year or the occurrence of partial or complete U.S. federal government shutdowns may result in temporary closures of agencies such as the Food and Drug Administration (the “FDA”) or National Institutes of Health (the “NIH”), which could adversely affect business operations of our tenants who are dependent on government approvals and appropriations. Any shift away from funding of research and development or delays surrounding the approval of government budget proposals may adversely impact our tenants’ operations, which in turn may impact their demand for office/laboratory and tech office space and their ability to make lease payments to us and thus adversely impact our results of operations.

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

High levels of regulation

Some of our tenants develop and manufacture drugs that require regulatory approval, including approval from the FDA, prior to being made, marketed, sold, and used. The regulatory approval process to manufacture and market drugs is costly, typically takes several years, requires validation through clinical trials and the use of substantial resources, and is often unpredictable. A tenant may fail to obtain or may experience significant delays in obtaining these approvals. Even if the tenant obtains regulatory approvals, marketed products will be subject to ongoing regulatory review and potential loss of approvals.

The ability of some of our tenants to commercialize any future products successfully will depend in part on the coverage and reimbursement levels set by government authorities, private health insurers, and other third-party payers. Additionally, reimbursements may decrease in the future.

Failures in the safety and efficacy of their products

Some of our tenants developing potential products may find that their products are not effective, or even are harmful, when tested in humans.

Some of our tenants depend upon the commercial success of certain products. Even if a product made by a tenant is successfully developed and proven safe and effective in human clinical trials, and the requisite regulatory approvals are obtained, subsequent discovery of safety issues with these products could cause product liability events, additional regulatory scrutiny and requirements for additional labeling, loss of approval, withdrawal of products from the market, and the imposition of fines or criminal penalties.

A drug made by a tenant may not be well accepted by doctors and patients, or may be less effective or accepted than a competitor’s drug, even if it is successfully developed.

The negative results of safety signals arising from the clinical trials of the competitors of our tenants may prompt regulatory agencies to take actions that may adversely affect the clinical trials or products of our tenants.

Significant funding requirements for product research and development

Some of our tenants require significant funding to develop and commercialize their products and technologies, which funding must be obtained from venture capital firms; private investors; the public markets; companies in the life science industry; or federal, state, and local governments. Such funding may become unavailable or difficult to obtain. The ability of each tenant to raise capital will depend on its financial and operating condition, viability of their products, and the overall condition of the financial, banking, and economic environment, as well as government budget policies.

Even with sufficient funding, some of our tenants may not be able to discover or identify potential drug targets in humans, or potential drugs for use in humans, or to create tools or technologies that are commercially useful in the discovery or identification of potential drug targets or drugs.

Some of our tenants may not be able to successfully manufacture their drugs economically, even if such drugs are proven through human clinical trials to be safe and effective in humans.

Marketed products also face commercialization risk, and tenants may never realize projected levels of product utilization or revenues.

Negative news regarding the products, the clinical trials, or other business developments of our tenants may cause their stock price or credit profile to deteriorate.

Changes in technology, patent expiration, and intellectual property protection

Our tenants sell products and services in an industry that is characterized by rapid and significant technological changes, frequent new product and service introductions and enhancements, evolving industry standards, and uncertainty over the implementation of new healthcare reform legislation, which may cause them to lose competitive positions and adversely affect their operations.

Some of our tenants and their licensors require patent, copyright, or trade secret protection to develop, make, market, and sell their products and technologies. A tenant may be unable to commercialize its products or technologies if patents covering such products or technologies are not issued or are successfully challenged, narrowed, invalidated, or circumvented by third parties, or if the tenant fails to obtain licenses to the discoveries of third parties necessary to commercialize its products or technologies.

Many of our tenants depend upon patents to provide exclusive marketing rights for their products. As their product patents expire, competitors of these tenants may be able to legally produce and market products similar to those products of our tenants, which could have a material adverse effect on their sales and results of operations.

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

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

Uncertain regulatory environment

Laws and regulations governing the Internet, e-commerce, electronic devices, and other services are evolving. Existing and future laws and regulations and the halting of operations at certain agencies resulting from partial or complete U.S. federal government shutdowns may impede the growth of our technology industry tenants. These laws and regulations may cover, among other areas, taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, business licensing, and consumer protection.

Rapid technological changes

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

Dependency on the maintenance and security of the Internet infrastructure

Some of our tenants depend on continued and unimpeded access to the Internet by users of their products and services, as well as access to mobile networks. Internet service providers and mobile network operators may be able to block, degrade, or charge additional fees to these tenants or users.

The Internet has experienced, and is likely to continue to experience, outages and other delays. These outages and delays, as well as problems caused by cyber attacks and computer malware, viruses, worms, and similar programs, may materially affect the ability of our technology industry tenants to conduct business.

Security breaches or network attacks may delay or interrupt the services provided by our tenants and could harm their reputations or subject them to significant liability.

Significant funding requirements for product research and development

Some of our tenants require significant funding to develop and commercialize their products and technologies, which funding must be obtained from venture capital firms; private investors; the public markets; companies in the technology industry; or federal, state, and local governments. Such funding may become unavailable or difficult to obtain. The ability of each tenant to raise capital will depend on its financial and operating condition, viability of their products, and the overall condition of the financial, banking, governmental budget policies, and economic environment.

Even with sufficient funding, some of our tenants may not be able to discover or identify potential customers or may not be able to create tools or technologies that are commercially useful.

Some of our tenants may not be able to successfully manufacture their products economically.

Marketed products also face commercialization risk, and some of our tenants may never realize projected levels of product utilization or revenues.

Unfavorable news regarding the products or other business developments of our tenants may cause their stock price or credit profile to deteriorate.

Inadequate intellectual property protections

The products and services provided by some of our tenants are subject to the threat of piracy and unauthorized copying, and inadequate intellectual property laws and other inadequate protections could prevent them from enforcing or defending their proprietary technologies. These tenants may also face legal risks arising out of user-generated content.

Trademark, copyright, patent, domain name, trade dress, and trade secret protection is very expensive to maintain and may require our technology industry tenants to incur significant costs to protect their intellectual property rights.

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

Government factors

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

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

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

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

The Budget Control Act of 2011 provided for a reduction of \$1.1 trillion of U.S. federal government discretionary spending over the succeeding decade (later extended through 2023) through a series of automatic, across-the-board spending cuts known as sequestration. Sequestration went into effect on March 1, 2013, and will remain in effect in the absence of further legislative action.

The U.S. federal government has established a limit on the level of federal debt that the U.S. federal government can have outstanding, often referred to as the debt ceiling. The U.S. Congress has authority to raise or suspend the debt ceiling and to approve the funding of U.S. federal government operations within the debt ceiling, and has done both frequently in the past, often on a relatively short-term basis. Following a three-day partial shutdown of the U.S. federal government in January 2018, the U.S. Congress extended the government funding deadline to February 8, 2018. On February 9, 2018, the U.S. President signed the Bipartisan Budget Act of 2018, which temporarily suspended the statutory debt limit through March 1, 2019. Absent an increase in, or further suspensions to, the debt ceiling subsequent to March 1, 2019, the U.S. federal government may partially or completely shut down and/or default on its existing loans as a result of reaching the debt ceiling. If legislation to increase the debt ceiling is not enacted and the debt ceiling is reached, the federal government may stop or delay making payments on its obligations. A failure by the U.S. Congress to raise the debt limit to the extent necessary would increase the risk of default by the U.S. on its obligations, the risk of a lowering of the credit rating of the U.S. federal government, and the risk of other economic dislocations. If the U.S. government fails to complete its budget process, another federal government shutdown may result. Such a failure, or the perceived risk of such a failure could consequently have a material adverse effect on the financial markets and economic conditions in the U.S. and throughout the world.

