ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-K
March 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	95-4502084
(State or other jurisdiction of incorporation or organization)	(IRS Employer I.D. Number)

385 East Colorado Boulevard
Suite 299
Pasadena, California 91101

(Address of principal executive offices including zip code)

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

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 (Including related preferred stock purchase rights)	

9.10% Series B Cumulative Redeemable Preferred Stock	New York Stock Exchange
8.375% Series C Cumulative Redeemable Preferred Stock	New York Stock Exchange
	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x 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 x

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 Form10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the shares of Common Stock held by non-affiliates of registrant was approximately $2.3 billion based on the closing price for such shares on the New York Stock Exchange on June 30, 2006.

As of February 26, 2007, the registrant had outstanding 29,425,361 shares of Common Stock.

Documents Incorporated By Reference

Part III of this report 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 report in connection with the registrant's annual meeting of stockholders to be held on or about May 23, 2007.

PDF provided as courtesy

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PART I

This document contains 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. You can identify some of the forward-looking statements by the use of forward-looking words such as "believes", "expects", "may", "will", "should", "seeks", "intends", "plans", "estimates" or "anticipates", or the negative of these words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, those described below in this report and under the headings "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation". We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements contained in this or any other document, whether as a result of new information, future events or otherwise.

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

Item 1. Business

General

We are a Maryland corporation formed in October 1994 that has elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. We are engaged principally in the ownership, operation, management, selective redevelopment, development and acquisition of properties for the life sciences industry. Our properties are designed and improved for lease primarily to institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, life science product, service, biodefense and translational research entities, as well as governmental agencies. Our properties leased to tenants in the life science industry typically consist of buildings containing scientific research and development laboratories and other improvements that are generic to tenants operating in the life science industry. We refer to such properties as "life science properties". As of December 31, 2006, we had 159 properties (156 properties located in nine states in the United States and three properties located in Canada) with approximately 11.2 million rentable square feet of office/laboratory space plus 1.2 million square footage undergoing ground-up development and an imbedded pipeline for ground-up development of approximately 5.9 million additional rentable square feet.

Business and growth strategy

We focus our property operations and investment activities principally in the following life science markets:

- California - Los Angeles Metro;
- California - San Diego;
- California - San Francisco Bay;
- Eastern Massachusetts;
- International - Canada;
- New Jersey/Suburban Philadelphia;
- New York City;
- Southeast;
- Suburban Washington D.C.; and
- Washington - Seattle.

Our tenant base is broad and diverse within the life science industry 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, see "Item 2. Properties." We have an experienced Board of Directors and are led by a senior management team with extensive experience in both the real estate and life science industries.

We seek to maximize growth in funds from operations ("FFO") and cash available for distribution to our stockholders through the ownership, operation, management, selective redevelopment, development and acquisition of life science properties, as well as management of our balance sheet. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" for a discussion of how we compute and view FFO, as well as a discussion of other measures of cash flow. In particular, we seek to increase FFO and cash available for distribution by:

- redeveloping existing office, warehouse or shell space or newly acquired properties into generic laboratory space that can be leased at higher rental rates in our target life science cluster markets;
- selectively developing properties in our target life science cluster markets;
- acquiring high quality life science properties in our target life science cluster markets at prices that enable us to realize attractive returns;
- retenanting and re-leasing space at higher rental rates while minimizing tenant improvement costs;
- realizing contractual rental rate escalations, which are currently provided for in approximately 89% of our leases (on a square footage basis);
- implementing effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures; and
- maintaining a strong and flexible balance sheet.

We seek to achieve a significant component of our growth primarily from internal growth through selective redevelopment and development, favorable lease terms and successful leasing activity. In addition, our internal growth strategy is supplemented with external growth through selective acquisition of properties in our target life science cluster markets.

Internal growth

We seek to achieve internal growth from several sources. For example, we seek to:

- redevelop existing and/or newly acquired space to higher rent, generic laboratory space;
- develop office/laboratory properties;
- improve investment returns through leasing of vacant space and replacement of existing tenants with new tenants at higher rental rates;
- include rental rate escalation provisions in our leases;
- implement effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures; and
- achieve higher rental rates from existing tenants as existing leases expire.

Redevelopment

We seek to enhance our growth by redeveloping existing office, warehouse or shell space as generic laboratory space that can be leased at higher rates. As of December 31, 2006, we had approximately 613,000 rentable square feet undergoing redevelopment at 13 properties. In addition to properties undergoing redevelopment, as of December 31, 2006, our asset base contained imbedded opportunities for a future permanent change of use to office/laboratory space through redevelopment aggregating approximately 1.2 million rentable square feet.

Development

We seek to acquire strategic land parcels in key life science cluster markets to enhance our growth through ground-up development projects. Our development strategy is primarily to pursue selective projects where we expect to achieve investment returns that will equal or exceed our returns on acquisitions. We generally have undertaken ground-up development projects only if our investment in infrastructure will be substantially made for generic, rather than tenant specific, improvements. As of December 31, 2006, we had four parcels of land undergoing development for approximately 1,176,000 rentable square feet of office/laboratory space. In addition to properties undergoing development, as of December 31, 2006, our asset base contained strategically located land with ground-up development opportunities for approximately 5.9 million developable square feet of office/laboratory space.

Acquisitions

We seek to identify and acquire high quality life science properties in our target life science 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 properties, including:

- opportunities to redevelop existing space into higher rent generic laboratory space;
- opportunities to develop office/laboratory properties;
- location of the property and our strategy in the relevant market;
- quality of existing and prospective tenants;
- condition and capacity of the building infrastructure;
- quality and generic characteristics of laboratory facilities;
- physical condition of the structure and common area improvements; and
- opportunities available for leasing vacant space and for retenanting occupied space.

Financing and working capital

We believe that cash provided by operations, our unsecured line of credit and our unsecured term loan will be sufficient to fund our working capital requirements. We generally expect to finance future redevelopment, development and acquisition of properties through our unsecured line of credit and unsecured term loan and, then, to refinance some or all of that indebtedness periodically with additional equity or debt capital. We may also issue shares of our common stock, preferred stock or interests in our subsidiaries to fund future operations. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and capital resources-Unsecured line of credit and unsecured term loan".

We seek to maintain a balance between the amounts of our fixed and variable rate debt with a view to moderating our exposure to interest rate risk. We also use financial instruments, such as interest rate swap agreements, to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and our unsecured term loan. Interest rate swap agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying principal or "notional amount". Interest received under our current interest rate swap agreements is based on the one-month London interbank offered rate, or LIBOR. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and capital resources-Interest rate swaps" for a more complete discussion of our unsecured line of credit, unsecured term loan, interest rate swap agreements and other outstanding indebtedness.

Preferred securities

We expect to continue to issue additional series of preferred stock that are senior to our common stock. At December 31, 2006, we had preferred stock with a liquidation preference of approximately $187 million. The preferred stock has general preference rights with respect to liquidation and quarterly distributions. In June 2004, we completed a public offering of 5,185,500 shares of our 8.375% Series C cumulative redeemable preferred stock with aggregate proceeds of approximately $124.0 million. In July 2004, we redeemed all 1,543,500 outstanding shares of our 9.50% Series A cumulative redeemable preferred stock at an aggregate redemption price of approximately $38.6 million. In February 2007, we announced that we will redeem all 2,300,000 outstanding shares of our 9.10% Series B Cumulative Redeemable Preferred Stock at a redemption price of $25.00 per share plus $0.4107639 per share representing accumulated and unpaid dividends through the redemption date of March 20, 2007. Future redemptions or repurchases of our preferred securities may occur after their respective call dates. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and capital resources- Other resources and liquidity requirements".

Available information

We will provide, upon request and free of charge, paper copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including any amendments to the foregoing reports, as soon as is reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. These materials, along with our corporate governance guidelines, Business Integrity Policy and board committee charters, are also available through our corporate website at http://www.labspace.com. The public may also download these materials from the Securities and Exchange Commission's website at http://www.sec.gov. Any amendments to, and waivers of, our Business Integrity Policy will be posted on our corporate website.

Employees

As of December 31, 2006, we had 105 full-time 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

We are largely dependent on the life science industry for revenues from lease payments

In general, our strategy is to invest primarily in properties used by tenants in the life science industry. Our business could be adversely affected if the life science industry experiences an economic downturn or migrates from U.S. to other countries. Because of our industry focus, events within the life science industry may have a more pronounced effect on our 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 industry tenant and could require modification before we are able to re-lease vacant space to another life science industry 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 in future leases and to achieve increases in rental rates will depend upon market conditions and the demand for life science properties at the time the leases are negotiated and the increases are proposed.

Our tenants may not be able to pay us if they are unsuccessful in discovering, developing, making or selling their products and technologies

Our life science industry tenants are subject to a number of risks, including the following, any one or more of which may adversely affect their ability to make rental payments to us.

- Some of our tenants developing potential drugs may find that their drugs are not effective, or may even be harmful, when tested in humans.
- Some of our tenants may not be able to manufacture their drugs economically, even if such drugs are proven through human clinical trials to be safe and effective in humans.
- Drugs that are developed and manufactured by some of our tenants require regulatory approval prior to being made, marketed, sold and used. The regulatory approval process to manufacture and market drugs is costly, typically takes several years, requires the expenditure of substantial resources and is often unpredictable. A tenant may fail or experience significant delays in obtaining these approvals.
- 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 do not issue, or are successfully challenged, narrowed, invalidated or circumvented by third parties, or if a tenant fails to obtain licenses to the discoveries of third parties necessary to commercialize its products or technologies.
- A drug made by a tenant may not be well accepted by doctors and patients, or may be less effective or accepted than competitor's drugs, or may be subsequently recalled from the market, even if it is successfully developed, proven safe and effective in human clinical trials, manufactured and the requisite regulatory approvals are obtained.
- Some of our tenants require significant funding to develop and commercialize their products and technologies, which funding must be obtained from 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.
- 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 which are commercially useful in the discovery or identification of potential drug targets or drugs.

We cannot assure you that our 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 tenant that is unable to avoid, or sufficiently mitigate, the risks described above, may have difficulty making rental payments to us.

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

Many of our life science industry tenants engage in research and development activities that involve the 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 environmental remediation insurance coverage, and 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, or changes in, these laws and regulations could adversely affect our business or our tenants' business and their ability to make rental payments to us.

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 flow and our ability to make distributions to our stockholders could be adversely affected.

As of December 31, 2006, we had 370 leases with a total of 310 tenants, and 80 of our 159 properties were single-tenant properties. Our three largest tenants accounted for approximately 14.9% of our aggregate annualized base rent, or approximately 7.9%, 3.9% and 3.1%, respectively. "Annualized base rent" means the annualized fixed base rental amount in effect as of December 31, 2006, using rental revenues calculated on a straight-line basis in accordance with United States generally accepted accounting principles ("GAAP"). Annualized base rent does not include reimbursements for real estate taxes and insurance, common area and other operating expenses, substantially all of which are borne by the tenants in the case of triple net leases.

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, 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 unpaid 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 flow and our ability to make distributions to our stockholders.

Our U.S. government tenants may not receive annual budget appropriations, which could adversely affect their ability to pay us

U.S. government tenants may be subject to annual budget appropriations. If one of our U.S. government tenants fails to receive its annual budget appropriation, it might not be able to make its lease payments to us. In addition, defaults under leases with federal government tenants are governed by federal statute and not by state eviction or rent deficiency laws. All of our leases with U.S. government tenants provide that the government tenant may terminate the lease under certain circumstances. As of December 31, 2006, leases with U.S. government tenants at our properties accounted for approximately 3.2% of our aggregate annualized base rent.

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 expense under our leases. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely payments under its lease. Also, when our tenants decide not to renew their leases or terminate early, 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 lose the cash flow from the affected property, which could negatively impact our business. We may have to divert cash flow generated by other properties to meet our mortgage payments, if any, or to pay other expenses related to owning the affected property. As of December 31, 2006, leases at our properties representing approximately 12.8% and 7.9% of the total square footage of our properties were scheduled to expire in 2007 and 2008, respectively.

Poor economic conditions in our markets could adversely affect our business

Our properties are located only in the following markets:

- California - Los Angeles Metro;
- California - San Diego;
- California - San Francisco Bay;
- Eastern Massachusetts;
- International - Canada;
- New Jersey/Suburban Philadelphia;
- New York City;
- Southeast;
- Suburban Washington D.C.; and
- Washington - Seattle.

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

We may have difficulty managing our growth

We expect to continue to grow by selectively redeveloping, developing and acquiring additional properties in our key life science cluster markets. To manage our growth effectively, we must successfully integrate new properties into our existing operations. We may not succeed with the integration. In addition, we may not effectively manage new properties, and new properties may not perform as expected. Our business could be adversely affected if we are unsuccessful in managing our growth.

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

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

- Our cash flow 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.
- We may default on our debt obligations, and 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 mortgage loan that has cross default provisions may cause us to automatically default on another loan.
- 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 line of credit and unsecured term loan and certain other borrowings, which could adversely impact our operations.

As of December 31, 2006, we had outstanding mortgage indebtedness of approximately $1.2 billion, secured by 76 properties and 11 land development parcels, and outstanding debt under our unsecured line of credit and unsecured term loan of $850 million. In January 2007, we completed a private offering of $460 million of 3.70% convertible unsecured notes due in 2027.

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

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

- restrict our ability to incur additional indebtedness;
- restrict our ability to make certain investments;

- restrict our ability to merge with another company;
- restrict our ability to make distributions to stockholders;
- require us to maintain financial coverage ratios; and
- require us to maintain a pool of unencumbered assets approved by the lenders.

These restrictions could cause us to default on our unsecured line of credit and unsecured term loan or negatively affect our operations and our ability to make distributions to our stockholders.

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

Our ability to redevelop, develop or acquire properties depends upon our ability to obtain capital. Periodically, the real estate industry experiences reduced supplies of favorably-priced equity or debt capital, which decreases the level of new investment activity by publicly-traded real estate companies. A prolonged period in which we cannot effectively access the public equity or debt markets may result in heavier reliance on alternative financing sources to undertake new investments. An inability to obtain equity or debt capital on acceptable terms could delay or prevent us from acquiring, financing and completing desirable investments, which could 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 then existing stockholders.

We have filed a "shelf" registration statement on Form S-3, under which we may offer from time to time and at our discretion, common stock, preferred stock, warrants and debt securities in amounts, at prices and on terms to be determined at the time of offering.

If interest rates rise, our debt service costs will increase

Borrowings outstanding under our unsecured line of credit, unsecured term loan and certain other borrowings bear interest at a variable rate, 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. Accordingly, these increases could adversely affect our financial position and our ability to make distributions to our stockholders.

We have spaces available for redevelopment that may be difficult to redevelop or successfully lease to tenants

A key component of our internal growth is through the redevelopment of existing office, warehouse or shell space as generic laboratory space that can be leased at higher rates. There can be no assurance that we will be able to initiate the redevelopment of spaces or complete spaces undergoing redevelopment. Redevelopment activities subject us to many risks, including delays in permitting, financing availability, engaging contractors, availability and pricing of materials and labor and other redevelopment uncertainties. In addition, there can be no assurance that, upon completion, we will be able to successfully lease the space or lease the space at rental rates at or above the returns on our investment anticipated by our stockholders.