An inability of the U.S. federal government to manage its fiscal matters, reduce the duration and scope of sequestration, or manage its debt may result in the loss of economic confidence domestically and globally, reduce investment spending, increase borrowing costs, impact availability and cost of capital, and significantly hinder or reduce economic activity. Furthermore, a failure by the U.S. federal government to enact appropriate fiscal legislation may significantly impact the national and global economic and financial environment and affect our business and the businesses of our tenants. In December 2018, the U.S. Congress failed to enact a budget for the upcoming fiscal year's government operations and the President rejected a stopgap funding bill to fund the government into early 2019, which resulted in a partial government shutdown that began on December 22, 2018. The shutdown affected certain key agencies at the federal government level, resulting in partial closures of operations. The shutdown ended on January 25, 2019, when the President signed a bill to temporarily reopen the government through February 15, 2019, during which further negotiations are expected. If a resolution is not agreed upon, it is possible a second partial government shutdown may occur. If economic conditions severely deteriorate as a result of government fiscal gridlock, our tenants' operations could be adversely affected, which may adversely impact our financial condition and results of operations. These risks may also impact our overall liquidity, our borrowing costs, or the market price of our common stock.

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

The U.S. Federal Reserve has been gradually increasing the target range for the federal funds rate. In December 2017, the U.S. Federal Reserve increased the federal funds rate to a range from 1.25% to 1.50%. During each quarter of 2018, the U.S. Federal Reserve increased the federal funds rate by 25 bps per quarter. As of December 31, 2018, the federal funds rate was set at a range from 2.25% to 2.50% and the U.S. Federal Reserve reiterated its intention to continue to raise the federal funds rate over time. The continuing increase in targeted federal funds rate will likely result in an increase in market interest rates, which may increase our interest expense under our unhedged

variable-rate borrowings and the costs of refinancing existing indebtedness or obtaining new debt. In addition, increases in market interest rates may result in a decrease in the value of our real estate and a decrease in the market price of our common stock. Increases in market interest rates may also adversely affect the securities markets generally, which could reduce the market price of our common stock without regard to our operating performance. Any such unfavorable changes to our borrowing costs and stock price could significantly impact our ability to raise new debt and equity capital going forward.

Changes to the U.S. tax laws could have a significant negative impact on the overall economy, our tenants, and our business.

On December 20, 2017, the House of Representatives and the Senate passed a tax reform bill, which the U.S. President signed into law on December 22, 2017 (the “Tax Reform Legislation”). Among other things, the Tax Reform Legislation:

- Restricted the deductibility of interest expense by businesses (generally, to 30% of the business’ adjusted taxable income) except, among others, real property businesses electing out of such restriction; generally, we expect our business to qualify as a real property business, but businesses conducted by our taxable REIT subsidiaries may not qualify;
- Required real property businesses to use the less favorable alternative depreciation system to depreciate real property in the event businesses elect to avoid the interest deduction restriction above;
- Restricted the benefits of like-kind exchanges that defer capital gains for tax purposes to exchanges of real property;
- Required accrual method taxpayers to take certain amounts in income no later than the taxable year in which such income is taken into account as revenue in an applicable financial statement prepared under GAAP, which, with respect to certain leases, could accelerate the inclusion of rental income; and
- Generally allowed a deduction for individuals equal to 20% of certain income from pass-through entities, including ordinary dividends distributed by a REIT (excluding capital gain dividends and qualified dividend income).

Many of the provisions in the Tax Reform Legislation expire at the end of 2025.

The Tax Reform Legislation was a far-reaching and complex revision to the existing U.S. federal income tax laws with disparate and, in some cases, countervailing impacts on different categories of taxpayers and industries and will require subsequent rulemaking and interpretation in a number of areas. As a result, the long-term impact of the Tax Reform Legislation on the overall economy, government revenues, our tenants, us, and the real estate industry cannot be reliably predicted. Furthermore, the Tax Reform Legislation may negatively impact certain of our tenants’ operating results, financial condition, and future business plans. The Tax Reform Legislation may also result in reduced government revenues, and therefore reduced government spending, which may negatively impact some of our tenants that rely on government funding. There can be no assurance that the Tax Reform Legislation will not negatively impact our operating results, financial condition, and future business operations.

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

The FDA and comparable agencies in other jurisdictions directly regulate many critical activities of life science, technology, and healthcare industries, including the conduct of preclinical and clinical studies, product manufacturing, advertising and promotion, product distribution, adverse event reporting, and product risk management. In both domestic and foreign markets, sales of products depend in part on the availability and amount of reimbursement by third-party payers, including governments and private health plans. Governments may regulate coverage, reimbursement, and pricing of products to control cost or affect utilization of products. Private health plans may also seek to manage cost and utilization by implementing coverage and reimbursement limitations. Substantial uncertainty exists regarding the reimbursement by third-party payers of newly approved healthcare products. The U.S. and foreign governments regularly consider reform measures that affect healthcare coverage and costs. Such reforms may include changes to the coverage and reimbursement of healthcare services and products. In particular, there have been recent judicial and Congressional challenges to the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act (collectively, the “ACA”), which could have an impact on coverage and reimbursement for healthcare terms and services covered by plans authorized by the ACA. During 2017 several attempts were made to amend the ACA; however, no amendment proposal gained the 50-vote support from the U.S. Senate needed to pass a repeal bill. As a result, in October 2017, The U.S. President issued an Executive Order

“Promoting Healthcare Choice and Competition Across the United States.” We do not know how our tenants will be affected (if at all) by this new executive order. Government and other regulatory oversight and future regulatory and government interference with the healthcare systems may adversely impact our tenants’ businesses and our business.

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

U.S. government tenants are subject to government funding. If one or more of our U.S. government tenants fail to receive anticipated appropriations, we may not be able to collect rental amounts due to us. A significant reduction in federal government spending, particularly a sudden decrease due to the recent tax reform or to a sequestration process, which has occurred in recent years, could also adversely affect the ability of these tenants to fulfill lease obligations or decrease the likelihood that they will renew their leases with us. In addition, recent budgetary pressures have resulted in, and may continue to result in, reduced allocations to government agencies that fund research and development activities, such as the National Institutes of Health (“NIH”). For example, the NIH budget has been, and may continue to be, significantly impacted by the sequestration provisions of the Budget Control Act of 2011, which became effective on March 1, 2013. Past proposals to reduce budget deficits have included reduced NIH and other research and development budgets. Any shift away from the funding of research and development or delays surrounding the approval of government budget proposals may cause our tenants to default on rental payments or delay or forgo leasing our rental space, which could adversely affect our business, financial condition, or results of operations. Additionally, the inability of the U.S. Congress to enact a budget for a fiscal year or the occurrence of partial or complete U.S. federal government shutdowns could adversely impact demand for our services by limiting federal funding available to our tenants and their customers. In addition, defaults under leases with U.S. government tenants are governed by federal statute and not by state eviction or rent deficiency laws. As of December 31, 2018, leases with U.S. government tenants at our properties accounted for approximately 1.5% of our aggregate annual rental revenue in effect as of December 31, 2018.

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

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

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

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

The ability of the FDA, the NIH, and other government agencies to properly administer their functions is highly dependent on the levels of government funding and the ability to fill key leadership appointments, among various factors. Delays in filling or replacing key positions could significantly impact the ability of the FDA, the NIH, and other agencies to fulfill their functions and could greatly impact healthcare and the drug industry.

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

However, any future government proposals to reduce or eliminate budgetary deficits may include reduced allocations to the FDA, the NIH, and other related government agencies. These budgetary pressures may result in a reduced ability by the FDA and the NIH to perform their respective roles and may have a related impact on academic institutions and research laboratories whose funding is fully or partially dependent on both the level and the timing of funding from government sources.

In December 2018, the U.S. Congress failed to enact a budget for the upcoming fiscal year's government operations and the U.S. President rejected a stopgap funding bill to fund the government into early 2019, which resulted in a partial government shutdown that took place from December 22, 2018 through January 25, 2019. During this period, the FDA and certain other science agencies temporarily shut down select non-essential operations. The FDA maintained only operations deemed to be essential public health-related functions and halted the acceptance of new medical product applications and routine regulatory and compliance work for medical products and certain drugs and foods during the shutdown. The shutdown ended on January 25, 2019, when the President signed a bill to temporarily reopen the government through February 15, 2019, during which further negotiations are expected. If a resolution is not agreed upon, it is possible a second partial government shutdown may occur.

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

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

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

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

The provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") may subject us to substantial additional federal regulation and may adversely affect our business, results of operations, cash flows, or financial condition.

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

provisions of the Dodd-Frank Act that directly affect other participants in the real estate and capital markets, such as banks, investment funds, and interest rate hedge providers, could have indirect, but material, impacts on our business. The U.S. President has also proposed to repeal certain provisions of the Dodd-Frank Act. Given the uncertainty associated with the Dodd-Frank Act itself and the manner in which its provisions are implemented by various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our future operations is unclear. The provisions of the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, or otherwise adversely affect our business in general.

The ongoing implementation of derivatives regulations could have an adverse impact on our ability to hedge risks associated with our business.

Title VII of the Dodd-Frank Act regulates derivatives transactions, which include certain instruments that we use in our risk management activities. It remains impossible at this time to predict the full effects on our hedging activities of the derivatives-related provisions of the Dodd-Frank Act and rules of the Commodity Futures Trading Commission (“CFTC”) and SEC thereunder, or the timing of such effects. While the CFTC has implemented most of its derivatives-related regulations under the Dodd-Frank Act, it has not yet adopted certain of those regulations. In addition, CFTC Chairman J. Christopher Giancarlo has stated his view that certain existing CFTC regulations for swaps should be revised, including, without limitation, certain CFTC rules pertaining to swaps that are traded on swap execution facilities. The impact of any future new or revised CFTC derivatives regulations, or new or revised CFTC interpretations of existing regulations, is unknown, but they could result in, among other things, increases in the costs to us of swaps and other derivatives contracts, and decreases in the number and/or creditworthiness of available hedge counterparties. Furthermore, at this time the SEC’s regulations for security-based swaps have generally not yet been implemented and their potential impact on our ability to hedge risks cannot yet be known.

In addition, we may enter into hedging transactions with counterparties based in the EU, Canada, or other jurisdictions which, like the U.S., are in the process of implementing regulations for derivatives. Non-U.S. regulations may apply to such derivatives transactions. The potential impact of such non-U.S. regulations is not fully known and may include, among other things, increased costs for our hedging transactions.

Global factors

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

What began initially in 2007 and 2008 as a “subprime” mortgage crisis turned into an extraordinary U.S. and worldwide structural economic and financial crisis, coupled with the rapid decline of the consumer economy. From 2008 through 2010, significant concerns over energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, and a declining real estate market in the U.S. contributed to increased volatility, diminished expectations for the economy and the markets, and high levels of structural unemployment by historical standards. These factors, combined with volatile oil prices and fluctuating business and consumer confidence, precipitated a steep economic decline. From 2011 through 2018, the U.S. economy showed significant signs of improvement, but other economies around the world, including Latin America, continue to demonstrate sluggish, stagnant, or slowing growth. Further, severe financial and structural strains on the banking and financial systems have led to significant lack of trust and confidence in the global credit and financial system. Consumers and money managers have liquidated and may liquidate equity investments, and consumers and banks have held and may hold cash and other lower-risk investments, which has resulted in significant and, in some cases, catastrophic declines in the equity capitalization of companies and failures of financial institutions. Although U.S. bank earnings and liquidity are on the rebound, the potential of significant future bank credit losses creates uncertainty for the lending outlook.

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

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

Standard & Poor’s Ratings Services lowered its long-term sovereign credit rating on the U.S. from “AAA” to “AA+” in August 2011. Although Standard & Poor’s Ratings Services maintains a stable outlook on the U.S. credit rating, further

fiscal impasses within the federal government may result in future downgrades. The impact of any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions.

In addition, certain European nations experienced in the recent past varying degrees of financial stress, including Greece, Ireland, Italy, Portugal, and Spain. Although these economies are continuing to recover or have already gone through a gradual recovery, we do not know whether the economic growth will be slowed by the prospect of Brexit or whether the prior sovereign financial difficulties within the EU governments will reemerge with a higher degree of negative impact to the financial markets. Market concerns over the direct and indirect exposure of European banks and insurers to these EU peripheral nations have resulted in a widening of credit spreads and increased costs of funding for some EU financial institutions. There can be no assurance that government or other measures to aid economic recovery will be effective.

These developments, and concerns over the U.S. government's fiscal policies in general, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, the lowered credit rating could create broader financial turmoil and uncertainty, which may exert downward pressure on the market price of our common stock. Continued adverse economic conditions could have a material adverse effect on our business, financial condition, and results of operations.

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

During 2018, global growth weakened, trade tensions heightened, and several developing economies, most notably Argentina and Turkey, experienced financial trouble, soaring inflation and interest rates, and a significant depreciation of local currencies. Economies of developing countries like Venezuela remain in a long-term crisis with current political turmoil exacerbating their economic problems and rendering a bleak near-term outlook. Policies of advanced economies have a profound effect on emerging markets and ramifications of any trade war involving an advanced economy, like of that between the U.S. and China, could further contribute to the adverse economic and political conditions of emerging and other developed economies. In addition, there are ongoing security concerns about North Korea's nuclear weapons and ballistic missile capabilities, uncertainty regarding North Korea's actions, its relations with the U.S. and the international community in general, which have created a global security issue that may adversely affect international business and economic conditions.

It is not possible to predict to what extent regional economic and political instability of emerging economies or trade conflicts may negatively impact other developing or developed economies around the world, including the U.S. If these macroeconomic and political issues are not managed appropriately, they could lead to currency devaluation, sovereign debt increases, banking crises, and other financial and political turmoil and uncertainty. Continued adverse economic conditions could have a material adverse effect on our business, financial condition, and results of operations.

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

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

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

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

have proceedings brought by, their regulators or law enforcement agencies in the future. If manipulation of LIBOR occurred, it may have resulted in LIBOR having been artificially lower (or higher) than it would otherwise have been. Any such manipulation could have occurred over a substantial period of time.