We may be unsuccessful with our real estate development activities

A significant component of our current and future internal growth is through the ground-up development of generic laboratory space. Our success with our development projects depend on many risks that may adversely affect our business, including those associated with:

- delays in construction;
- budget overruns;
- lack of availability and/or increasing costs of materials;
- commodity pricing of building materials and supplies;
- financing availability;
- volatility in interest rates;

- labor availability;
- timing of the commencement of rental payments;
- delays or denials of entitlements or permits; and
- other property development uncertainties.

In addition, development activities, regardless of whether they are ultimately successful, typically require a substantial portion of management's time and attention. This may distract management from focusing on other operational activities. If we are unable to complete development projects successfully, our business may be adversely affected.

Our real estate development strategy has and will continue to increase in the future

We will continue to pursue opportunities to acquire land for future ground-up development and we will continue to initiate ground-up development projects. As of December 31, 2006, we had approximately 1.2 million square feet undergoing ground-up development and we had an imbedded pipeline for ground-up development of an additional 5.9 million rentable square feet. Our existing projects undergoing ground-up development and future ground-up development projects increase our risk of unsuccessful real estate development activities which may have an adverse affect on our business.

We may not be able to acquire properties or operate them successfully

Our success depends in large part upon our ability to acquire additional properties on satisfactory terms and to operate them successfully. If we are unable to do so, our business could be adversely affected. In addition, the acquisition of life science properties generally involves a higher per square foot price than the acquisition of traditional office properties.

The acquisition, 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 not be able to acquire a desired property because of competition from other real estate investors with significant capital.
- We may lease space at rates below our expectations.
- We may not be able to obtain financing on acceptable terms.
- We may overpay for new acquisitions.
- We may underestimate the cost of improvements required to bring an acquired property up to standards established for the market position intended for that property.

If we encounter any of these risks, our business and our ability to make payments to our stockholders could be adversely affected.

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

If our properties do not generate revenues sufficient to meet our operating expenses, including debt service and other 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 from, and the values of, our properties include:

- national and local economic conditions;
- competition from other life science properties;
- changes in the life science industry;
- real estate conditions in our target markets;
- our ability to collect rent payments;
- availability of financing;
- changes in interest rate levels;

- vacancies at our properties and our ability to re-lease space;
- changes in tax or other regulatory laws;
- costs of compliance with government regulation;
- 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 expenses associated with that property and greater exposure to increases in such expenses. Significant expenditures, such as mortgage payments, real estate taxes, insurance and maintenance costs, generally are fixed and do not decrease when revenues at the related property decrease.

Improvements to life science properties are significantly more costly than traditional office space

Our properties contain generic infrastructure improvements that are significantly more costly than other property types. Although we have historically been able to recover the additional investment in generic 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 may not be able to sell our properties quickly to raise money

Investments in real estate are relatively illiquid. Accordingly, we may not be able to sell our properties when we desire or at acceptable prices in response to changes in economic or other conditions. In addition, the Internal Revenue Code limits our ability to sell properties held for fewer than four years. These limitations on our ability to sell our properties may adversely affect our cash flows and our ability to make distributions to our stockholders.

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:

- insurance companies;
- pension and investment funds;
- private equity entities;
- partnerships;
- developers;
- investment companies;
- other REITs; and
- owner/occupants.

Many of these entities have substantially greater financial resources than we do and may be able to pay more than us 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.

Our properties may have defects that are unknown to us

Although we review the physical condition of our properties before they are acquired, and on a periodic basis after acquisition, any of our properties may have characteristics or deficiencies unknown to us that could adversely affect the property's value or revenue potential.

If we fail 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 fail to qualify as a REIT:

- We would be subject to federal income tax on our taxable income at regular corporate rates.
- We would not be allowed a deduction for distributions to our stockholders in computing taxable income.
- Unless we were entitled to relief under the Internal Revenue Code of 1986, as amended, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification.
- We would no longer be required by the Internal Revenue Code to make any 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, commencing with our taxable year ended December 31, 1996, in a manner so as to qualify as a REIT, we cannot assure you that we are or will remain so qualified.

In addition, although we are not aware of any pending tax legislation that would adversely affect our ability to operate as a REIT, new legislation, regulations, administrative interpretations or court decisions could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is adverse to our stockholders.

There are limits on the ownership of our capital stock under which a stockholder may lose beneficial ownership of its shares

The Internal Revenue Code provides that, in order for us to maintain our qualification as a REIT, not more than 50% of the value of our outstanding capital stock may be owned, directly or constructively, by five or fewer individuals or entities.

In addition, our charter prohibits, with certain limited exceptions, direct or constructive ownership of shares of our capital stock representing more than 9.8% of the combined total value of the outstanding shares of our capital stock by any person (the "Ownership Limit"). Our Board of Directors may exempt a stockholder from the Ownership Limit if, prior to the exemption, our Board of Directors receives all information it deems necessary to determine or ensure our status as a REIT.

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 the Ownership Limit, may be void or may be deemed to be made 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.

In addition to the ownership limit, certain provisions of our charter and bylaws and our stockholder rights plan 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 for other reasons be desired by our common stockholders or that have a dividend preference which 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 vote 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.

Under our Stockholder Rights Plan, if a stockholder acquires beneficial ownership of 15% or more of our common stock, other stockholders would become entitled to purchase our common stock at half the market price, which would likely result in substantial dilution to the 15% or greater stockholder. This may also have the effect of delaying or preventing a change in control or other transaction that might involve a premium price for our common stock or for other reasons desired by our common stockholders.

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 or that exceeds our insurance policy limits, we could lose the capital invested in the affected property and, possibly, future revenues from that property. In addition, we could continue to be obligated on any mortgage indebtedness or other obligations related to the affected properties. We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our properties. We have obtained earthquake insurance for all of our properties because many of them are located in the vicinity of active earthquake faults. We also carry environmental remediation insurance and have title insurance policies on all of our properties. We 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.

We believe that our insurance policy specifications, insured limits and deductibles are consistent with or superior to those customarily carried for similar properties. 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. In the current market, there have recently been substantial increases in the premium cost of property and liability insurance. The availability of coverage against certain types of losses, such as from terrorism or toxic mold, has become more limited and, when available, is at a significantly higher premium 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, if offered, such coverage may become prohibitively expensive. Many, but not all, of our properties are low-rise buildings.

Toxic mold has not presented any material problems at any of our properties.

We could incur significant costs 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 environmental remediation 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 governmental entities or third parties for property damage and for investigation and clean-up 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 may have been responsible for the contamination, we may be held responsible for all of the clean-up costs. In addition, third parties may sue us for damages and costs resulting from environmental contamination or jointly responsible parties may contest their responsibility or be financially unable to pay their share of such costs.

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

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

- the discharge of storm water, 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 for any related liabilities.

Independent environmental consultants have conducted Phase I or similar environmental assessments at all of 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 or results of operations.

The additional investigations have included, as appropriate:

- asbestos surveys;
- radon surveys;
- lead surveys;
- mold surveys;
- additional public records review;
- subsurface sampling; and
- other testing.

Nevertheless, it is possible that the assessments on our properties have not revealed, or 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.

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

Under the Americans With Disabilities Act, places of public accommodation and/or commercial facilities are required to 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, our noncompliance 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. This may limit the overall returns on our investments.

We believe that our properties are substantially in compliance with the present requirements of the Americans With Disabilities Act and similar laws.

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 and life-safety requirements. If we do not comply with all of these requirements, we may have to pay fines to governmental authorities or damage awards to private litigants. We believe that our properties are currently in compliance with all of these regulatory requirements. 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.

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

We depend upon the services of relatively few executive officers. The loss of services 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 life science properties and with major life science industry tenants. We cannot assure you that our senior executive officers will remain employed with us.

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 development and acquisition 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.

We could become highly leveraged and our debt service obligations could increase

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

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:

- our amount of cash available for distribution;
- our financial condition;
- any decision by our Board of Directors 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; and
- other factors our Board of Directors deems relevant.

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

We cannot predict the effect, if any, of future sales of shares of our common stock on the market price of our common stock from time to time. Sales of substantial amounts of capital stock (including common stock issued upon the exercise of stock options, upon conversion of convertible debt securities or redemption of preferred stock), or the perception that such sales may occur, could adversely affect prevailing market prices for our common stock.

We have reserved for issuance to our officers, directors and employees pursuant to our Amended and Restated 1997 Stock Award and Incentive Plan that number of shares of our common stock that equals 12% of the total number of shares outstanding at any time, provided that in no event may the number of shares of our common stock available for issuance under the plan exceed 3,000,000 shares at any time. As of December 31, 2006, a total of 942,283 shares we reserved for issuance under our 1997 Stock Award and Incentive Plan.

As of December 31, 2006, options to purchase 338,680 shares of our common stock were outstanding, all of which were exercisable. We have filed a registration statement with respect to the issuance of shares of our common stock pursuant to grants under our equity incentive plan. In addition, any shares issued under our equity incentive plan will be available for sale in the public market from time to time without restriction by persons who are not our "affiliates" (as defined in Rule 144 adopted under the Securities Act of 1933). Affiliates will be able to sell shares of our common stock pursuant to exemptions from registration requirements or upon registration.

External factors may adversely impact the valuation of investments

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

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

As of December 31, 2006, we had three properties located in Canada. We are pursuing, and intend to continue to pursue, additional growth opportunities in Canada and other international markets. Investments in countries where the U.S. dollar is not the national currency are subject to international currency risk from the potential fluctuations in exchange rates between the U.S. dollar and the local currency. A significant decrease in the value of the Canadian dollar or other foreign currencies where we may have a significant 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 the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

General

As of December 31, 2006, we had 159 properties comprising approximately 11.2 million rentable square feet of office/laboratory space. Excluding properties undergoing redevelopment, our properties were approximately 93.1% leased as of December 31, 2006. The exteriors of our properties typically resemble traditional office properties, but the interior infrastructures are designed to accommodate the needs of life science industry tenants. These improvements typically are generic to life science industry tenants rather than being 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 life science industry tenants. Generic infrastructure improvements to our life science 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, 2006, we own a fee simple interest in each of our properties, except for the following nineteen properties that account for approximately 18% of the total rentable square footage of our properties:

- three properties in the San Francisco Bay market, in which we hold a commercial condominium interest, together with an undivided interest in the common areas of the project of which the property is a part;
- three properties in the San Francisco Bay market, one property in the Southeast market, two properties in the Suburban Washington D.C. market and one property in the Eastern Massachusetts market in which we hold ground leasehold interests;
- one property located in the San Francisco Bay market and one property located in the Eastern Massachusetts market, in which we have a controlling interest. The non-controlling interest held by certain third parties is reflected as minority interest in our consolidated financial statements. See further discussion in our consolidated financial statements and notes thereto in "Item 15. Exhibits, Financial Statement Schedules"; and
- seven properties in the Eastern Massachusetts market in which we hold ground leasehold interests and a controlling interest. The non-controlling interest held by certain third parties is reflected as minority interest in our consolidated financial statements. See further discussion in our consolidated financial statements and notes thereto in "Item 15. Exhibits, Financial Statement Schedules".

As of December 31, 2006, our asset base contains two ground-up development projects in New York City and the San Francisco Bay markets in which we hold ground leasehold interests.

As of December 31, 2006, we had 370 leases with a total of 310 tenants, and 80 of our 159 properties were single-tenant properties. Leases in our multi-tenant buildings typically have terms of three to seven years, while the single-tenant building leases typically have initial terms of 10 to 20 years. As of December 31, 2006:

- approximately 90% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses (including increases thereto) in addition to base rent, and, in addition to our triple net leases, approximately 4% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses;
- approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index; and
- approximately 91% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing), which 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 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 the improvements and restore the premises to their original condition.

Location of properties

The locations of our properties are diversified among a number of life science markets**.** The following table sets forth, as of December 31, 2006, the total rentable square footage, annualized base rent and encumbrances of our properties in each of our existing markets (dollars in thousands).

Markets	Number of Properties	Total Rentable Square Footage	% of Total Rentable Square Footage	Annualized Base Rent (1)	% of Annualized Base Rent	Encum
California - Los Angeles Metro	2	61,003	0.5%	$ 775	0.3%	$
California - San Diego	27	1,310,256	11.7%	29,385	10.3%	
California - San Francisco Bay	24	1,733,251	15.5%	49,666	17.5%	
Eastern Massachusetts	39	3,275,103	29.2%	99,515	35.1%	
International - Canada	3	296,362	2.6%	6,486	2.3%	
New Jersey/Suburban Philadelphia	8	443,349	3.9%	8,907	3.1%	
Southeast	12	658,406	5.9%	9,221	3.3%	
Suburban Washington D.C.	32	2,575,370	22.9%	54,063	19.1%	
Washington - Seattle	12	879,251	7.8%	25,557	9.0%	
Total	159	11,232,351	100.0%	$ 283,575	100.0%	$

(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2006 (using rental revenue computed on a straight-line basis in accordance with GAAP).

(2) Certain properties are pledged as security under our secured notes payable as of December 31, 2006. See Schedule III - Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation in "Item 15. Exhibits, Financial Statement Schedules" for additional information on our properties, including encumbered properties.

(3) Excludes $175.2 million of encumbrances primarily related to eleven land parcels.

In addition, as of December 31, 2006, our asset base contained land parcels totaling 1.2 million square footage undergoing development and future ground-up development opportunities for approximately 5.9 million developable square feet of office/laboratory space.

Tenants

Our life science properties are leased principally to a diverse group of tenants, with no tenant being responsible for more than 7.9% of our annualized base rent. The following table sets forth information regarding leases with our 10

largest tenants based upon annualized base rent as of December 31, 2006.

10 Largest Tenants

Tenant	Number of Leases	Remaining Lease Term in Years	Approximate Aggregate Rentable Square Feet	Percentage of Aggregate Leased Square Feet	Annualize Base Rent (thousands)
Novartis AG	3	8.5 (3)	374,789	3.8%	$22,3
GlaxoSmithKline	5	8.0 (4)	293,602	3.0%	10,9
ZymoGenetics, Inc.	2	12.4 (5)	203,369	2.1%	8,7
Human Genome Sciences, Inc.	4	0.1 (6)	197,704	2.0%	8,2
Massachusetts Institute of Technology	3	5.3 (7)	178,952	1.8%	7,8
Theravance, Inc.	2	5.3 (8)	170,244	1.7%	6,1
Genentech, Inc.	1	11.7	126,971	1.3%	5,5
Amylin Pharmaceuticals, Inc.	3	9.4 (9)	158,983	1.6%	5,4
Amgen, Inc.	3	2.8 (10)	203,600	2.1%	5,0
Senomyx, Inc.	1	10.2	64,000	0.7%	2,3
Total/Weighted Average (11):	27	7.2	1,972,214	20.1%	$82,7

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(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2006 (using rental revenue computed on a straight-line basis in accordance with GAAP).

(2) Annualized net effective rent is the annualized base rent in effect as of December 31, 2006 (using rental revenue computed on a straight-line basis in accordance with GAAP), less (for gross leases) real estate taxes and insurance, common area and other operating expenses and (for all leases) amortization of tenant improvements and leasing commissions.

(3) Amount shown is a weighted average of multiple leases with this tenant for 255,441 rentable square feet, 81,441 rentable square feet and 37,907 rentable square feet with remaining lease terms of 11.3 years, 3.5 years and 0.8 years, respectively.

(4) Amount shown is a weighted average of multiple leases with this tenant for 128,759 rentable square feet (represents two leases at two properties containing 60,579 rentable square feet and 68,000 rentable square feet); 13,883 rentable square feet and 150,960 rentable square feet with remaining lease terms of 13.3 years, 4.8 years and 3.9 years, respectively.

(5) Novo A/S owns approximately 33% of ZymoGenetics, Inc.

(6) Leases with Human Genome Sciences, Inc. end on January 31, 2007.

(7) Amount shown is a weighted average of multiple leases with this tenant for 86,515 rentable square feet, 8,876 rentable square feet and 83,561 rentable square feet with remaining lease terms of 6.5 years, 4.8 years and 4.1 years, respectively.

(8) GlaxoSmithKline plc ("GSK") owns 15.9% of the outstanding stock of Theravance, GSK's ownership of their stock could increase to approximately 58% pursuant to the terms of the strategic alliance between GSK and Theravance.
(9) Amount shown is a weighted average of multiple leases with this tenant for 71,510 rentable square feet and 87,473 rentable square feet (represents two leases at two properties containing 45,030 rentable square feet and 42,443 rentable square feet) with remaining lease terms of 11.1 years and 8.1 years, respectively.
(10) Amount shown is a weighted average of multiple leases with this tenant for 66,000 rentable square feet, 21,316 rentable square feet and 116,284 rentable square feet with remaining lease terms of 5.4 years, 4.0 years and 1.2 years, respectively.
(11) Weighted average based on percentage of aggregate leased square feet. Excluding the four leases that end on January 31, 2007 with Human Genome Sciences, Inc., the remaining average lease term of our top tenants was approximately 7.9 years.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of our security holders in the fourth quarter of the fiscal year ended December 31, 2006.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "ARE". On February 26, 2007, the last reported sales price per share of our common stock was $106.70, and there were approximately 268 holders of record of our common stock (excluding beneficial owners whose shares are held in the name of CEDE & Co.). The following table sets forth the quarterly high and low sales prices per share of our common stock as reported on the NYSE and the distributions paid by us with respect to each such period.

Period	High	Low	Per Share Distribution
2006			
Fourth Quarter	$105.45	$92.60	$0.74
Third Quarter	$99.35	$88.09	$0.72
Second Quarter	$95.70	$81.52	$0.70
First Quarter	$98.00	$79.46	$0.70
2005			
Fourth Quarter	$85.00	$76.02	$0.70
Third Quarter	$85.85	$73.02	$0.68
Second Quarter	$75.42	$62.09	$0.68
First Quarter	$74.50	$63.15	$0.66

Future distributions on our common stock will be determined by and at the discretion of our Board of Directors and will be dependent upon a number of factors, including actual cash available for distribution, our financial condition

and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as our Board of Directors deems relevant. To maintain our qualification as a REIT, we must make annual distributions to stockholders of at least 90% of our taxable income for the current taxable year, determined without regard to deductions for dividends paid and excluding any net capital gains. Under certain circumstances, we may be required to make distributions in excess of cash flow available for distributions to meet these distribution requirements. In such a case, we may borrow funds or may raise funds through the issuance of additional debt or equity capital. We cannot assure you that we will make any future distributions.

The tax treatment of distributions paid in 2006 is as follows: (1) 82.1% ordinary dividend, (2) 12.3% capital gain at 15%, (3) 3.3% return of capital, and (4) 2.3% Section 1250 capital gain at 25%. The tax treatment of distributions on common stock paid in 2005 is as follows: (1) 71.8% ordinary dividend, (2) 3.9% capital gain at 15%, (3) 24.1% return of capital, and (4) 0.2% Section 1250 capital gain at 25%.

See "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information on securities authorized for issuance under equity compensation plans.

Item 6. Selected Financial Data

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

	2006
	(Dolla
Operating Data:	
Total revenue	$ $316,821
Total expenses	242,564
Minority interest	2,287
Income from continuing operations	71,970
Income from discontinued operations, net	1,446
Net income	73,416
Dividends on preferred stock	16,090
Preferred stock redemption charge	-
Net income available to common stockholders	$ 57,326
Earnings per share - basic	
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.22
Discontinued operations, net	0.06
Earnings per share - basic	$ 2.28
Earnings per share - diluted	
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.19
Discontinued operations, net	0.06

Earnings per share - diluted	$	2.25
Weighted average shares of common stock outstanding		
Basic		25,102,200
Diluted		25,524,478
Cash dividends declared per share of common stock	$	2.86

		2006
Balance Sheet Data (at year end):		
Rental properties, net	$	2,924,881
Total assets	$	3,617,477
Secured notes payable, unsecured line of credit and unsecured term loan	$	2,024,866
Total liabilities	$	2,208,348
Minority interest	$	57,477
Stockholders' equity	$	1,351,652
Reconciliation of Net Income Available to Common Stockholders to Funds from Operations Available to Common Stockholders:		
Net income available to common stockholders (1)	$	57,326
Add:		
Depreciation and amortization (2)		74,039
Impairment of investments		-
Minority interests' share of income		2,287
Subtract:		
Gain/loss on sales of property (3)		(59)
FFO allocable to minority interest		(1,928)
Funds from operations available to common stockholders (4)	$	131,665
Other Data:		
Cash provided by operating activities	$	128,390
Cash used in investing activities	$	(970,590)
Cash provided by financing activities	$	841,237
Number of properties owned at year end		159
Rentable square feet of properties owned at year end		11,232,351
Occupancy of properties owned at year end		88%
Occupancy of properties owned at year end, excluding properties under redevelopment		93%

(1) During the second quarter of 2004, we elected to redeem the 9.50% Series A cumulative redeemable preferred stock ("Series A preferred stock"). Accordingly, in compliance with Emerging Issues Task Force Topic D-42, we recorded a charge of $1,876,000, or $0.10 per common share (diluted), in the second quarter of 2004 for costs related to the redemption of the Series A preferred stock.

(2) Includes depreciation and amortization on assets "held for sale" reflected as discontinued operations (for the periods prior to when such assets were designated as "held for sale").

(3) Gain/loss on sales of property relates to the disposition of three properties in the Suburban Washington D.C. and the New Jersey/Suburban Philadelphia markets during 2006, the disposition of a property in the

Southeast market during 2005, the disposition of a property in the Suburban Washington D.C. market during 2004, the disposition of three properties in the Suburban Washington D.C., the Eastern Massachusetts and the San Francisco Bay markets during 2003. Gain/loss on sales of property is included in the income statement in income from discontinued operations, net.

(4) GAAP basis accounting for real estate assets utilizes historical cost accounting and assumes real estate values diminish over time. In an effort to overcome the difference between real estate values and historical cost accounting for real estate assets, the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") established the measurement tool of Funds From Operations ("FFO"). Since its introduction, FFO has become a widely used non-GAAP financial measure by REITs. We believe that FFO is helpful to investors as an additional measure of the performance of an equity REIT. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper (the "White Paper") and related implementation guidance, which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. While FFO is a relevant and widely used measure of operating performance for REITs, it should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. For a more detailed discussion of FFO, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Funds from operations".

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The terms "Company", "we", "our" and "us" as used in this Form 10-K refer to Alexandria Real Estate Equities, Inc. and its subsidiaries. The following discussion should be read in conjunction with our consolidated financial statements and notes in "Item 15. Exhibits, Financial Statement Schedules". Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, those described below in this report and under the headings "Item 1A. Risk Factors". We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements contained in this or any other document, whether as a result of new information, future events or otherwise.

Overview

We are a publicly-traded real estate investment trust focused principally on the ownership, operation, management, selective redevelopment, development and acquisition of properties for the life science industry. Our properties are designed and improved for lease primarily to institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, life science product, service, biodefense and translational research entities, as well as governmental agencies.

In 2006, we:

- Completed the redevelopment of multiple spaces at eleven properties aggregating 356,000 rentable square feet.

- Executed the East River Science Park ground lease in New York City for the ground up development of approximately 725,000 rentable square feet.

- Completed ground-up development of four properties aggregating 360,000 rentable square feet.
- Commenced ground-up development of three properties aggregating 1,022,000 square feet.
- Acquired 25 properties aggregating 2.4 million rentable square feet.
- Acquired three land parcels aggregating 662,000 square feet.
- Increased capacity of our unsecured credit facilities to $1.4 billion with an option to increase capacity by an additional $500 million.
- Closed a $146 million fixed rate financing.
- Completed two public offerings for a total of 6,295,000 shares of our common stock in two separate offerings resulting in net proceeds of approximately $535.3 million.

As of December 31, 2006, we had 159 properties containing approximately 11.2 million rentable square feet of office/laboratory space. As of that date, our properties were approximately 93.1% leased, excluding those properties undergoing redevelopment. In addition, as of December 31, 2006, our asset base contained land parcels totaling 1.2 million square footage undergoing development and future ground-up development opportunities for approximately 5.9 million developable square feet of office/laboratory space.

Our primary sources of revenue are rental income and tenant recoveries from leases of our properties. The comparability of financial data from period to period is affected by the timing of our property redevelopment, development and acquisition activities. Of the 159 properties as of December 31, 2006, 76 were acquired prior to 2004, 22 in 2004, 19 in 2005 and 25 in 2006. In addition, we completed the development of 10 properties prior to 2004, one property in 2004 (together with the 22 properties acquired in 2004, the "2004 Properties"), two properties in 2005 (together with the 19 properties acquired in 2005, the "2005 Properties") and four properties in 2006 (together with the 25 properties acquired in 2006, the "2006 Properties"). As a result of these acquisition and development activities, as well as our ongoing leasing and redevelopment activities, there have been significant increases in total revenues and expenses, including significant increases in total revenues and expenses for 2006 as compared to 2005, and for 2005 as compared to 2004.

As of December 31, 2006, approximately 90% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses, including increases thereto. In addition, as of December 31, 2006, approximately 4% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Additionally, as of December 31, 2006, approximately 91% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures and approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed or indexed based on the consumer price index or another index.

Critical accounting policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). Our significant accounting policies are described in the notes to our consolidated financial statements in "Item 15. Exhibits, Financial Statement Schedules". The preparation of these financial statements in conformity with GAAP requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates, judgments and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

REIT compliance

We have elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code. 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. We believe that our current organization and method of operation comply with the rules and regulations promulgated under the Internal Revenue Code to enable us to qualify, and continue to qualify, as a REIT. However, it is possible that we have been organized or have operated in a manner that would not allow us to qualify as a REIT, or that our future operations could cause us to fail to qualify.

If we fail to qualify as a REIT in any taxable year, then we will be required to pay federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. If we lose our REIT status, then our net earnings available for investment or distribution to our stockholders would be significantly reduced for each of the years involved and we would no longer be required to make distributions to our stockholders.

Rental properties, properties undergoing development and land held for development

In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), we allocate the purchase price of acquired properties to land, land improvements, buildings, building improvements, tenant improvements, equipment, and identified intangibles (including intangible value to above, below and at-market leases, origination costs associated with in-place leases, tenant relationships and other intangible assets) based upon their relative fair values. The value of tangible assets acquired is based upon our estimation of value on an "as if vacant" basis. We assess the fair value of tangible and intangible assets based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

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

Rental properties, properties undergoing development and land held for development and intangibles are individually evaluated for impairment in accordance with SFAS 141 when conditions exist which may indicate that it is probable that the sum of expected future undiscounted cash flows is less than the carrying amount. Upon determination that an impairment has occurred, a write-down is recorded to reduce the carrying amount to its estimated fair value.

Capitalization of costs

In accordance with Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost" ("SFAS 34") and Statement of Financial Accounting Standards No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects" ("SFAS 67"), we capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development, redevelopment or construction of a project. Pursuant to SFAS 34 and SFAS 67, capitalization of construction, development and redevelopment costs is required while activities are ongoing to prepare an asset for its intended use. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Costs previously capitalized related to abandoned acquisition or development opportunities are written off. Should development, redevelopment or construction activity cease, a portion of interest, property taxes, insurance and certain costs would no longer be eligible for capitalization, and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

We also capitalize costs directly related and essential to our leasing activities. These costs are amortized on a straight-line basis over the terms of the related leases. Costs related to unsuccessful leasing opportunities are expensed.

Accounting for investments

We hold equity investments in certain publicly-traded companies and privately held entities primarily involved in the life science industry. All of our investments in publicly-traded companies are considered "available for sale" in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), and are recorded at fair value. Fair value has been determined as the closing trading price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity. The classification of investments under SFAS 115 is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of investments sold is determined by the specific identification method, with net realized gains included in other income.

Investments in privately held entities are generally accounted for under the cost method because we do not influence any operating or financial policies of the entities in which we invest. Certain investments are accounted for under the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" and Emerging Issues Task Force Topic D-46, "Accounting for Limited Partnership Investments". Under the equity method of accounting, we record our investment initially at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

For all of our investments, if a decline in the fair value of an investment below its carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash charge to current earnings. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, financial condition, prospects for favorable or unfavorable clinical trial results, new product initiatives and/or sales, and new collaborative agreements.

Interest rate swap agreements

We utilize interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan. These agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying principal amount (the "notional amount"). Interest received under all of our swap agreements is based on the one-month LIBOR rate. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

We reflect our interest rate swap agreements on the balance sheet at their estimated fair values with an offsetting adjustment reflected as unrealized gains/losses in accumulated other comprehensive income in stockholders' equity. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value, and such value may never be realized.

All of our interest rate swap agreements meet the criteria to be deemed "highly effective" under the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") in reducing our exposure to variable interest rates. In accordance with SFAS 133, we formally document all relationships between interest rate swap agreements and hedged items, including the method for evaluating effectiveness and the risk strategy. Accordingly, we have categorized these instruments as cash flow hedges. We make an assessment at the inception of each interest rate swap agreement and on an on going basis to determine whether these instruments are highly effective in offsetting changes in cash flows associated with the hedged items. While we intend to continue to meet the conditions for such hedge accounting, if hedges did not qualify as "highly effective", the changes in the fair values of the derivatives used as hedges would be reflected in earnings.

We do not believe we are exposed to a significant amount of credit risk in our interest rate swap agreements as our counterparties are established, well-capitalized financial institutions.

Recognition of rental income and tenant recoveries

Rental income from leases with scheduled rent increases, free rent, incentives and other rent adjustments is recognized on a straight-line basis over the respective lease terms. We include amounts currently recognized as income, and expected to be received in later years, in deferred rent in the accompanying consolidated balance sheets. Amounts received currently, but recognized as income in future years, are included as unearned rent in accounts payable, accrued expenses and tenant security deposits in the accompanying consolidated balance sheets. We commence recognition of rental income at the date the property is ready for its intended use and the tenant takes possession of or controls the physical use of the property.

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

We maintain an allowance for estimated losses that may result from the inability of our tenants to make payments required under the terms of the lease. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and unrealized deferred rent. As of December 31, 2006 and 2005, we had no allowance for doubtful accounts.