On September 28, 2012, British regulators published a report on the review of LIBOR. The report concluded that LIBOR should be retained as a benchmark but recommended a comprehensive reform of LIBOR, including replacing the BBA with a new independent administrator of LIBOR. Based on this report, final rules for the regulation and supervision of LIBOR by the Financial Conduct Authority (“FCA”) were published and came into effect on April 2, 2013 (the “FCA Rules”). In particular, the FCA Rules include requirements that (i) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior and (ii) firms submitting data to LIBOR establish and maintain a clear conflict-of-interest policy and appropriate systems and controls. In response, ICE Benchmark Administration Limited (“IBA”) was appointed as the independent LIBOR administrator, effective in early 2014. It is not possible to predict the effect of the FCA Rules,

any changes in the methods pursuant to which LIBOR is determined, the administration of LIBOR by IBA, and any other reforms to LIBOR that will be enacted in the United Kingdom and elsewhere. In addition, any changes announced by the FCA, the BBA, IBA, or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which LIBOR is determined, as well as manipulative practices or the cessation thereof, may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the level of the index. Fluctuation or discontinuation of LIBOR would affect our interest expense and earnings and the fair value of certain of our financial instruments. We rely on interest rate hedge agreements to mitigate our exposure to such interest rate risk on a portion of our debt obligations. However, there is no assurance these arrangements will be effective in reducing our exposure to changes in interest rates.

In addition, in November 2014, the U.S. Federal Reserve established a working group composed of large U.S. financial institutions, the Alternative Reference Rates Committee (“ARRC”), to identify a set of alternative interest reference rates to LIBOR. In a May 2016 interim report, the ARRC narrowed its choice to two LIBOR alternatives. The first choice was the Overnight Bank Funding Rate (“OBFR”), which consists of domestic and foreign unsecured borrowing in U.S. dollars. The U.S. Federal Reserve has been calculating and publishing the OBFR since March 2016. The second alternative rate to LIBOR was the Treasury General Collateral Rate, which is composed of repo transactions secured by treasuries or other assets accepted as collateral by the majority of intermediaries in the repo market.

In June 2017, the ARRC selected the Secured Overnight Financing Rate (“SOFR”), a new index calculated by reference to short-term repurchase agreements backed by Treasury securities, as its preferred replacement for U.S. dollar LIBOR. SOFR is observed and backward looking, which stands in contrast to LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Given that SOFR is a secured rate backed by government securities, it does not take into account bank credit risk (as is the case with LIBOR). SOFR is therefore likely to be lower than LIBOR and is less likely to correlate with the funding costs of financial institutions. The first publication of SOFR was released by the Federal Reserve Bank of New York in April 2018. Although daily pricing resets for SOFR have been noted to be more volatile than that of LIBOR, especially at month end, there is no sufficient evidence to establish how SOFR volatility compares to that of LIBOR. Whether or not SOFR attains market acceptance as a LIBOR replacement tool remains in question. As such, the future of LIBOR and potential alternatives at this time remains uncertain.

On July 27, 2017, the FCA announced that it would phase out LIBOR as a benchmark by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. When LIBOR ceases to exist, we may need to amend the credit and loan agreements with our lenders that utilize LIBOR as a factor in determining the interest rate based on a new standard that is established, if any. The transition to an alternative rate will require careful and deliberate consideration and implementation so as to not disrupt the stability of financial markets. There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have an adverse effect on our business, results of operations, financial condition, and stock price.

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

On July 23, 2014, the SEC adopted rules to make structural and operational reforms to address risks of investor runs in money market funds. These changes affect prime money market funds, which invest in corporate debt securities, differently than they do government money market funds, which invest in securities that are collateralized solely by government securities. The rules require a floating net asset value for institutional prime money market funds and also allow the funds to impose liquidity fees and redemption gates to further prevent large-scale investor runs. The rules provided for a two-year transition period that expired on October 15, 2016. In anticipation of this change, a substantial amount of assets across the broader market previously invested in prime money market funds had been moved to

government money market funds, causing a reduction in the availability of bank unsecured funding for European and non-U.S. banks. Government money market funds are not available to foreign banks for their dollar-funding needs. As the transition deadline neared and passed, a supply-and-demand mismatch for dollar funds emerged from foreign banks, causing LIBOR to increase significantly. There can be no assurance that LIBOR will stabilize subsequent to the transition period for these new regulations or whether there will be continued pressure on LIBOR or significant volatility in LIBOR. Any volatility in LIBOR would affect our interest expense and earnings and the fair value of certain of our financial instruments. We rely on interest rate hedge agreements to mitigate our exposure to such interest rate risk on a portion of our debt obligations. However, there is no assurance these arrangements will be effective in reducing our exposure to fluctuations in interest rates.

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

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

Since approving the Basel III Standards, U.S. regulators have also issued rules that impose upon the most systemically significant banking organizations in the U.S. supplementary leverage ratio standards (the “SLR Standards”) more stringent than those of the Basel III Standards. In addition, the Federal Reserve Board has adopted a final rule that establishes a methodology to identify whether a U.S. bank holding company is a global systemically important banking organization (“GSIB”). Any firm identified as a GSIB would be subject to a risk-based capital surcharge that is calibrated based on its systemic risk profile. Under the final rule, the capital surcharge began phasing in on January 1, 2016, and will become fully effective on January 1, 2019.

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

U.S. regulators have also issued and proposed rules that impose additional restrictions on the business activities of financial institutions, including their trading and investment activities. For example, in December 2013, U.S. regulators adopted a final rule implementing a section of the Dodd-Frank Act that has become known as the “Volcker Rule.” The Volcker Rule generally prohibits certain U.S. and foreign financial institutions from investing in or sponsoring “covered funds,” which include private equity funds or hedge funds and certain other proprietary activities. The effects of the Volcker Rule are uncertain, but it is in any event likely to curtail various banking activities, which in turn could result in uncertainties in the financial markets.

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

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

On January 20, 2017, Donald J. Trump was inaugurated as the president of the U.S. As a presidential candidate, Mr. Trump expressed apprehension toward existing trade agreements, such as the North American Free Trade Agreement, and has imposed significant increases on tariffs on goods imported into the U.S., particularly from China, Mexico, and Canada. Mr. Trump has also spearheaded significant efforts to repeal and replace the ACA, and government negotiation/regulation of drug prices paid by government programs. Any changes in U.S. social, political, regulatory and economic conditions or laws and policies governing the health care system and drug prices, foreign trade, manufacturing, and development and investment in the territories and countries where we or our tenants operate could

adversely affect our operating results and our business.

According to a consensus of all U.S. government intelligence agencies, state-sponsored Russian operatives interfered with the recent U.S. presidential election of 2016. In May 2017, a special counsel was appointed to investigate this matter and to determine whether the Trump campaign or any individuals associated with such campaign colluded with the Russians. The mandate of the special counsel allows this investigation to scrutinize other areas that may be related to the Russian interference. At least four Congressional committees are also investigating this matter and have interviewed witnesses in both open and closed sessions in order to determine the extent of the Russian meddling in the U.S. election, the vulnerability of the U.S. election system to future attacks by Russian or other state operatives, and the extent, if any, to which Mr. Trump and his campaign colluded with the Russian government in order to mislead the American electorate. As these investigations proceed and the facts become clearer to the American people and the capital markets, it is uncertain the extent to which this will affect economic conditions or distract Congress from other endeavors.