Discontinued operations

We follow the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in determining whether a property qualifies as an asset "held for sale" and should be classified as "discontinued operations". A property is classified as "held for sale" when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the property; (2) the property is available for immediate sale in its present condition, subject only to the terms that are usual and customary; (3) an active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated; (4) the sale of the property is probable and is expected to be completed within one year; (5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all of these criteria have been met, the property is classified as "held for sale", its operations are classified as discontinued operations in our consolidated statements of income and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. A loss is recognized for any initial adjustment of the asset's carrying amount to fair value less costs to sell in the period the asset qualifies as "held for sale". Depreciation of assets ceases upon designation of a property as "held for sale".

Results of operations

Comparison of the year ended December 31, 2006 to the year ended December 31, 2005

Rental revenues increased by $56.4 million, or 31%, to $241.2 million for 2006 compared to $184.8 million for 2005. The increase resulted primarily from the 2005 Properties being owned for a full year and the addition of the 2006 Properties.

Tenant recoveries increased by $15.2 million, or 31%, to $63.8 million for 2006 compared to $48.5 million for 2005. The increase resulted primarily from the 2005 Properties being owned for a full year and the addition of the 2006 Properties.

Other income increased by $7.1 million, or 147%, to $11.9 million for 2006 compared to $4.8 million for 2005, due to an overall increase in all sources of other income. Other income consists of construction management fees, interest, investment income and storage.

Rental operating expenses increased by $18.4 million, or 35%, to $71.6 million for 2006 compared to $53.1 million for 2005. The increase resulted primarily from increases in rental operating expenses (primarily property taxes, insurance and utilities) from properties redeveloped, developed or acquired in 2006. The majority of the increase in rental operating expenses is recoverable from our tenants through tenant recoveries.

General and administrative expenses increased by $5.0 million, or 24%, to $26.1 million for 2006 compared to $21.1 million for 2005, primarily due to the growth in both the depth and breadth of our operations in multiple markets, from 133 properties with approximately 8.8 million rentable square feet as of December 31, 2005 to 159 properties with approximately 11.2 million rentable square feet as of December 31, 2006. As a percentage of total revenues, general and administrative expenses for 2006 remained relatively consistent with 2005.

Interest expense increased by $22.3 million, or 45%, to $71.4 million for 2006 compared to $49.1 million for 2005. The increase resulted primarily from increases in indebtedness on our unsecured line of credit, unsecured term loan and secured notes payable, and increases in the floating interest rates on our unsecured line of credit, unsecured term loan and other floating rate debt. These borrowings were utilized to finance the redevelopment and development of properties and the acquisition of the 2005 and 2006 Properties. The weighted average interest rate on our unsecured line of credit and unsecured term loan (not including the effect of interest rate swap agreements) increased from 5.68% as of December 31, 2005 to 6.5% as of December 31, 2006. We have entered into certain swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan (see "Liquidity and capital resources - Interest rate swaps").

Depreciation and amortization increased by $19.6 million, or 36%, to $73.6 million for 2006 compared to $54.0 million for 2005. The increase resulted primarily from depreciation associated with the 2005 Properties being owned for a full year and the addition of the 2006 Properties.

Income from discontinued operations of $1.4 million for 2006 reflects the results of operations of one property that was designated as "held for sale" as of December 31, 2006 and three properties sold during 2006. In connection with the properties sold in 2006, we recorded a gain of approximately $59,000. Income from discontinued operations of $3.2 million for 2005 reflects the results of operations of one property designated as "held for sale" as of December 31, 2006, three properties sold during 2006 and one property sold in 2005. In connection with the property sold in 2005, we recorded a gain of approximately $36,000.

Comparison of the year ended December 31, 2005 to the year ended December 31, 2004

Rental revenues increased by $44.4 million, or 32%, to $184.8 million for 2005 compared to $140.4 million for 2004. The increase resulted primarily from the 2004 Properties being owned for a full year and the addition of the 2005 Properties.

Tenant recoveries increased by $14.1 million, or 41%, to $48.5 million for 2005 compared to $34.4 million for 2004. The increase resulted primarily from the 2004 Properties being owned for a full year and the addition of the 2005 Properties.

Other income increased by $1.3 million, or 36%, to $4.8 million for 2005 compared to $3.5 million for 2004, due to an overall increase in all sources of other income. Other income consists of construction management fees, interest, and investment income and storage.

Rental operating expenses increased by $16.0 million, or 43%, to $53.1 million for 2005 compared to $37.1 million for 2004. The increase resulted primarily from increases in rental operating expenses (primarily property taxes and utilities) from properties redeveloped, developed or acquired in 2005. The majority of the increase in rental operating

expenses is recoverable from our tenants through tenant recoveries.

General and administrative expenses increased by $6.0 million or 40%, to $21.1 million for 2005 compared to $15.1 million for 2004, primarily due to the growth in both the depth and breadth of our operations in multiple markets, including internationally, from 112 properties with approximately 7.4 million rentable square feet as of December 31, 2004 to 133 properties with approximately 8.8 million rentable square feet as of December 31, 2005 and the costs associated with continued compliance with Section 404 of the Sarbanes- Oxley Act. As a percentage of total revenues, general and administrative expenses for 2005 remained relatively consistent with 2004.

Interest expense increased by $20.4 million, or 71%, to $49.1 million for 2005 compared to $28.7 million for 2004. The increase resulted primarily from increases in indebtedness on our unsecured line of credit, unsecured term loan and secured notes payable, and increases in the floating interest rates on our unsecured line of credit, unsecured term loan and other floating rate debt. These borrowings were utilized to finance the redevelopment and development of properties and the acquisition of the 2004 and 2005 Properties. The weighted average interest rate on our unsecured line of credit and unsecured term loan (not including the effect of interest rate swap agreements) increased from 3.72% as of December 31, 2004 to 5.68% as of December 31, 2005. We have entered into certain swap agreements to hedge a portion of our exposure to variable interest rates with our unsecured line of credit and unsecured term loan (see "Liquidity and capital resources - Interest rate swaps").

Depreciation and amortization increased by $12.6 million, or 31%, to $54.0 million for 2005 compared to $41.3 million for 2004. The increase resulted primarily from depreciation associated with the 2004 Properties being owned for a full year and the addition of the 2005 Properties.

Income from discontinued operations of $3.2 million for 2005 reflects the results of operations of one property that was designated as "held for sale" as of December 31, 2006, three properties sold during 2006 and one property sold during 2005. In connection with the property sold in 2005, we recorded a gain of approximately $36,000. Income from discontinued operations of $4.1 million for 2004 reflects the results of operations of one property that was designated as "held for sale" as of December 31, 2006, three properties sold during 2006, one property sold during 2005 and one property sold in 2004. In connection with the sale of one property in 2004, we recorded a gain of approximately $1.6 million.

Liquidity and capital resources

Cash flows

Net cash provided by operating activities for 2006 increased by $7.7 million to $128.4 million compared to $120.7 million for 2005. The increase resulted primarily from increases in cash flows from our operating properties. As of December 31, 2006 our asset base contains 159 properties comprising approximately 11.2 million rentable square feet as compared to 133 properties comprising approximately 8.8 million rentable square feet as of December 31, 2005.

Net cash used in investing activities for 2006 increased by $537.7 million to $970.6 million compared to $432.9 million for 2005. The increase was primarily due to purchases of rental properties, and increases in additions to properties undergoing development and land held for development. In addition to the increase in our asset base noted above, the square footage undergoing redevelopment and development as of December 31, 2006 was approximately 1.8 million square feet as compared to 1.1 million square feet as of December 31, 2005.

Net cash provided by financing activities for 2006 increased by $528.3 million to $841.3 million compared to $313.0 million for 2005. The increase was primarily due to an increase in borrowings from our unsecured line of credit and unsecured term loan, an increase in proceeds from secured notes payable and an increase in proceeds from issuances of common stock. This was partially offset by the repayments of our unsecured line of credit and principal reductions of our outstanding balance of secured notes payable.

Off-balance sheet arrangements

As of December 31, 2006, we had no off-balance sheet arrangements.

Contractual obligations and commitments

Contractual obligations as of December 31, 2006 consisted of the following (in thousands):

		Payments by Period			
	Total	2007	2008-2009	2010-2011	Thereafter
Secured notes payable	$ 1,174,866	$ 72,790	$ 336,074	$ 201,463	$ 564,539
Unsecured line of credit and unsecured term loan	850,000	--	--	850,000	--
Ground lease obligations	352,486	3,754	7,922	9,798	331,012
Other obligations	5,848	1,048	1,960	2,021	819
Total	$ 2,383,200	$ 77,592	$ 345,956	$1,063,282	$ 896,370

Secured notes payable as of December 31, 2006 included 34 notes secured by 76 properties and 11 land development parcels.

In October 2006, we amended our unsecured line of credit and our unsecured term loan (see "Unsecured line of credit and unsecured term loan" below). Our unsecured line of credit matures in October 2010 and may be extended at our sole option for an additional one-year period. Our unsecured term loan matures in October 2011 and may be extended at our sole option for an additional one-year period.

In January 2007, we completed a private offering of $460 million of 3.70% convertible unsecured notes due in 2027.

Ground lease obligations as of December 31, 2006 included leases for fourteen of our properties and two land development parcels. These lease obligations have remaining lease terms of 26 to 58 years, exclusive of extension options. Included in our ground lease obligations as of December 31, 2006 is a ground lease related to our ground-up development project in New York City totaling approximately 725,000 rentable square feet. This ground lease obligation has a remaining term of 99 years, inclusive of extension options.

In addition to the above, we were committed as of December 31, 2006 under the terms of contracts to complete the construction of properties undergoing development and land held for development at a remaining aggregate cost of $58.8 million.

As of December 31, 2006, we were also committed to fund approximately $33.7 million for the construction of building infrastructure improvements under the terms of leases and/or construction contracts and approximately $23.4 million for certain investments.

Tenant security deposits and other restricted cash

Tenant security deposits and other restricted cash consisted of the following (in thousands):

	December 31,

	2006	2005
Funds held in trust under the terms of certain secured notes payable	$ 20,071	$ 13,838
Other funds held in escrow	14,289	7,175
	$ 34,360	$ 21,013

Secured notes payable

Secured notes payable totaled $1.2 billion and $666.7 million as of December 31, 2006 and 2005, respectively. Our secured notes payable had weighted average interest rates of 6.21% and 6.31% at December 31, 2006 and 2005, respectively, with maturity dates ranging from March 2007 to August 2016.

Our secured notes payable generally require monthly payments of principal and interest. The total book values of properties securing debt were $1.7 billion and $848.3 million at December 31, 2006 and 2005, respectively. At December 31, 2006, our secured notes payable were comprised of $940.0 million and $234.9 million of fixed and variable rate debt, respectively, compared to $595.9 million and $70.8 million of fixed and variable rate debt, respectively, at December 31, 2005.

The following is a summary of the scheduled principal payments for our secured notes payable and the weighted average interest rates as of December 31, 2006 (in thousands):

Year	Amount	Weighted Average Interest Rate(1)
2007	$ 72,790	6.21%
2008	290,088	6.17%
2009	45,986	6.26%
2010	93,259	6.23%
2011	108,204	6.09%
Thereafter	564,539	6.00%
Total secured notes payable	$ 1,174,866	

(1) The weighted average interest rate related to our secured debt is calculated based on the outstanding debt as of December 31st of the year immediately preceding the year presented.

Unsecured line of credit and unsecured term loan

In October 2006, we entered into an amendment to our amended and restated credit agreement to increase the maximum permitted borrowings under our unsecured credit facilities from $1.0 billion to $1.4 billion consisting of a $800 million unsecured line of credit and a $600 million unsecured term loan. We may in the future elect to increase commitments under the unsecured credit facilities by up to an additional $500 million.

Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months. Our unsecured line of credit

matures in October 2010 and may be extended at our sole option for an additional one-year period. As of December 31, 2006, we had borrowings of $250 million outstanding on the unsecured line of credit with a weighted average interest rate of 6.50%.

Our unsecured term loan bears interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect to fix for a period of one, two, three or six months. Our unsecured term loan matures in October 2011 and may be extended at our sole option for an additional one-year period. As of December 31, 2006, we had borrowings of $600 million outstanding on the unsecured term loan with a weighted average interest rate of 6.50%.

Our unsecured line of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net worth, a leverage ratio and a fixed charge coverage ratio. In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other things, certain investments, indebtedness, distributions and mergers.

Aggregate borrowings under our unsecured line of credit and unsecured term loan may be limited to an amount based primarily on the net operating income derived from a pool of unencumbered properties. Accordingly, as we complete the redevelopment, development or acquisition of additional unencumbered properties, aggregate unsecured borrowings available under our credit facilities may increase up to a maximum combined amount of $1.4 billion.

Interest rate swaps

We utilize interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan. These agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying principal amount (the "notional amount"). Interest received under all of our swap agreements is based on the one-month LIBOR rate. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

The following table summarizes our interest rate swap agreements as of December 31, 2006 (dollars in thousands)[(1)]:

Transaction Dates	Effective Dates	Notional Amounts	Effective at December 31, 2006	Interest Pay Rates	Termination Dates	Fa Val
December 2003	December 29, 2006	$ 50,000	$ 50,000	5.090%	October 31, 2008	$
April 2004	April 28, 2006	50,000	50,000	4.230%	April 30, 2007	
April 2004	April 30, 2007	50,000	--	4.850%	April 30, 2008	
June 2004	June 30, 2005	50,000	50,000	4.343%	June 30, 2007	
December 2004	December 31, 2004	50,000	50,000	3.590%	January 2, 2008	
December 2004	January 3, 2006	50,000	50,000	3.927%	July 1, 2008	
May 2005	June 30, 2006	50,000	50,000	4.270%	June 29, 2007	
May 2005	November 30, 2006	25,000	25,000	4.330%	November 30, 2007	
May 2005	June 29, 2007	50,000	--	4.400%	June 30, 2008	
May 2005	November 30, 2007	25,000	--	4.460%	November 28, 2008	
May 2005	June 30, 2008	50,000	--	4.509%	June 30, 2009	
May 2005	November 28, 2008	25,000	--	4.615%	November 30, 2009	

December 2005	December 29, 2006	50,000	50,000	4.730%	November 30, 2009	
December 2005	December 29, 2006	50,000	50,000	4.740%	November 30, 2009	
December 2005	January 2, 2008	50,000	--	4.768%	December 31, 2010	
June 2006	June 30, 2006	125,000	125,000	5.299%	September 30, 2009	(1,
June 2006	October 31, 2008	50,000	--	5.340%	December 31, 2010	(
June 2006	October 31, 2008	50,000	--	5.347%	December 31, 2010	(
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	(
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	(
December 2006	December 31, 2006	50,000	50,000	4.990%	March 31, 2014	
December 2006	June 29, 2007	50,000	--	4.920%	October 31, 2008	
December 2006	November 30, 2009	75,000	--	5.015%	March 31, 2014	
December 2006	November 30, 2009	75,000	--	5.023%	March 31, 2014	
December 2006	December 31, 2010	100,000	--	5.015%	October 31, 2012	
Total Notional Amount in Effect at December 31, 2006			$ 600,000			$ 1,

(1) As of December 31, 2006, we had one additional interest rate swap agreement with a notional amount of $28,500,000. This interest rate swap agreement has an interest pay rate of 5.003%, is effective on January 2, 2007, terminates on January 3, 2011 and has a fair value as of December 31, 2006 of approximately $(67,000).