Additionally, on June 23, 2016, the U.K. held a referendum and voted in favor of leaving the EU (known as “Brexit”). The U.K. government initiated the official EU withdrawal process on March 29, 2017, and the exit from the EU is expected to occur by the end of March 2019. However, the Prime Minister has had difficulty negotiating and passing a withdrawal agreement through the members of Parliament. If an agreement can be passed by March 29, 2019, there will be a transition period through December 2020 to allow for businesses and individuals to adjust to its changes. Otherwise, the U.K. must leave the EU without an agreement or transition period in place. This Brexit decision has created political and economic uncertainty, particularly in the U.K. and the EU, and this uncertainty may last for years. Our business could be affected during this period of uncertainty, and perhaps longer, by the impact of the U.K. referendum. In addition, our business could be negatively affected by new trade agreements between the U.K. and other countries, including the U.S., and by the possible imposition of trade or other regulatory barriers in the U.K. These possible negative impacts, and others resulting from the U.K.’s actual or threatened withdrawal from the EU, may adversely affect our operating results and our tenants’ businesses.

Other factors

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

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

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

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

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

In the commercial real estate sector in which we operate, the uncertainties posed by various initiatives of accounting standard-setting authorities to fundamentally rewrite major bodies of accounting literature constitute a significant

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

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

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

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

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

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

For example, the California Safe Drinking Water and Toxic Enforcement Act, also referred to as Proposition 65, requires "clear and reasonable" warnings be given to persons who are exposed to chemicals known to the State of California to cause cancer or reproductive toxicity. We believe that we comply with Proposition 65 requirements; however, there can be no assurance that we will not be adversely affected by litigation or regulatory enforcement relating to Proposition 65. In addition, there can be no assurance that the costs of compliance with new environmental laws and regulations will not be significant or will not adversely affect our ability to meet our financial expectations, our financial condition, results of operations, and cash flows.

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

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

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

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

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

We may incur significant costs in complying with environmental laws.

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

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

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

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

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

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

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

Additional investigations have included, as appropriate:

- Asbestos surveys;
- Radon surveys;
- Lead-based paint surveys;
- Mold surveys;
- Additional public records review;

Subsurface sampling; and
Other testing.

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

Environmental, health or safety matters are subject to evolving regulatory requirements. Costs and capital expenditures relating to the evolving requirements depend on the timing of the promulgation and enforcement of new standards. Due to concern over the risks of climate change, a more restrictive regulatory framework to reduce greenhouse gas pollution might be implemented, including the adoption of carbon taxes, restrictive permitting, and increased efficiency standards. These requirements could make our operations more expensive and lengthen our project times. The costs of complying with evolving regulatory requirements, including greenhouse gas regulations and policies, could negatively impact our financial results. Moreover, changes in environmental

regulations could inhibit or interrupt our operations, or require modifications to our facilities. Accordingly, environmental, health or safety regulatory matters could result in significant unanticipated costs or liabilities and could have a material adverse effect on our business, financial condition, results of operations, cash flows, and the market price of our common stock.

We may be unable to meet our sustainability goals.

We seek to make a positive and meaningful impact on the health, safety, and well-being of our tenants, stockholders, employees, and the communities in which we live and work. In support of these efforts, we set specific sustainability goals to reduce the environmental impact of buildings in operation and for new ground-up construction projects. There are significant risks that may prevent us from achieving these goals, including the possibility that:

• Change in market conditions may affect our ability to deploy capital for projects that reduce energy consumption, greenhouse gas pollution and potable water consumption, and provide waste savings.

• Our tenants might be unwilling or unable to accept potential incremental expenses associated with our sustainability programs, including expenses to comply with requirements stipulated under building certification standards such as LEED, WELL, and Fitwel.

The realization of any of the above risks could significantly impact our reputation, our ability to continue developing properties in markets where high levels of LEED certification contribute to our efforts to obtain building permits and entitlements, and our ability to attract tenants who include LEED certification among their priorities when selecting a location to lease.

We may invest or spend the net proceeds from the offering of our unsecured senior notes payable due in 2024 in ways with which investors may not agree and in ways that may not earn a profit.

The net proceeds from the offering of our unsecured senior notes payable due in 2024 (“the 2024 notes”) will be used to fund, in whole or in part, Eligible Green Projects (as defined below), including the development and redevelopment of such projects. The net proceeds from this offering were initially used to reduce the outstanding balance on our unsecured senior line of credit. We then allocated the funds to recently completed and future Eligible Green Projects.

There can be no assurance that the projects funded with the proceeds from the 2024 notes will meet investor criteria and expectations regarding environmental impact and sustainability performance. In particular, no assurance is given that the use of such proceeds for any Eligible Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own bylaws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Eligible Green Projects). Adverse environmental or social impacts may occur during the design, construction and operation of the projects or the projects may become controversial or criticized by activist groups or other stakeholders. In addition, although we will limit the use of proceeds from the 2024 notes to Eligible Green Projects, there can be no assurance that one or more development, redevelopment and tenant improvement projects that we expect will receive a LEED certification will actually receive such certification.

“Eligible Green Projects” are defined as:

• New class A development properties that have received or are expected to receive Gold or Platinum LEED certification;

• Existing class A redevelopment properties that have received or are expected to receive Gold or Platinum LEED certification; and

• Tenant improvements that have received or are expected to receive Gold or Platinum LEED certification.

Eligible Green Projects include projects with disbursements made in the three years preceding the issue date of the 2024 notes. We intend to spend the remaining net proceeds from the sale of the 2024 notes within two years following issuance of the 2024 notes. LEED is a voluntary, third party building certification process developed by the U.S. Green Building Council (“USGBC”), a non-profit organization. The USGBC developed the LEED certification process to (i) evaluate the environmental performance from a whole-building perspective over a building’s life cycle, (ii) provide a definitive standard for what constitutes a “green building,” (iii) enhance environmental awareness among architects and building contractors, and (iv) encourage the design and construction of energy-efficient, water-conserving buildings that use sustainable or green resources and materials.

Changes in U.S. accounting standards may adversely impact us.

The regulatory boards and government agencies that determine financial accounting standards and disclosures in the U.S., which include the FASB and the IASB (collectively, the “Boards”) and the SEC, continually change and update the financial accounting standards we must follow.

In February 2016, the Boards issued an ASU that changes certain aspects of accounting for leases for both lessees and lessors. Since then, several additional ASUs have been issued to clarify implementation issues, which became effective for us on January 1, 2019. These ASUs could have a material effect on our financial condition or results of operations, which in turn could also significantly impact the market price of our common stock. Such potential impacts include, without limitation:

- Significant changes to our balance sheet relating to the recognition of operating leases as assets or liabilities based on existing lease terms and whether we are the lessor or lessee;

- Significant changes in the timing of revenue recognition (related to lease arrangements in which we are the lessor) or expense recognition (related to the lease arrangements in which we are the lessee) stemming from the potential classification of financing or sales-type leases under the new ASU, for leases that are classified as operating leases under the current accounting standards;

- Significant fluctuations in our reported results of operations, including an increase in our expenses related to amortization of new lease-related assets and/or liabilities and assumed interest costs with leases;

- Significant fluctuations in our reported results of operations, including an increase in our general and administrative expenses related to payroll costs, legal costs, and other out-of-pocket costs incurred as part of the leasing process prior to the execution of a lease that no longer qualifies for capitalization as initial direct costs and instead are expensed as incurred; and

- Significant fluctuations in our reported results of operations that may result from the classification of future ground leases as finance leases rather than operating leases. Prior to January 1, 2019, the effective date of the new lease ASUs, all ground leases were accounted for as operating leases, with ground lease payments straight-lined over the term of the ground lease. Under the new lease accounting, ground leases can qualify for classification as finance leases, which are recognized in operating results using an effective interest method. The classification of ground leases as operating leases or finance leases may result in different timing of expense recognition over the term of the ground leases.