We do not believe we are exposed to a significant amount of credit risk in our interest rate swap agreements as our counterparties are established, well-capitalized financial institutions. In addition, we have entered into master derivative agreements with each counterparty. These master derivative agreements (all of which are on the standard International Swaps & Derivatives Association, Inc. form) define certain terms between us and each counterparty to address and minimize certain risks associated with our swap agreements, including a default by a counterparty.

As of December 31, 2006 and 2005, our interest rate swap agreements were classified in other assets and accounts payable, accrued expenses and tenant security deposits at their fair values aggregating approximately $973,000 and $4.9 million, respectively, with the offsetting adjustment reflected as unrealized gains in accumulated other comprehensive income in stockholders' equity. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made. During the next twelve months, we expect to reclassify $3.1 million from accumulated other comprehensive income to interest income.

Other resources and liquidity requirements

In June 2006, we sold 3,795,000 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of $84.00 per share, resulting in aggregate proceeds of approximately $303.1 million (after deducting underwriting discounts and other offering costs).

In September 2006, we sold 2,500,000 shares of our common stock in a follow-on offering. The shares were issued at a price of $94.75 per share, resulting in aggregate proceeds of approximately $232.2 million (after deducting underwriting discounts and other offering costs).

In October 2006, we entered into an amendment to our existing amended and restated credit agreement. The maximum permitted unsecured borrowings under our credit facilities was increased from $1 billion to $1.4 billion consisting of a $800 million unsecured line of credit and a $600 million unsecured term loan. We may in the future elect to increase commitments under our unsecured credit facilities by up to an additional $500 million.

We expect to continue meeting our short-term liquidity and capital requirements generally through our working capital and net cash provided by operating activities. We believe that the net cash provided by operating activities will continue to be sufficient to enable us to make distributions necessary to continue qualifying as a REIT. We also believe that net cash provided by operating activities will be sufficient to fund recurring non-revenue enhancing capital expenditures, tenant improvements and leasing commissions.

We expect to meet certain long-term liquidity requirements, such as for property acquisitions, property development and redevelopment activities, scheduled debt maturities, expansions and other non-recurring capital improvements, through net cash provided by operating activities, long-term secured and unsecured indebtedness, including borrowings under the unsecured line of credit and unsecured term loan, and the issuance of additional debt and/or equity securities.

Exposure to environmental liabilities

In connection with the acquisition of all of our properties, we have obtained Phase I environmental assessments to ascertain the existence of any environmental liabilities or other issues. The Phase I environmental assessments of our properties have not revealed any environmental liabilities that we believe would have a material adverse effect on our financial condition or results of operations taken as a whole, nor are we aware of any material environmental liabilities that have occurred since the Phase I environmental assessments were completed. In addition, we carry a policy of pollution legal liability insurance covering exposure to certain environmental losses at all of our properties.

Capital expenditures, tenant improvements and leasing costs

The following table shows total and weighted average per square foot property-related capital expenditures, tenant improvements and leasing costs (all of which are added to the basis of the properties) related to our life science properties (excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue-enhancing or related to properties that have undergone redevelopment) for the years ended December 31, 2006, 2005, 2004, 2003 and 2002:

	Total/ Weighted Average	2006	2005	2004	2003	20
Capital expenditures (1):						
Major capital expenditures	$ 6,766,000	$ 575,000	$ 972,000	$2,628,000 (2)	$1,632,000 (3)	$ 959
Recurring capital expenditures	$ 5,485,000	$ 639,000	$ 1,278,000	$1,243,000	$ 853,000	$1,472
Weighted average square feet in portfolio	35,251,118	9,790,326	8,128,690	6,123,807	5,708,635	5,499
Per weighted average square foot in portfolio						
Major capital expenditures	$ 0.19	$ 0.06	$ 0.12	$ 0.43 (2)	$ 0.29 (3)	$
Recurring capital expenditures	$ 0.16	$ 0.07	$ 0.16	$ 0.20	$ 0.15	$
Tenant improvements and leasing costs:						
Retenanted space (5)						
Tenant improvements and leasing costs	$ 5,795,000	$1,370,000	$ 324,000	$ 713,000	$2,890,000	$ 498
Retenanted square feet	1,089,677	248,846	130,887	142,814	248,488	318
Per square foot leased of						

retenanted space	$ 5.32	$ 5.51	$ 2.48	$ 4.99	$ 11.63	$
Renewal space						
Tenant improvements and leasing costs	$ 3,303,000	$ 957,000	$ 778,000	$ 937,000	$ 105,000	$ 526
Renewal square feet	2,208,126	455,980	666,058	558,874	271,236	255
Per square foot leased of renewal space	$ 1.50	$ 2.10	$ 1.17	$ 1.68	$ 0.39	$

(1) Property-related capital expenditures include all major capital and recurring capital expenditures except capital expenditures that are recoverable from tenants, revenue-enhancing capital expenditures, or costs related to the redevelopment of a property. Major capital expenditures consisted of roof replacements and HVAC systems that are typically identified and considered at the time a property is acquired. Major capital expenditures for 2003 also included one-time costs related to the implementation of our national branding and signage program. Recurring capital expenditures exclude major capital expenditures.

(2) Major capital expenditures for 2004 included a one-time HVAC system upgrade at one property totaling $1,551,000 or $0.25 per square foot.

(3) Major capital expenditures for 2003 included $1,072,000 or $0.19 per square foot in one-time costs related to the implementation of our national branding and signage program.

(4) Recurring capital expenditures for 2002 included $552,000 or $0.10 per square foot related to a fully leased property in San Diego, California that underwent substantial renovation in 2002.

(5) Excludes space that has undergone redevelopment before retenanting.

Capital expenditures fluctuate in any given period due to the nature, extent and timing of improvements required and the extent to which they are recoverable from our tenants. Approximately 91% of our leases provide for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing). In addition, we maintain an active preventative maintenance program at each of our properties to minimize capital expenditures.

Tenant improvements and leasing costs also fluctuate in any given year depending upon factors such as the timing and extent of vacancies, property age, location and characteristics, the type of lease (renewal tenant or retenanted space), the involvement of external leasing agents and overall competitive market conditions.

Inflation

As of December 31, 2006, approximately 90% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses, including increases thereto. In addition, as of December 31, 2006, approximately 4% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed (generally ranging from 3% to 3.5%) or indexed based on the consumer price index or another index. Accordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk from inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including borrowings related to our unsecured line of credit and unsecured term loan.

Funds from operations

GAAP basis accounting for real estate assets utilizes historical cost accounting and assumes real estate values diminish over time. In an effort to overcome the difference between real estate values and historical cost accounting for real estate assets, the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") established the measurement tool of Funds From Operations ("FFO"). Since its introduction, FFO has become a widely used non-GAAP financial measure by REITs. We believe that FFO is helpful to investors as an additional measure of the performance of an equity REIT. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper (the "White Paper") and related implementation guidance, which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. While FFO is a relevant and widely used measure of operating performance for REITs, it should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. (See "Liquidity and capital resources - cash flows" above for information regarding these measures of cash flow.)

The following table presents a reconciliation of net income available to common stockholders to funds from operations available to common stockholders (in thousands):

	Year Ended December 31,	
	2006	2005
Net income available to common stockholders	$57,326	$47,343
Add:		
Depreciation and amortization (1)	74,039	55,416
Minority interests' share of income	2,287	634
Less:		
Gain on sales of property (2)	(59)	(36)
FFO allocable to minority interest	(1,928)	(668)
Funds from operations available to common stockholders	$131,665	$102,689

(1) Includes depreciation and amortization on assets "held for sale" reflected as discontinued operations (for the periods prior to when such assets were designated as "held for sale").

(2) Gain on sales of property relates to the disposition of three properties in the Suburban Washington D.C and New Jersey markets during 2006, and two properties in the Southeast and Suburban Washington D.C. markets during 2005. Gain on sales of property is included in the income statement in income from discontinued operations, net.

Property and lease information

The following table is a summary of our properties as of December 31, 2006 (dollars in thousands):

		Rentable Square Feet		
Markets	Number of Properties	Operating	Redevelopment	Total
California - Los Angeles Metro	2	31,343	29,660	61,003

California - San Diego	27	1,149,369	160,887	1,310,256
California - San Francisco Bay	24	1,660,349	72,902	1,733,251
Eastern Massachusetts	39	3,044,186	230,917	3,275,103
International - Canada	3	296,362	--	296,362
New Jersey/Suburban Philadelphia	8	443,349	--	443,349
Southeast	12	612,565	45,841	658,406
Suburban Washington D.C.	32	2,575,370	--	2,575,370
Washington - Seattle	12	806,759	72,492	879,251
Total Properties	159	10,619,652	612,699	11,232,351

(1) Excludes spaces at properties totaling 612,699 square feet undergoing a permanent change in use to office/laboratory space through redevelopment.

(2) Substantially all of the vacant space is office or warehouse space.

(3) Including spaces undergoing a permanent change in use to office/laboratory space through redevelopment, occupancy as of December 31, 2006 was 88.0%.

The following table summarizes information with respect to the lease expirations at our properties as of December 31, 2006:

Year of Lease Expiration	Number of Expiring Leases	Square Footage of Expiring Leases	Percentage of Aggregate Leased Square Feet	Annualized Base Rent of Expiring Leases (per square foot)
2007	90 (1)	1,267,876	12.8%	$24.59
2008	43	780,175	7.9%	$26.52
2009	50	685,896	6.9%	$22.83
2010	40	1,013,669	10.3%	$26.97
2011	51	1,457,414	14.7%	$27.07
Thereafter	96	4,680,559	47.4%	$31.89

(1) Includes month-to-month leases for approximately 86,000 square feet.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which we believe we are exposed is interest rate risk, which may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

In order to modify and manage the interest rate characteristics of our outstanding debt and to limit the effects of interest rate risks on our operations, we may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts. The use of these types of instruments to hedge a portion of our exposure to changes in interest rates carries additional risks, such as counter-party credit risk and the legal enforceability of hedging contracts.

Our future earnings and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, our interest rate swap agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our swap agreements in effect on, December 31, 2006 and 2005,

we estimate that a 1% increase in interest rates on our variable debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements, would decrease annual future earnings by approximately $1.5 million and $2.1 million, respectively. We further estimate that a 1% decrease in interest rates on our variable debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements in effect on December 31, 2006 and 2005, would increase annual future earnings by approximately $1.5 million and $2.1 million, respectively. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their aggregate fair values by approximately $68.8 million and $36.8 million at December 31, 2006 and 2005, respectively. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their aggregate fair values by approximately $71.7 million and $38.4 million at December 31, 2006 and 2005, respectively.

These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on December 31, 2006 and 2005. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

We have exposure to equity price market risk because of our equity investments in certain publicly-traded companies and privately held entities. We classify investments in publicly-traded companies as available-for-sale and, consequently, record them on our balance sheets at fair value with unrealized gains or losses reported as a component of comprehensive income or loss. Investments in privately held entities are generally accounted for under the cost method because we do not influence any of the operating or financial policies of the entities in which we invest. For all investments, we recognize other than temporary declines in value against earnings in the same period the decline in value was deemed to have occurred. There is no assurance that future declines in values will not have a material adverse impact on our future results of operations. By way of example, a 10% decrease in the fair value of our equity investments as of December 31, 2006 and 2005 would decrease their fair values by approximately $7.5 million and $8.2 million, respectively.

We have exposure to foreign currency exchange rate market risk related to our wholly-owned subsidiaries operating in Canada. The functional currency of our foreign subsidiaries operating in Canada is the local currency, the Canadian dollar. Gains or losses resulting from the translation of our foreign subsidiaries' balance sheets and income statements are included in accumulated other comprehensive income as a separate component of stockholders' equity. Gains or losses will be reflected in our income statement when there is a sale or partial sale of our investment in these operations or upon a complete or substantially complete liquidation of the investment.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is included as a separate section in this Annual Report on Form 10-K. See "Item 15. Exhibits, Financial Statement Schedules".

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Changes in internal control over financial reporting

There have been no significant changes in our internal control over financial reporting during the quarter ended December 31, 2006 that could materially affect, or is reasonably likely to materially affect, our internal control over

financial reporting.

Evaluation of disclosure controls and procedures

As of December 31, 2006, we performed an evaluation, under the supervision of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures. These controls and procedures have been designed to ensure that information required for disclosure is recorded, processed, summarized and reported within the requisite time periods. Based on our evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2006.

Management's annual report on internal control over financial reporting

The management of Alexandria Real Estate Equities, Inc. and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with the authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements. Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in "Internal Control - Integrated Framework". Management concluded that based on its assessment, the Company's internal control over financial reporting was effective as of December 31, 2006. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report on the next page.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Alexandria Real Estate Equities, Inc.

We have audited management's assessment, included in the accompanying Annual Management's Report on Internal Control Over Financial Reporting, that Alexandria Real Estate Equities, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of the Company as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2007

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference from our definitive proxy statement for our 2007 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the end of our fiscal year (the "2007 Proxy Statement") under the caption "Board of Directors, Executive Officers and Senior Management", "Corporate Governance Guidelines and Code of Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance".

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference from our 2007 Proxy Statement under the caption "Board of Directors, Executive Officers and Senior Management - Executive Compensation".

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information on the Company's equity compensation plan as of December 31, 2006:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plan Approved by Stockholders - 1997 Incentive Plan	338,680	$38.20	942,283

The other information required by this Item is incorporated herein by reference from our 2007 Proxy Statement under the caption "Security Ownership of Management and Principal Stockholders".

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference from our 2007 Proxy Statement under the captions "Certain Relationships and Related Transactions" and "Director Independence".

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference from our 2007 Proxy Statement under the caption "Fees Billed by Independent Registered Public Accountants".

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) and (2) Financial Statement Schedules

The financial statements and schedule required by this Item are included as a separate section of this Annual Report on Form 10-K, beginning on page F-1.

(a)(3) See Exhibits and Index to Exhibits below.

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Report of Independent Registered Public Accounting Firm

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Audited Consolidated Financial Statements:

Consolidated Balance Sheets as of December 31, 2006 and 2005

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Consolidated Statements of Income for the Years Ended December 31, 2006, 2005 and 2004

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Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2006, 2005 and 2004

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Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004

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Notes to Consolidated Financial Statements

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Schedule III - Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation

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(b) Exhibits and Index to Exhibits

Exhibit Number	Exhibit Title
3.1 *	Articles of Amendment and Restatement of Alexandria, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.2 *	Certificate of Correction of Alexandria, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.3*	Bylaws of Alexandria (as amended February 27, 2006), filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2006
3.4 *	

Articles Supplementary, dated February 10, 2000, relating to the election to be subject to Subtitle 8 of Title 3 of the Maryland General Corporation Law, filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000

3.5 *

Articles Supplementary, dated January 28, 2002, relating to the 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on February 17, 2002

4.1 *

Rights Agreement, dated as of February 10, 2000, between the Company and American Stock Transfer & Trust Company, as Rights Agent, including the forms of Articles Supplementary setting forth the terms of the Series A Junior Participating Preferred Stock, par value $.01 per share, Rights Certificate and the Summary of Rights to Purchase Preferred Stock attached as exhibits to the Rights Agreement. Pursuant to the Rights Agreement, printed Rights Certificates will not be mailed until after the Distribution Date (as defined in the Rights Agreement), filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000

4.2 *

Specimen certificate representing shares of Common Stock, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)

4.3 *

Specimen certificate representing shares of 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on February 17, 2002

4.4 *

Specimen certificate representing shares of 8.375% Series C Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on June 28, 2004

10.1 * (1)

Amended and Restated 1997 Stock Award and Incentive Plan of Alexandria, dated December 29, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 29, 2002

10.2 * (1)

Form of Non-Employee Director Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)

10.3 * (1)

Form of Incentive Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)

10.4 * (1)

Form of Nonqualified Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)

10.5 * (1)

Form of Employee Restricted Stock Agreement for use in connection with shares of restricted stock issued to employees pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999

10.6 * (1)

Form of Independent Contractor Restricted Stock Agreement for use in connection with shares of restricted stock issued to independent contractors pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999

10.7 * (1)

Alexandria's 2000 Deferred Compensation Plans, effective December 1, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 29, 2002

10.8*

Amended and Restated Credit Agreement as of December 22, 2004, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other borrowers then and thereafter a party thereto, the banks therein named, the other banks which may become parties thereto, Bank of America, N.A. as Administrative Agent, Citicorp North America, Inc. and Commerzbank AG New York and Grand Cayman Branches, as Co-Syndication Agents, Societe Generale and Eurohypo AG, New York Branch, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2005.

10.9*

Second Amendment to Amended and Restated Credit Agreement as of November 16, 2005, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries party hereto as the borrowers then and thereafter a party thereto, the banks therein named, the other banks which may become parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America, Inc. and Commerzbank AG New York and Grand Cayman Branches, as Co-Syndication Agents, Societe Generale and Eurohypo AG, New York Branch, as Co- Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the commission on March 16, 2006

10.10* (1)

Executive Employment Agreement between Alexandria Real Estate Equities, Inc. and James H. Richardson, dated January 9, 2006 filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2006

10.11* (1)

Executive Employment Agreement between Alexandria Real Estate Equities, Inc. and Joel S. Marcus, dated March 13, 2006 filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2006.

10.12 (1)

Summary of Director Compensation Arrangements

10.13

Second Amended and Restated Credit Agreement as of October 31, 2006, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America as Syndication Agent, Eurohypo AG, New York Branch, Societe Generale, The Royal Bank of Scotland, PLC, Calyon, The Bank of Nova Scotia, UBS Loan Finance LLC, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners

10.14

First Amendment to Second Amended and Restated Credit Agreement as of December 1, 2006, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America as Syndication Agent, Eurohypo AG, New York Branch, Societe Generale, The Royal Bank of Scotland, PLC, Calyon, The Bank of Nova Scotia, UBS Loan Finance LLC, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners

12.1

Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

14.1*

Alexandria Real Estate Equities, Inc. Business Integrity Policy and Procedures for Reporting Non-Compliance (code of ethics pursuant to Item 406 Regulation S-K), filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2005.

21.1

List of Subsidiaries of Alexandria

23.1

Consent of Ernst & Young LLP

31.1

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32

Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(*) Incorporated by reference.
(1) Management contract or compensatory arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALEXANDRIA REAL ESTATE EQUITIES, INC.

By: /s/ JOEL S. MARCUS
Joel S. Marcus
Chief Executive Officer

Dated February 27, 2007

KNOW ALL THOSE BY THESE PRESENTS

, that each person whose signature appears below constitutes and appoints Jerry M. Sudarsky and Joel S. Marcus, and each of them, as his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, if any, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents of their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature

Title

Date

/s/ JERRY M. SUDARSKY

Jerry M. Sudarsky

Chairman of the Board of Directors

February 27, 2007

/s/ JOEL S. MARCUS

Joel S. Marcus

Chief Executive Officer (Principal Executive Officer) and Director

February 27, 2007

/s/ JAMES H. RICHARDSON

James H. Richardson

President and Director

February 27, 2007

/s/ DEAN A. SHIGENAGA

Dean A. Shigenaga

Chief Financial Officer (Principal Financial and Accounting Officer)

February 27, 2007

/s/ RICHARD B. JENNINGS

Richard B. Jennings

Director

February 27, 2007

/s/ RICHARD H. KLEIN

Richard H. Klein

Director

February 28, 2007

/s/ MARTIN A. SIMONETTI

Martin A. Simonetti

Director

February 26, 2007

/s/ ALAN G. WALTON

Alan G. Walton

Director

February 27, 2007

/s/ RICHMOND A. WOLF

Richmond A. Wolf

Director

February 28, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Alexandria Real Estate Equities, Inc.

We have audited the accompanying consolidated balance sheets of Alexandria Real Estate Equities, Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alexandria Real Estate Equities, Inc. and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2007

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Balance Sheets
(*Dollars in thousands, except per share amounts)*

	December 31,	
	2006	2005
Assets		
Rental properties, net	$2,924,881	$1,788,818
Properties undergoing development and land held for development	397,701	329,338
Cash and cash equivalents	2,948	3,911
Tenant security deposits and other restricted cash	34,360	21,013
Tenant receivables	6,330	4,764
Deferred rent	68,412	54,573
Investments	74,824	82,010
Other assets	108,021	78,023
Total assets	$3,617,477	$2,362,450
Liabilities and Stockholders' Equity		
Secured notes payable	$1,174,866	$ 666,666
Unsecured line of credit and unsecured term loan	850,000	740,000
Accounts payable, accrued expenses and tenant security deposits	158,119	86,391
Dividends payable	25,363	19,478
Total liabilities	2,208,348	1,512,535
Commitments and contingencies		
Minority interest	57,477	20,115
Stockholders' equity:		
9.10% Series B cumulative redeemable preferred stock, $0.01 par value per share, 2,300,000 shares authorized; 2,300,000 shares issued and outstanding at December 31, 2006 and 2005; $25.00 liquidation value per share	57,500	57,500
8.375% Series C cumulative redeemable preferred stock, $0.01 par value per share, 5,750,000 shares authorized; 5,185,500 shares issued and outstanding at December 31, 2006 and 2005; $25.00 liquidation value per share	129,638	129,638
Common stock, $0.01 par value per share, 100,000,000 shares authorized; 29,012,135 and 22,441,294 shares issued and outstanding at December 31, 2006 and 2005, respectively	290	224
Additional paid-in capital	1,139,629	607,405
Retained earnings	-	-
Accumulated other comprehensive income	24,595	35,033
Total stockholders' equity	1,351,652	829,800
Total liabilities and stockholders' equity	$3,617,477	$2,362,450

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Statements of Income
(*Dollars in thousands, except per share amounts)*

	Year Ended December		
	2006	2005	
Revenues			
Rental	$ 241,209	$ 184,812	$
Tenant recoveries	63,760	48,528	
Other income	11,852	4,798	
	316,821	238,138	
Expenses			
Rental operations	71,550	53,107	
General and administrative	26,071	21,088	
Interest	71,371	49,116	
Depreciation and amortization	73,572	53,993	
	242,564	177,304	
Minority interests' share of income	2,287	634	
Income from continuing operations	71,970	60,200	
Income from discontinued operations, net	1,446	3,233	
Net income	73,416	63,433	
Dividends on preferred stock	16,090	16,090	
Preferred stock redemption charge	-	-	
Net income available to common stockholders	$ 57,326	$ 47,343	$
Earnings per share - basic			
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.22	$ 2.11	$
Discontinued operations, net	0.06	0.15	
Earnings per share - basic	$ 2.28	$ 2.26	$
Earnings per share - diluted			
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.19	$ 2.07	$
Discontinued operations, net	0.06	0.15	
Earnings per share - diluted	$ 2.25	$ 2.22	$
Weighted average shares of common stock outstanding			
Basic	25,102,200	20,948,915	19
Diluted	25,524,478	21,316,886	19

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)

	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock
Balance at December 31, 2003	$ 38,588	$ 57,500	$ -
Net income	-	-	-
Unrealized gain on marketable securities	-	-	-
Unrealized gain on swap agreements	-	-	-
Comprehensive income	-	-	-
Issuance of Series C preferred stock, net of offering costs	-	-	129,638
Redemption of Series A preferred stock	(38,588)	-	-
Issuances pursuant to Stock Plan	-	-	-
Dividends declared on preferred stock	-	-	-
Dividends declared on common stock	-	-	-
Balance at December 31, 2004	-	57,500	129,638
Net income	-	-	-
Unrealized gain on marketable securities	-	-	-
Unrealized gain on swap agreements	-	-	-
Foreign currency translation	-	-	-
Comprehensive income	-	-	-
Issuance of common stock, net of offering costs	-	-	-
Issuances pursuant to Stock Plan	-	-	-
Dividends declared on preferred stock	-	-	-
Dividends declared on common stock	-	-	-
Balance at December 31, 2005	-	57,500	129,638
Net income	-	-	-
Unrealized loss on marketable securities	-	-	-
Unrealized loss on swap agreements	-	-	-
Foreign currency translation	-	-	-
Comprehensive income	-	-	-
Issuance of common stock, net of offering costs	-	-	-
Issuances pursuant to Stock Plan	-	-	-
Dividends declared on preferred stock	-	-	-
Dividends declared on common stock	-	-	-
Balance at December 31, 2006	$ -	$ 57,500	$ 129,638

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 3		
	2006	2005	
Operating Activities			
Net income	$ 73,416	$ 63,433	$
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in loss (income) related to investments	632	(483)	
Realized gain on sales of investments	(7,770)	(1,811)	
Gain/loss on sales of property	(59)	(36)	
Minority interest	2,287	634	
Depreciation and amortization	74,039	55,416	
Amortization of loan fees and costs	4,631	6,666	
Amortization of premiums/discount on secured notes payable	(990)	(1,089)	
Stock compensation expense	7,909	5,136	
Changes in operating assets and liabilities:			
Tenant security deposits and other restricted cash	(13,347)	(3,344)	
Tenant receivables	(1,566)	(2,214)	
Deferred rent	(16,323)	(14,904)	
Other assets	(25,532)	(26,586)	
Accounts payable, accrued expenses and tenant security deposits	31,063	39,860	
Net cash provided by operating activities	128,390	120,678	
Investing Activities			
Purchase of rental properties	(744,908)	(223,862)	
Proceeds from sales of rental properties	33,040	1,182	
Additions to rental properties	(98,111)	(92,417)	
Additions to properties under development and land held for development	(168,299)	(117,945)	
Additions to investments	(12,906)	(10,367)	
Proceeds from investments	20,594	10,509	
Net cash used in investing activities	(970,590)	(432,900)	
Financing Activities			
Proceeds from issuances of common stock	535,262	189,371	
Proceeds from issuance of preferred stock	-	-	
Redemption of Series A preferred stock	-	-	
Proceeds from exercise of stock options	4,298	4,291	
Borrowings from unsecured line of credit and unsecured term loan	1,613,600	515,000	
Repayments of unsecured line of credit	(1,503,600)	(323,000)	
Proceeds from secured notes payable	502,500	153,398	
Principal reductions of secured notes payable	(221,316)	(153,015)	
Dividends paid on common stock	(71,489)	(56,312)	
Dividends paid on preferred stock	(16,090)	(16,090)	
Distributions to minority interest	(1,928)	(668)	
Net cash provided by financing activities	841,237	312,975	
Net (decrease) increase in cash and cash equivalents	(963)	753	
Cash and cash equivalents at beginning of year	3,911	3,158	
Cash and cash equivalents at end of year	$ 2,948	$ 3,911	$
Supplemental Disclosure of Cash Flow Information			

Cash paid during the year for interest, net of interest capitalized	$ 64,830	$ 39,292	$

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Background

References to the "Company", "we", "our" and "us" refer to Alexandria Real Estate Equities, Inc. and its subsidiaries.

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We are engaged principally in the ownership, operation, management, selective redevelopment, development and acquisition of properties for the life sciences industry. Our properties are designed and improved for lease primarily to institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, life science product, service, biodefense and translational research entities, as well as governmental agencies. As of December 31, 2006, we had 159 properties (156 properties located in nine states in the United States and three properties located in Canada) with approximately 11.2 million rentable square feet of office/laboratory space, compared to 133 properties (130 properties located in nine states in the United States and three properties located in Canada) with approximately 8.8 million rentable square feet of office/laboratory space as of December 31, 2005.

As of December 31, 2006, approximately 90% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses, including increases thereto. In addition, as of December 31, 2006, approximately 4% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Additionally, as of December 31, 2006, approximately 91% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures and approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed or indexed based on the consumer price index or another index. The information provided in this paragraph is unaudited.

2. Basis of presentation and summary of significant accounting policies

Basis of presentation

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

We hold interests, together with certain third parties, in a limited partnership and in limited liability companies which we consolidate in our financial statements. Such interests are subject to provisions of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities", FASB Emerging Issues Task Force Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights", FASB Emerging Issues Task Force Issue No.04-5,

"Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" and AICPA Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures". Based on the provisions set forth in these rules, we consolidate the limited partnership and limited liability companies because we exercise significant control over major decisions by these entities, such as investment activity and changes in financing.

Use of estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, tenant receivables, unsecured line of credit and unsecured term loan, and accounts payable, accrued expenses and tenant security deposits approximate fair value.

The fair value of our secured notes payable was estimated using discounted cash flows analyses based on borrowing rates we believe we could obtain with similar terms and maturities. As of December 31, 2006 and 2005, the fair values of our secured notes payable were approximately $1,179,404,000 and $682,835,000, respectively.

Operating segments

We view our operations as principally one segment and the financial information disclosed herein represents all of the financial information related to our principal operating segment.

International operations

The functional currency for our subsidiaries operating in the United States is the U.S. dollar. During 2005, we acquired three operating properties in Canada through wholly-owned Canadian subsidiaries. The functional currency for our foreign subsidiaries operating in Canada is the local currency, the Canadian dollar. The assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect as of the financial statement date. Income statement accounts of our foreign subsidiaries are translated using the average exchange rate for the period presented. Gains resulting from the translation are included in accumulated other comprehensive income as a separate component of stockholders' equity.

The appropriate amounts of exchange gains or losses included in accumulated other comprehensive income are reflected in income when there is a sale or partial sale of our investment in these operations or upon a complete or substantially complete liquidation of the investment.

Rental properties, properties undergoing development and land held for development

In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), we allocate the purchase price of acquired properties to land, land improvements, buildings, building improvements, tenant improvements, equipment, and identified intangibles (including intangible value to above, below and at-market leases, origination costs associated with in-place leases, tenant relationships and other intangible assets) based upon

their relative fair values. The value of tangible assets acquired is based upon our estimation of value on an "as if vacant" basis. We assess fair value of tangible and intangible assets based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

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

In accordance with SFAS 141, the values of above and below market leases are amortized over the life of the related lease and recorded as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The value of acquired leases, less accumulated amortization, was approximately $36,389,000 as of December 31, 2006. The weighted average amortization period of acquired leases is approximately 9.5 years. The estimated aggregate annual amortization of acquired leases for each of the five succeeding years is $5,454,000 for 2007, $4,621,000 for 2008, $4,519,000 for 2009, $4,392,000 for 2010 and $3,442,000 for 2011.