In addition, the new accounting updates could make leasing/re-leasing of our space less attractive to our potential and current tenants, which could reduce overall occupancy of our properties. Under the lease guidance effective prior to January 1, 2019, our tenants did not reflect operating leases with us as a liability on their balance sheets, but only provided a disclosure of future minimum payments associated with the operating lease in the footnotes to their financial statements. The new lease standard will require that lessees record on their balance sheets their rights and obligations pertaining to operating leases with a term of over 12 months. Changes in lease accounting standards could potentially impact the structure and terms of future leases since our tenants may seek to limit lease terms to avoid recognizing lease obligations in their financial statements. The new rules may also make lease renewal options less attractive because, under certain circumstances, the rules will require a tenant to assume that a renewal right will be exercised and accrue a liability relating to the longer lease term. Shorter lease terms and a reduction in RSF leased may lead to reduction in occupancy rates and decline in rental revenue, which would have an adverse effect on our results of operations.

Furthermore, in January 2016, the FASB issued an ASU that amended the accounting for certain equity investments. The update became effective for us on January 1, 2018. The core principle of the ASU involves the measurement of equity investments at fair value and the recognition of changes in fair value of those investments during each reporting period in net income. This ASU increased the volatility of our earnings during the year ended December 31, 2018, and is expected to continue introducing volatility to our results of operations, as a result of new guidance requiring us to

immediately recognize in net income (i) unrealized gains and losses on our equity investments and (ii) impairments deemed not to be other than temporary under the previous guidance. The increased volatility of our earnings could adversely affect investors and analysts' ability to form reliable expectations of our future performance, which could negatively impact analysts' "buy," "sell," or "hold" recommendations for our common stock. Therefore, our share price could be negatively affected by causes beyond our control.

Any difficulties in the implementation of changes in accounting principles, particularly for the new leases ASUs, including the ability to modify our accounting systems and to update our policies, procedures, information systems, and internal controls over financial reporting, could result in materially inaccurate financial statements, which in turn could harm our operating results or cause us to fail to meet our reporting obligations. Significant changes in the new lease ASUs could cause fluctuations in revenue and expense recognition and materially affect our results of operations. We also anticipate an increase to our general and administrative

expenses resulting from the expensing of initial direct costs that no longer qualify for capitalization. This could adversely affect our reported results of operations, profitability, and financial statements. Additionally, the adoption of new accounting standards could also affect the calculation of our debt covenants. It cannot be assured that we will be able to work with our lenders to successfully amend our debt covenants in response to changes in accounting standards.

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

In December 2018, the U.S. Congress failed to enact a budget for the upcoming fiscal year's government operations and the President rejected a stopgap funding bill to fund the government into early 2019, which resulted in a partial government shutdown that took place from December 22, 2018 to January 25, 2019. The shutdown ended on January 25, 2019, when the President signed a bill to temporarily reopen the government through February 15, 2019, during which further negotiations are expected. If a resolution is not agreed upon, it is possible a second partial government shutdown may occur. The shutdown had affected certain key agencies at the federal government level, including the SEC, which closed partial non-essential operations. The SEC operated limited functions to address emergency situations involving market integrity and investor protection. However, it suspended key functions, such as those related to enforcement actions and review of applications for initial public offerings. The closure, and future closures, of the SEC could result in uncertainty regarding regulatory actions, issuance of new or clarifications of existing rules and regulations, disruptions in the initial public offerings of companies, including those of our tenants and companies in which we hold equity investments, and investigations and enforcement actions by the SEC. The long term impacts resulting from a prolonged closure of the SEC and other similar agencies are uncertain and may adversely affect our business operations or our tenants and companies in which we hold equity investments.

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

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

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

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

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

Our unsecured senior notes payable contain financial covenants that are calculated based on GAAP at the date the instruments were issued. However, certain debt agreements, including those related to our unsecured senior line of credit and unsecured senior bank term loan, contain financial covenants whose calculations are based on current GAAP, which is subject to future changes. Our unsecured senior line of credit and unsecured senior bank term loan agreements provide that our financial debt covenants be renegotiated in good faith to preserve the original intent of the existing financial covenant when such covenant is affected by an accounting standard change. For those debt agreements that require the renegotiation of financial covenants upon changes in accounting standards, there is no assurance that we will be successful in such negotiations or that the renegotiated covenants will not be more restrictive to us.

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

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

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

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

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

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

Security incidents through cyber attacks, cyber intrusions, or other methods could disrupt our information technology networks and related systems, cause a loss of assets or loss of data, give rise to remediation or other expenses, expose us to liability under federal and state laws, and subject us to litigation and investigations, which could result in substantial reputational damage and materially and adversely affect our business, financial condition, results of operations, cash flows, and the market price of our common stock.

Information technology, communication networks, and related systems are essential to the operation of our business. We use these systems to manage our tenant and vendor relationships, internal communications, accounting and record-keeping systems, and many other key aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks, which also depend on the strength of our procedures and the effectiveness of our internal controls.

A security incident may occur through physical break-ins, breaches of our secure network by an unauthorized party, software vulnerabilities, malware, computer viruses, attachments to emails, employee theft or misuse, social engineering, or inadequate use of security controls. Outside parties may attempt to fraudulently induce our employees to disclose sensitive information or transfer funds via illegal electronic spamming, phishing, spoofing or other tactics. Additionally, cyber attackers can develop and deploy malware, credential theft or guessing tools, and other malicious software programs to gain access to sensitive data or fraudulently obtain assets we hold.

We have implemented security measures to safeguard our systems and data and to manage cyber security risk. We monitor and develop our information technology networks and infrastructure, and invest in the development and enhancement of our controls designed to prevent, detect, address, and mitigate the risk of unauthorized access, misuse, computer viruses, and other events that could have a security impact. We conduct periodic security awareness trainings of our employees to educate on how to identify and alert the management to phishing emails, spoofed or

manipulated electronic communications, and other critical security threats. We've implemented internal controls around our treasury function including enhanced payment authorization procedures, verification requirements for new vendor set-up and vendor information changes, and bolstered outgoing payment notification process and account reconciliation procedures.