Rental properties, properties undergoing development and land held for development and intangibles are individually evaluated for impairment in accordance with SFAS 141 when conditions exist which may indicate that it is probable that the sum of expected future undiscounted cash flows is less than the carrying amount. Upon determination that an impairment has occurred, a write-down is recorded to reduce the carrying amount to its estimated fair value.

In accordance with Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost" ("SFAS 34") and Statement of Financial Accounting Standards No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects" ("SFAS 67"), we capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a project. Pursuant to SFAS 34 and SFAS 67, capitalization of construction, development and redevelopment costs is required while activities are ongoing to prepare an asset for its intended use. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Costs previously capitalized related to abandoned acquisitions or development opportunities are written off. Should development activity cease, a portion of interest, property taxes, insurance and certain costs would no longer be eligible for capitalization, and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), we classify a property as "held for sale" when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the property; (2) the property is available for immediate sale in its present condition, subject only to the terms that are usual and customary; (3) an active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated; (4) the sale of the property is probable and is expected to be completed within one year; (5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When the property is classified as "held for sale", its operations are classified as discontinued operations in our consolidated statements of income and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. A loss is recognized for any initial adjustment of the asset's carrying amount to fair value less costs to sell in the period the asset qualifies as "held for sale". Depreciation of assets ceases upon designation of a property as "held for sale".

Conditional asset retirement obligations

Some of our properties may have asbestos which, under certain conditions, requires remediation. Although we believe that the asbestos is appropriately contained in accordance with environmental regulations, our practice is to remediate the asbestos upon the development or redevelopment of the affected property. In accordance with Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143" ("FIN 47"), we recognize a liability for the fair value of a conditional asset retirement obligation (including asbestos) when the fair value of the liability can be reasonably estimated. In addition, for certain properties, we have not recognized an asset retirement obligation when there is an indeterminate settlement date for the obligation because the period in which we may remediate the obligation may not be estimated with any level of precision to provide for a meaningful estimate of the retirement obligation. Conditional asset retirement obligations totaled approximately $6.9 million as of December 31, 2006 and are included in accounts payable, accrued expenses and tenant security deposits.

Cash equivalents

We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Tenant security deposits and other restricted cash

Tenant security deposits and other restricted cash consisted of the following (in thousands):

	December 31,	
	2006	2005
Funds held in trust under the terms of certain secured notes payable	$ 20,071	$ 13,838
Other funds held in escrow	14,289	7,175
	$ 34,360	$ 21,013

Investments

We hold equity investments in certain publicly-traded companies and privately held entities primarily

involved in the life science industry. All of our investments in publicly-traded companies are considered "available for sale" in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), and are recorded at fair value. Fair value has been determined as the closing trading price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity. The classification of investments under SFAS 115 is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of investments sold is determined by the specific identification method, with realized gains and losses included in other income in the accompanying consolidated statements of income.

Investments in privately held entities are generally accounted for under the cost method because we do not influence any operating or financial policies of the entities in which we invest. Certain investments are accounted for under the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" ("APB 18") and Emerging Issues Task Force Topic D-46, "Accounting for Limited Partnership Investments" ("EITF Topic D-46"). Under the equity method we record our investment initially at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

Individual investments are evaluated for impairment when conditions exist which may indicate that it is probable that an impairment exist. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements. For all of our investments, if a decline in the fair value of an investment below its carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash charge to current earnings.

Leasing costs

Costs directly related and essential to our leasing activities are capitalized and amortized on a straight-line basis over the term of the related lease. Costs related to unsuccessful leasing opportunities are expensed. Leasing costs, net of related amortization, totaled $45,980,000 and $32,924,000 as of December 31, 2006 and 2005, respectively, and are included in other assets in the accompanying consolidated balance sheets.

Lease origination costs recorded pursuant to SFAS 141 are included in amounts immediately above and are classified as leasing costs, included in other assets in the accompanying consolidated balance sheets and amortized over the remaining life of the lease. The value of lease origination costs, net of related amortization recognized pursuant to SFAS 141, was approximately $17,004,000 as of December 31, 2006. The annual amortization of lease origination costs pursuant to SFAS 141 for each of the five succeeding years is $4,266,000 for 2007, $3,357,000 for 2008, $2,956,000 for 2009, $2,259,000 for 2010 and $1,497,000 for 2011.

Loan fees and costs

Fees and costs incurred in obtaining long-term financing are amortized over the terms of the related loans and included in interest expense in the accompanying consolidated statements of income. Loan fees and costs, net of related amortization, totaled $19,390,000 and $14,789,000 as of December 31, 2006 and 2005, respectively, and are included in other assets in the accompanying consolidated balance sheets.

Interest rate swaps

We utilize interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan. These agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying principal amount (the "notional amount"). Interest received under all of our swap agreements is based on the one-month LIBOR rate. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. All of our interest rate swap agreements meet the criteria to be deemed "highly effective" under SFAS 133 in reducing our exposure to variable interest rates. In accordance with SFAS 133, we formally document all relationships between interest rate swap agreements and hedged items, including the method for evaluating effectiveness and the risk strategy. Accordingly, we have categorized these instruments as cash flow hedges. We make an assessment at the inception of each interest rate swap agreement and on an on going basis to determine whether these instruments are highly effective in offsetting changes in cash flows associated with the hedged items. The ineffective portion of each interest rate swap agreement is immediately recognized in earnings. While we intend to continue to meet the conditions for such hedge accounting, if hedges did not qualify as "highly effective", the changes in the fair values of the derivatives used as hedges would be reflected in earnings.

Pursuant to SFAS 133, interest rate swaps are reflected at their estimated fair values in the accompanying consolidated balance sheets. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value.

We do not believe we are exposed to a significant amount of credit risk in our interest rate swap agreements as our counterparties are established, well-capitalized financial institutions.

Accumulated other comprehensive income

Accumulated other comprehensive income consisted of the following (in thousands):

	December 31,	
	2006	2005
Unrealized gain on marketable securities	$ 21,737	$ 28,373
Unrealized gain on interest rate swap agreements	973	4,867
Unrealized gain on foreign currency translation	1,885	1,793
	$ 24,595	$ 35,033

Rental income and tenant recoveries

Rental income from leases with scheduled rent increases, free rent, incentives and other rent adjustments are recognized on a straight-line basis over the respective lease terms. We include amounts currently recognized as income, and expected to be received in later years, in deferred rent in the accompanying consolidated balance sheets. Amounts received currently, but recognized as income in future years, are included as unearned rent in accounts payable, accrued expenses and tenant security deposits in the accompanying consolidated balance sheets. We commence recognition of rental income at the date the property is ready for its intended use and the tenant takes possession of or controls the physical use of the property.

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

We maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and unrealized deferred rent. As of December 31, 2006 and 2005, we had no allowance for doubtful accounts.

Interest income

Interest income was $1,303,000, $578,000, and $181,000 in 2006, 2005 and 2004, respectively, and is included in other income in the accompanying consolidated statements of income.

Income taxes

As a REIT, we are not subject to federal income taxation as long as we meet a number of organizational and operational requirements and make distributions greater than or equal to 100% of our taxable income to our stockholders. Since we believe we have met these requirements and our distributions exceeded taxable income, no federal income tax provision has been reflected in the accompanying consolidated financial statements for the years ended December 31, 2006, 2005 and 2004. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

During 2006, 2005 and 2004, we declared dividends on our common stock of $2.86, $2.72, and $2.52 per share, respectively. During 2004, we declared dividends on our Series A cumulative redeemable preferred stock of $1.72847. During 2006, 2005 and 2004, we declared dividends on our Series B cumulative redeemable preferred stock of $2.275, $2.275 and $2.275, respectively. During 2006, 2005 and 2004, we declared dividends on our Series C cumulative redeemable preferred stock of $2.09375, $2.09375 and $0.61649 per share, respectively. See Note 11, Preferred Stock and Excess Stock.

The tax treatment of distributions on common stock paid in 2006 is as follows: (1) 82.1% ordinary dividend, (2) 12.3% capital gain at 15%, (3) 3.3% return of capital, and (4) 2.3% Section 1250 capital gain at 25%. The tax treatment of distributions on common stock paid in 2005 is as follows: (1) 71.8% ordinary dividend, (2) 3.9% capital gain at 15%, (3) 24.1% return of capital, and (4) 0.2% Section 1250 capital gain at 25%. The information provided in this paragraph is unaudited.

Earnings per share, dividends declared and preferred stock redemption cost

The following table shows the computation of earnings per share, and dividends declared per common share:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands, except per share amounts)		
Net income available to common stockholders	$ 57,326	$ 47,343	$ 45,724
Weighted average shares of common stock outstanding – basic	25,102,200	20,948,915	19,315,364
Add: dilutive effect of stock options and stock grants	422,278	367,971	343,395
Weighted average shares of common stock outstanding – diluted	25,524,478	21,316,886	19,658,759
Net income available to common stockholders – basic	$ 2.28	$ 2.26	$ 2.37
Net income available to common stockholders – diluted	$ 2.25	$ 2.22	$ 2.33
Dividends declared per common share	$ 2.86	$ 2.72	$ 2.52

Emerging Issues Task Force Topic D-42, "The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock" ("EITF Topic D-42") provides, among other things, that any excess of (1) the fair value of the consideration transferred to the holders of preferred stock redeemed over (2) the carrying amount of the preferred stock, should be subtracted from net earnings to determine net income available to common stockholders

in the calculation of earnings per share. The cost to issue our preferred stock was recorded as a reduction to additional paid-in capital in the period that the preferred stock was issued. Upon any redemption of our preferred stock, the respective offering costs, representing the excess of the fair value of the consideration transferred to the holders over the carrying amount of the preferred stock, will be recognized as a dividend to preferred stockholders. During 2004, we recorded a charge of approximately $1,876,000 to net income available to common stockholders for costs related to the redemption of our 9.5% Series A cumulative redeemable preferred stock. Dividends on preferred stock are deducted from net income to arrive at net income allocable to common stockholders.

Stock-based compensation expense

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). Under the modified-prospective transition method of SFAS 123R, compensation cost is recognized over the remaining service period for the portion of outstanding stock options for which the requisite service had not been rendered that were outstanding as of January 1, 2006. The compensation cost is based on the grant-date fair value of those awards. In addition, SFAS 123R requires that we account for an estimate of awards that are expected to vest and to revise the estimate for actual forfeitures. The adoption of SFAS 123R did not have a material impact on our financial statements since all awards accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") were fully vested prior to the adoption of SFAS 123R. Effective January 1, 2003, we had adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock- Based Compensation" ("SFAS 123") prospectively to all employee awards granted, modified or settled after January 1, 2003. We have not granted any stock options since 2002.

For 2002 and all prior years, we elected to follow ABP 25 and related interpretations in accounting for our employee and non- employee director stock options, stock grants and stock appreciation rights. Under APB 25, because the exercise price of the options we granted equaled the market price of the underlying stock on the date of grant, no compensation expense related to stock options has been recognized. Although we have elected to follow APB 25 for options granted prior to January 1, 2003, pro forma information regarding net income and net income per share is required by SFAS 123R for all periods presented prior to 2006 as if we had accounted for stock options under the fair value method under SFAS 123.

For purposes of the following pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods (in thousands, except per share information):

	Year Ended December 31,		
	2006	2005	2004
Net income available to common stockholders, as reported	$ 57,326	$ 47,343	$ 45,724
Fair value of stock-based compensation cost	--	(152)	(733)
Pro forma net income available to common stockholders	$ 57,326	$ 47,191	$ 44,991
Earnings per share:			
Basic - as reported	$ 2.28	$ 2.26	$ 2.37
Basic - pro forma	$ 2.28	$ 2.25	$ 2.33
Diluted - as reported	$ $2.25	$ $2.22	$ $2.33
Diluted - pro forma	$ $2.25	$ $2.21	$ $2.29

Impact of recently issued accounting standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which provides a framework for measuring fair value, clarifies the definition of fair value within the framework and expands disclosures about the use of fair value measurements. SFAS 157 applies to all existing pronouncements under GAAP that require or permit the use of fair value measurements, except for SFAS 123R. SFAS 157 is effective for fair value measurements beginning in our first quarter of 2008. We do not expect the adoption of SFAS 157 to have a material impact on our financial statements.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 increases the relevancy and comparability of financial reporting by clarifying the way a company accounts for uncertainty in measuring income taxes. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 only allows a favorable tax position to be included in the calculation of tax liabilities and expenses if a company concludes that it is more likely than not that its adopted tax position will prevail if challenged by tax authorities. FIN 48 also provides guidance on the accounting and recording of interest and penalties on uncertain tax positions. FIN 48 is effective for accounting of income taxes beginning in our first quarter of 2007. We do not expect the adoption of FIN 48 to have a material impact on our financial statements.

In December 2005, the FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB 29"). SFAS 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair values of the assets exchanged. SFAS 153 is effective for nonmonetary asset exchanges beginning in our third quarter of 2005. The adoption of SFAS 153 did not have a material impact on our financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" and Statement of Financial Accounting Standards No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS 154 requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors beginning in 2006. The adoption of SFAS 154 did not have an impact on our financial statements.

3. Rental properties, net and properties undergoing development and land held for development

Rental properties, net consisted of the following (in thousands):

	December 31,	
	2006	2005
Land	$ 482,310	$ 296,841
Buildings and improvements	2,536,542	1,559,385
Tenant and other improvements	185,649	153,482
	3,204,501	2,009,708
Less accumulated depreciation	(279,620)	(220,890)
	$ 2,924,881	$ 1,788,818

As of December 31, 2006 and 2005, certain of our rental properties were encumbered by deeds of trust and assignments of rents and leases associated with the properties. See Note 5, Secured Notes Payable. The net book values of encumbered properties including land parcels as of December 31, 2006 and 2005 were $1,107,526,000 and $848,286,000, respectively.

We lease space under noncancelable leases with remaining terms of up to 17 years.

In July 2006, we completed the acquisition of a 90% equity interest in the leasehold interest in 10.4 acres commonly known as Technology Square ("Tech Square") at Massachusetts Institute of Technology ("MIT") in Cambridge, Massachusetts. The remaining 10% equity interest was retained by MIT. MIT is also a tenant at Tech Square occupying 178,952 rentable square feet as of December 31, 2006. The results of Tech Square's operations have been included in our consolidated financial statements since that date. Tech Square consists of a seven building campus (including a 1,593 space covered car parking garage and a 49 space surface parking lot) containing approximately 1.2 million square feet and is subject to a ground lease with an affiliate of MIT through December 31, 2064.

In accordance with FAS 141, we allocated the purchase price of Tech Square based upon the relative fair values of the assets acquired and liabilities assumed including rental properties of $616 million, other assets of $5 million, secured notes payable of $220 million, accounts payable, accrued expenses and tenant security deposits of $26 million and minority interest of $37 million.