While, to date, we are not aware of having experienced a significant security incident or cyber attack, there can be no assurance that our actions, security measures, and controls designed to prevent, detect, or respond to intrusion; to limit access to data; to prevent loss, destruction, alteration, or exfiltration of business information; or to limit the negative impact from such attacks can provide absolute security against a security incident. A significant security incident involving our information systems or those of our tenants, vendors, software creators, cloud providers, or other third parties with whom we do business could lead to:

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- Theft of our cash, cash equivalents, or other liquid assets, including publicly traded securities;
- Interruption in the operation of our systems, which may result in operational inefficiencies and a loss of profits;
- Unauthorized access to, and destruction, loss, theft, misappropriation, or release of, proprietary, confidential, sensitive, or otherwise valuable information of ours or our tenants, and other business partners, which could be used to compete against us or for disruptive, destructive, or otherwise harmful purposes and outcomes;
- Inability to produce financial and operational data necessary to comply with rules and regulations from the Securities and Exchange Commission, the Internal Revenue Service, or other state and federal regulatory agencies;
- Our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- Significant management attention and resources required to remedy any damages that result;
- Significant exposure to litigation and regulatory fines, penalties or other sanctions;
- Violation of our lease agreements or other agreements;
- Damage to our reputation among our tenants, business partners, and investors;
- Loss of business opportunities; and
- Difficulties in employee retention and recruitment.

A principal reason that we cannot provide absolute protection from security incidents is that it may not always be possible to anticipate, detect, or recognize threats to our systems, or to implement effective preventive measures against all security incidents due to, among other things, the frequent change in techniques used in cyber attacks, which may not be recognized until launched, and the wide variety of sources from which a cyber attack can originate. We may not be able to immediately address the consequences of a security incident due to a cyber attack. A successful breach of our computer systems, software, networks, or other technology assets due to a cyber attack could occur and persist for an extended period of time before being detected due to, among other things:

- The breadth of our operations and the high volume of transactions that our systems process;
- The large number of our business partners; and
- The proliferation and increasing sophistication of cyber attacks.

The extent of a particular cyber attack and the steps that we may need to take to investigate the attack may not be immediately clear. Therefore, in the event of an attack, it may take a significant amount of time before such an investigation can be completed. During an investigation, we may not necessarily know the extent of the damage incurred or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, which could further increase the costs and consequences of a cyber attack.

Even if we are not targeted directly, cyber attacks on the U.S. government, financial markets, financial institutions, or other businesses, including our tenants, vendors, software creators, cloud providers, and other third parties with whom we do business, could disrupt our normal business operations and networks.

We maintain insurance to protect ourselves against certain losses incurred in the event of a security incident or disruption of our information systems. However, we cannot be certain that the coverage is adequate to compensate for all damages that may arise. In addition, we cannot be certain that such insurance options will remain available to us in the future on commercially reasonable terms, or at all.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

As of December 31, 2018, we had 237 properties in North America containing approximately 26.3 million RSF of operating properties and development and redevelopment of new Class A properties (under construction or pre-construction), including 11 properties that are held by consolidated real estate joint ventures and six properties that are held by unconsolidated real estate joint ventures. See our definitions of annual rental revenue and operating statistics in the “Non-GAAP Measures and Definitions” section under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this annual report on Form 10-K for a description of the basis used to compute the aforementioned measures. The occupancy percentage of our operating properties in North America was 97.3% as of December 31, 2018. The exteriors of our properties typically resemble traditional office properties, but the interior infrastructures are designed to accommodate the needs of life science and technology tenants. These improvements typically are generic rather than specific to a particular tenant. As a result, we believe that the improvements have long-term value and utility and are usable by a wide range of tenants. Improvements to our properties typically include:

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

As of December 31, 2018, we held a fee simple interest in each of our properties, with the exception of 29 properties in North America that accounted for approximately 12% of our total number of properties. Of these 29 properties, we held 16 properties in the Greater Boston market, six properties in the San Francisco market, two properties in the New York City market, two properties in the Seattle market, one property in the Maryland market, and two properties in the Research Triangle Park market pursuant to ground leasehold interests. During the year ended December 31, 2018, our ground lease rental expense aggregated 1.5% as a percentage of net operating income. Refer to further discussion in our consolidated financial statements and notes thereto in “Item 15. Exhibits and Financial Statement Schedules” in this annual report on Form 10-K.

As of December 31, 2018, we had 708 leases with a total of 537 tenants, and 116, or 49%, of our 237 properties were single-tenant properties. Leases in our multi-tenant buildings typically have initial terms of four to 11 years, while leases in our single-tenant buildings typically have initial terms of 10 to 20 years. As of December 31, 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, common area expenses, and other operating expenses (including increases thereto) in addition to base rent;
- Approximately 95% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index; and
- Approximately 96% 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 leases also typically give us the right to review and approve tenant alterations to the property. Generally, tenant-installed improvements to the properties are reusable generic improvements and remain our property after termination of the lease at our election. However, we are permitted under the terms of most of our leases to require that the tenant, at its expense, remove certain non-generic improvements and restore the premises to their original condition.

Locations of properties

The locations of our properties are diversified among a number of life science and technology cluster markets. The following table sets forth the total RSF, number of properties, and annual rental revenue in effect as of December 31, 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	6,236,036	164,000	31,858	6,431,894	26 %	55	\$383,817	37 %	\$62.36
San Francisco	4,818,806	1,326,158	190,947	6,335,911	26	44	241,111	23	51.71
New York City	1,114,282	—	140,098	1,254,380	5	4	78,430	7	71.58
San Diego	4,776,849	—	—	4,776,849	20	58	172,025	16	38.05
Seattle	1,235,055	198,000	—	1,433,055	6	13	60,477	6	50.13
Maryland	2,509,994	—	55,347	2,565,341	10	37	67,820	6	28.04
Research Triangle Park	1,097,249	—	121,477	1,218,726	5	16	27,830	3	26.58
Canada	256,967	—	—	256,967	1	3	7,284	1	29.77
Non-cluster markets	314,315	—	—	314,315	1	7	7,158	1	28.82
North America	22,359,553	1,688,158	539,727	24,587,438	100%	237	\$1,045,952	100%	\$48.42
		2,227,885							

Summary of occupancy percentages in North America

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

Market	Operating Properties			Operating and Redevelopment Properties		
	12/31/18	12/31/17	12/31/16	12/31/18	12/31/17	12/31/16
Greater Boston	98.7 %	96.6 %	96.2 %	98.2 %	95.7 %	96.2 %
San Francisco	100.0	99.6	99.9	96.2	99.6	99.9
New York City	98.3	99.8	97.3	87.3	99.8	97.3
San Diego	94.7	94.5	94.3	94.7	90.9	90.4
Seattle	97.7	97.7	97.6	97.7	97.7	97.6
Maryland	96.8	95.2	95.8	94.7	93.2	95.8
Research Triangle Park	95.4	98.1	99.0	85.9	84.0	99.0
Subtotal	97.6	97.0	96.7	95.3	94.9	95.8
Canada	95.2	99.6	99.2	95.2	99.6	99.2
Non-cluster markets	79.0	78.4	87.7	79.0	78.4	87.7
North America	97.3 %	96.8 %	96.6 %	95.1 %	94.7 %	95.7 %

Refer to the “Non-GAAP Measures and Definitions” section under Item 7 of this annual report on Form 10-K for additional information.

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 3.6% of our annual rental revenue in effect as of December 31, 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 December 31, 2018 (dollars in thousands, except average 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 Takeda Pharmaceutical Company Ltd.	11.0	549,759	\$ 37,142	3.6%	Baa2	A-	\$ 35.3
2 Illumina, Inc.	11.6	891,495	34,830	3.3	—	BBB	\$ 42.1
3 Sanofi	9.2	494,693	30,324	2.9	A1	AA	\$ 105.2
4 Eli Lilly and Company	10.9	467,521	29,203	2.8	A2	AA-	\$ 101.2
5 Celgene Corporation ⁽³⁾	7.4	614,082	29,201	2.8	Baa2	BBB+	\$ 62.2
6 Novartis AG	8.1	361,180	27,724	2.7	A1	AA-	\$ 213.3
7 Bristol-Myers Squibb Company ⁽³⁾	10.4	378,295	26,746	2.6	A2	A+	\$ 94.4
8 Merck & Co., Inc.	12.1	454,752	25,439	2.4	A1	AA	\$ 171.3
9 Uber Technologies, Inc.	73.9 ⁽⁴⁾	422,980	22,197	2.1	—	—	\$ —
10 bluebird bio, Inc.	8.1	262,261	20,100	1.9	—	—	\$ 8.3
11 Moderna Therapeutics, Inc.	9.9	356,975	19,857	1.9	—	—	\$ 5.4
12 New York University	12.4	203,666	19,544	1.9	Aa2	AA-	\$ —
13 Roche	4.9	366,996	19,524	1.9	Aa3	AA	\$ 204.9
14 Stripe, Inc.	8.8	295,333	17,736	1.7	—	—	\$ —
15 Pfizer Inc.	5.8	416,226	17,410	1.7	A1	AA	\$ 230.0
16 Amgen Inc.	5.3	407,369	16,838	1.6	Baa1	A	\$ 125.9
17 Massachusetts Institute of Technology	6.5	256,126	16,729	1.6	Aaa	AAA	\$ —
18 Facebook, Inc.	11.4	382,883	16,262	1.6	—	—	\$ 495.6
19 United States Government	9.2	264,358	15,428	1.5	Aaa	AA+	\$ —
20 FibroGen, Inc.	4.9	234,249	14,198	1.4	—	—	\$ 4.4
Total/weighted average	12.3 ⁽⁴⁾	8,081,199	\$ 456,432	43.9%			

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

Based on aggregate annual rental revenue in effect as of December 31, 2018. Refer to the “Non-GAAP Measures (1) and Definitions” section under Item 7 of this annual report on Form 10-K for our methodology on annual rental revenue for unconsolidated properties.

- (2) Average daily market capitalization for the 12 months ended December 31, 2018. Refer to the “Non-GAAP Measures and Definitions” section under Item 7 of this annual report on Form 10-K for additional information. In January 2019, Bristol-Myers Squibb Company entered into a definitive agreement to acquire Celgene Corporation. The transaction is expected to close in the third quarter of 2019, subject to the approval of Bristol-Myers Squibb Company and Celgene Corporation shareholders. Our lease to Bristol-Myers Squibb Company at 1208 Eastlake Avenue East in our Lake Union submarket expired on December 31, 2018, and we have
- (3) re-leased 78% of the expired 97,366 RSF to a life science pharmaceutical company. Bristol-Myers Squibb Company also currently leases 106,003 RSF at 1201 Eastlake Avenue East in our Lake Union submarket that expires during the first half of 2019 and we have re-leased 100% of this RSF to an investment-grade institutional research center. Subsequent to the close of the transaction, our future remaining annual rental revenue from Bristol-Myers Squibb Company is expected to be approximately 4.7%.
- (4) 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 9.2 years as of December 31, 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 December 31, 2018. Refer to the "Non-GAAP Measures and Definitions" section under Item 7 of this annual report on Form 10-K for additional information.

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

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

49% from Uber Technologies, Inc., Stripe, Inc., and Pinterest, Inc.

12% 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 December 31, 2018. Refer to the "Non-GAAP Measures and Definitions" section under Item 7 of this annual report on Form 10-K for additional information.

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

Property listing

The following table provides certain information about our properties as of December 31, 2018 (dollars in thousands):

Market / Submarket / Address	RSF			Total	Number of Properties	Annual Rental Revenue	Occupancy Percentage	
	Operating	Development	Redevelopment				Operating	Operating and Redevelopment
Greater Boston								
Cambridge/Inner Suburbs								
Alexandria Center® at Kendall Square 50, 60, 75/125, and 100 Binney Street, 225 Binney Street ⁽¹⁾ , 161 First Street, 215 First Street, 150 Second Street, 300 Third Street, and 11 Hurley Street Alexandria Technology Square® 100, 200, 300, 400, 500, 600, and 700	2,365,487	—	—	2,365,487	10	\$162,570	98.8 %	98.8 %
Technology Square Alexandria Center® at One Kendall Square One Kendall Square – Buildings 100, 200, 300, 400, 500, 600/700, 1400, 1800, 2000, and 399	1,181,635	—	—	1,181,635	7	88,137	99.8	99.8
Binney Street 480 and 500 Arsenal Street	649,705	164,000	—	813,705	10	49,606	95.2	95.2
640 Memorial Drive	234,260	—	—	234,260	2	10,647	100.0	100.0
780 and 790 Memorial Drive	225,504	—	—	225,504	1	13,771	100.0	100.0
167 Sidney Street and 99 Erie Street	99,658	—	—	99,658	2	7,779	100.0	100.0
79/96 13th Street (Charlestown Navy Yard)	54,549	—	—	54,549	2	4,014	100.0	100.0
25,309	—	—	25,309	1	620	100.0	100.0	
Cambridge/Inner Suburbs	4,836,107	164,000	—	5,000,107	35	337,144	98.7	98.7
Seaport Innovation District								
99 A Street	8,715	—	—	8,715	1	850	100.0	100.0
Route 128								
Alexandria Park at 128	343,882	—	—	343,882	8	10,503	95.6	95.6

3 and 6/8 Preston Court, 29, 35, and 44 Hartwell Avenue, 35 and 45/47 Wiggins Avenue, and 60 Westview Street 225, 266, and 275 Second Avenue	285,759	—	31,858	317,617	3	12,328	100.0	90.0
100 Tech Drive	200,431	—	—	200,431	1	8,455	100.0	100.0
19 Presidential Way	144,892	—	—	144,892	1	5,134	96.8	96.8
100 Beaver Street	82,330	—	—	82,330	1	3,279	100.0	100.0
285 Bear Hill Road Route 128	26,270	—	—	26,270	1	1,167	100.0	100.0
Route 495	1,083,564	—	31,858	1,115,422	15	40,866	98.2	95.4
111 and 130 Forbes Boulevard	155,846	—	—	155,846	2	1,543	100.0	100.0
20 Walkup Drive	91,045	—	—	91,045	1	649	100.0	100.0
30 Bearfoot Road	60,759	—	—	60,759	1	2,765	100.0	100.0
Route 495	307,650	—	—	307,650	4	4,957	100.0	100.0
Greater Boston	6,236,036	164,000	31,858	6,431,894	55	\$383,817	98.7 %	98.2 %

(1) We own a partial interest in this property through a real estate joint venture. Refer to the “Joint Venture Financial Information” section under Item 7 of this annual report in Form 10-K for additional information.

Property listing (continued)

Market / Submarket / Address	RSF		Number of Properties	Occupancy Percentage	
	Operating	Redevelopment		Annual Rental Revenue	Operating and Redevelopment
San Francisco Mission Bay/SoMa 1655 and 1725 Third Street ⁽¹⁾	593,765	&#			