Our financial statements, on an unaudited pro forma basis, for the acquisitions of Tech Square, the issuance of 2.5 million shares of common stock with proceeds of approximately $232 million and borrowings on our unsecured line of credit of approximately $106 million as if it had occurred on January 1, 2005, would have reflected total consolidated revenues of $347.5 million and $287.6 million for the years ended December 31, 2006 and 2005, respectively. Net income available to common stockholders would have been approximately $60.6 million and $51.9 million for the years ended December 31, 2006 and 2005, respectively. Net income available to common stockholders on a diluted per share basis would have been $2.21 and $2.18 for the years ended December 31, 2006 and 2005, respectively. All other properties acquired during the year comprise of a series of individually insignificant transactions, both individually and in aggregate, and have been excluded from this pro forma analysis.

Rental properties, net as of December 31, 2006, include spaces totaling approximately 612,699 rentable square feet at 13 properties in our redevelopment program. Rental properties, net as of December 31, 2005, include spaces totaling approximately 548,051 rentable square feet at 15 properties in our redevelopment program. The allocated net book values of the portion of these properties undergoing redevelopment as of December 31, 2006 and 2005 were approximately $169,131,000 and $139,661,000, respectively. Depreciation ceases on the portion of a property undergoing redevelopment during the period of redevelopment.

In accordance with SFAS 34, we are required to capitalize interest to properties undergoing development or redevelopment during the period an asset is undergoing activities to prepare it for its intended use. Capitalization of interest ceases after a project is substantially complete and ready for its intended use. In addition, should construction activity cease, interest would be expensed as incurred. Total interest capitalized for the years ended December 31, 2006, 2005 and 2004 was $35,282,000, $27,490,000 and $17,902,000, respectively. Total interest incurred for the years ended December 31, 2006, 2005 and 2004 was $107,643,000, $77,695,000 and $46,733,000, respectively.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 2006 are as follows (in thousands):

Year	Amount
2007	247,920
2008	236,694

2009	220,923
2010	207,037
2011	174,208
Thereafter	587,402
	$ 1,674,184

4. Investments

We hold equity investments in certain publicly-traded companies and privately held entities primarily involved in the life science industry. All of our investments in publicly-traded companies are considered "available for sale" in accordance with SFAS 115, and are recorded at fair value. Investments in privately held entities are generally accounted for under the cost method because we do not influence any operating or financial policies of the entities in which we invest. Certain investments are accounted for under the equity method in accordance with APB 18 and EITF Topic D-46. For all of our investments, if a decline in the fair value of an investment below its carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash charge to current earnings. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements. For additional discussion of our accounting policies with respect to investments, see Note 2, Basis of Presentation and Summary of Significant Accounting Policies.

The following table summarizes our available-for-sale securities (in thousands):

	December 31,	
	2006	2005
Adjusted cost of available-for-sale securities	$ 4,445	$ 4,740
Gross unrealized gains	22,849	29,135
Gross unrealized losses	(1,112)	(762)
Fair value of available-for-sale securities	$ 26,182	$ 33,113

Investments in available-for-sale securities with gross unrealized losses as of December 31, 2006 and 2005 have been in a continuous unrealized loss position for less than twelve months. We believe that these unrealized losses are temporary and accordingly we have not recognized an other-than-temporary impairment related to available-for-sale securities as of December 31, 2006 and 2005.

Our investments in privately held entities as of December 31, 2006 and 2005 totaled $48,642,000 and $48,897,000, respectively. Of these totals, $48,013,000 and $47,164,000 are accounted for under the cost method. The remainder ($629,000 and $1,733,000 for 2006 and 2005, respectively) are accounted for under the equity method in accordance with APB 18 and EITF Topic D-46. As of December 31, 2006 and 2005, there were no unrealized losses in our investments in privately held entities.

Net investment income of $7,138,000, $2,294,000, and $2,436,000 was recognized in 2006, 2005 and 2004, respectively, and is included in other income in the accompanying consolidated statements of income. Net investment income in 2006 consisted of equity in loss of $632,000 related to investments in privately held entities accounted for under the equity method, gross realized gains of $8,305,000, and gross realized losses of $535,000. Net investment income in 2005 consisted of equity in income of $483,000 related to investments in privately held entities accounted

for under the equity method, gross realized gains of $2,433,000, and gross realized losses of $622,000. Net investment income in 2004 consisted of equity in income of $208,000 related to investments in privately held entities accounted for under the equity method, gross realized gains of $2,508,000, and gross realized losses of $280,000.

5. Secured notes payable

Secured notes payable totaled $1.2 billion and $666.7 million as of December 31, 2006 and 2005, respectively. Our secured notes payable had weighted average interest rates of 6.21% and 6.31% at December 31, 2006 and 2005, respectively, with maturity dates ranging from March 2007 to August 2016.

Our secured notes payable generally require monthly payments of principal and interest. The total net book values of properties securing debt were $1.7 billion and $848.3 million at December 31, 2006 and 2005, respectively. At December 31, 2006, our secured notes payable were comprised of $940.0 million and $234.9 million of fixed and variable rate debt, respectively, compared to $595.9 million and $70.8 million of fixed and variable rate debt, respectively, at December 31, 2005.

Future principal payments due on secured notes payable as of December 31, 2006, are as follows (dollars in thousands):

Year	Amount	Weighted Average Interest Rate (1)
2007	$ 72,790	6.21%
2008	290,088	6.17%
2009	45,986	6.26%
2010	93,259	6.23%
2011	108,204	6.09%
Thereafter	564,539	6.00%
Total secured notes payable	$ 1,174,866	

(1) The weighted average interest rate related to our secured debt is calculated based on the outstanding debt as of December 31st of the year immediately preceding the year presented.

6. Unsecured line of credit and unsecured term loan

In October 2006, we entered into an amendment to our amended and restated credit agreement to increase the maximum permitted borrowings under our unsecured credit facilities from $1 billion to $1.4 billion consisting of an $800 million unsecured line of credit and a $600 million unsecured term loan. We may in the future elect to increase commitments under the unsecured credit facilities by up to an additional $500 million.

Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months. Our unsecured line of credit matures in October 2010 and may be extended at our sole option for an additional one-year period. As of December 31, 2006, we had borrowings of $250 million outstanding on the unsecured line of credit with a weighted average interest rate of 6.50%.

Our unsecured term loan bears interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must

elect to fix for a period of one, two, three or six months. Our unsecured term loan matures in October 2011 and may be extended at our sole option for an additional one-year period. As of December 31, 2006, we had borrowings of $600 million outstanding on the unsecured term loan with a weighted average interest rate of 6.50%.

Our unsecured line of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net worth, a leverage ratio and a fixed charge coverage ratio. In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other things, certain investments, indebtedness, distributions and mergers.

Aggregate unsecured borrowings under our credit facilities may be limited to an amount based primarily on the net operating income derived from a pool of unencumbered properties. Accordingly, as we acquire or complete the development or redevelopment of additional unencumbered properties, aggregate unsecured borrowings available under our credit facilities may increase up to a maximum combined amount of $1.4 billion.

7. Interest rate swaps

We utilize interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan. These agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying principal amount (the "notional amount"). Interest received under all of our swap agreements is based on the one-month LIBOR rate. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

SFAS 133, as amended, establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. All of our interest rate swap agreements meet the criteria to be deemed "highly effective" under SFAS 133 in reducing our exposure to variable interest rates. In accordance with SFAS 133, we formally document all relationships between interest rate swap agreements and hedged items, including the method for evaluating effectiveness and the risk strategy. Accordingly, we have categorized these instruments as cash flow hedges. We make an assessment at the inception of each interest rate swap agreement and on an on going basis to determine whether these instruments are highly effective in offsetting changes in cash flows associated with the hedged items. While we intend to continue to meet the conditions for such hedge accounting, if hedges did not qualify as "highly effective", the changes in the fair values of the derivatives used as hedges would be reflected in earnings.

As of December 31, 2006 and 2005, our interest rate swap agreements were classified in other assets and accounts payable, accrued expenses and tenant security deposits at their fair values aggregating approximately $1.0 million and $4.9 million, respectively, with the offsetting adjustment reflected as unrealized gains in accumulated other comprehensive income in stockholders' equity. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made. During the next twelve months, we expect to reclassify $3.1 million from accumulated other comprehensive income to interest income.

The following table summarizes our interest rate swap agreements as of December 31, 2006 related to our unsecured line of credit and unsecured term loan (dollars in thousands) [(1)]:

Transaction Dates	Effective Dates	Notional Amounts	Effective at December 31, 2006	Interest Pay Rates	Termination Dates	Fa Val
December 2003	December 29, 2006	$ 50,000	$ 50,000	5.090%	October 31, 2008	$
April 2004	April 28, 2006	50,000	50,000	4.230%	April 30, 2007	
April 2004	April 30, 2007	50,000	--	4.850%	April 30, 2008	
June 2004	June 30, 2005	50,000	50,000	4.343%	June 30, 2007	

December 2004	December 31, 2004	50,000	50,000	3.590%	January 2, 2008	
December 2004	January 3, 2006	50,000	50,000	3.927%	July 1, 2008	
May 2005	June 30, 2006	50,000	50,000	4.270%	June 29, 2007	
May 2005	November 30, 2006	25,000	25,000	4.330%	November 30, 2007	
May 2005	June 29, 2007	50,000	--	4.400%	June 30, 2008	
May 2005	November 30, 2007	25,000	--	4.460%	November 28, 2008	
May 2005	June 30, 2008	50,000	--	4.509%	June 30, 2009	
May 2005	November 28, 2008	25,000	--	4.615%	November 30, 2009	
December 2005	December 29, 2006	50,000	50,000	4.730%	November 30, 2009	
December 2005	December 29, 2006	50,000	50,000	4.740%	November 30, 2009	
December 2005	January 2, 2008	50,000	--	4.768%	December 31, 2010	
June 2006	June 30, 2006	125,000	125,000	5.299%	September 30, 2009	(1,
June 2006	October 31, 2008	50,000	--	5.340%	December 31, 2010	(
June 2006	October 31, 2008	50,000	--	5.347%	December 31, 2010	(
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	(
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	(
December 2006	December 31, 2006	50,000	50,000	4.990%	March 31, 2014	
December 2006	June 29, 2007	50,000	--	4.920%	October 31, 2008	
December 2006	November 30, 2009	75,000	--	5.015%	March 31, 2014	
December 2006	November 30, 2009	75,000	--	5.023%	March 31, 2014	
December 2006	December 31, 2010	100,000	--	5.015%	October 31, 2012	
Total Notional Amount in Effect at December 31, 2006			$ 600,000			$ 1,

(1) As of December 31, 2006, we had one additional interest rate swap agreement with a notional amount of $28,500,000. This interest rate swap agreement has an interest pay rate of 5.003%, is effective on January 2, 2007, terminates on January 3, 2011 and has a fair value as of December 31, 2006 of approximately $(67,000).

8. Commitments and contingencies

Employee retirement savings plan

We have a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code whereby our employees may contribute a portion of their compensation to their respective retirement accounts, in an amount not to exceed the maximum allowed under the Internal Revenue Code. In addition to employee contributions, we have elected to provide discretionary profit sharing contributions (subject to statutory limitations), which amounted to $850,000, $552,000, and $515,000, respectively, for the years ended December 31, 2006, 2005 and 2004. Employees who participate in the plan are immediately vested in their contributions and in the contributions of the company.

Concentration of credit risk

We maintain our cash and cash equivalents at insured financial institutions. The combined account balances at each institution periodically exceed FDIC insurance coverage, and, as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage. We believe that the risk is not significant.

We are dependent on rental income from relatively few tenants in the life science industry. The inability of any single tenant to make its lease payments could adversely affect our operations. As of December 31, 2006, we held 370 leases with a total of 310 tenants and 80 of our 159 properties were each leased to a single tenant. At December 31, 2006, our three largest tenants accounted for approximately 14.9% of our aggregate annualized base rent.

We generally do not require collateral or other security from our tenants, other than security deposits. In addition to security deposits held in cash, we held $58.7 million in irrevocable letters of credit available from certain tenants as security deposits for 110 leases as of December 31, 2006.

Commitments

As of December 31, 2006, we were committed under the terms of contracts to complete the construction of properties undergoing development and land held for development at a remaining aggregate cost of approximately $58.8 million.

As of December 31, 2006, we were also committed to fund approximately $33.7 million for the construction of building infrastructure improvements under the terms of leases and/or construction contracts and approximately $23.4 million for certain investments.

As of December 31, 2006, we were committed under the terms of ten ground leases. These lease obligations totaling approximately $352.5 million have remaining lease terms of 26 to 58 years, exclusive of extension options. In addition, as of December 31, 2006, we were committed under the terms of certain operating leases for our headquarters and field offices. These lease obligations totaling approximately $5.9 million have remaining lease terms of one to six years, exclusive of extension options. Included in our ground lease obligations as of December 31, 2006 is a ground lease related to our ground-up development project in New York City totaling approximately 725,000 rentable square feet. This ground lease obligation has a remaining term of 99 years, inclusive of extension options.

9. Minority interest

Minority interest represents the interests in a limited partnership and in three limited liability companies held by certain third parties, which own nine properties and one development parcel, and are included in our consolidated financial statements. We recognize minority interest in these entities in which we have a controlling interest. Minority interest is adjusted for additional contributions, distributions to minority holders and the minority holders' proportionate share of the net earnings or losses of each respective entity. Distributions, profits and losses related to these entities are allocated in accordance with the respective operating agreements. As of December 31, 2006, the aggregate minority interest balance related to these entities was approximately $57.5 million and is classified as minority interest in the accompanying consolidated balance sheet.

10. Issuances of common stock

In September 2006, we sold 2,500,000 shares of our common stock in a follow-on offering. The shares were issued at a price of $94.75 per share, resulting in aggregate proceeds of approximately $232.2 million (after deducting underwriting discounts and other offering costs).

In June 2006, we sold 3,795,000 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of $84.00 per share, resulting in

aggregate proceeds of approximately $303.1 million (after deducting underwriting discounts and other offering costs).

In September 2005, we sold 1,248,000 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of $81.00 per share, resulting in net proceeds of approximately $100.3 million (after deducting underwriting discounts and other offering costs).

In March 2005, we sold 1,437,500 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of $62.51 per share, resulting in net proceeds of approximately $89.1 million (after deducting underwriting discounts and other offering costs).

11. Preferred stock and excess stock

Series A cumulative redeemable preferred stock

In July 2004, we redeemed all 1,543,500 outstanding shares of our 9.50% Series A cumulative redeemable preferred stock ("Series A preferred stock") at a redemption price of $25.00 per share plus $0.5409722 per share representing accumulated and unpaid dividends to the redemption date. In accordance with EITF Topic D-42, we recorded a charge of approximately $1,876,000 to net income available to common stockholders during the second quarter of 2004 for costs related to the redemption of the Series A preferred stock. We redeemed our Series A preferred stock with proceeds from the Series C preferred stock offering.

Series B cumulative redeemable preferred stock

In January 2002, we completed a public offering of 2,300,000 shares of our 9.10% Series B cumulative redeemable preferred stock ("Series B preferred stock") (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of $25.00 per share, resulting in aggregate proceeds of approximately $55.1 million (after deducting underwriters' discounts and other offering costs). The dividends on our Series B preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of $2.275 per share. Our Series B preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to January 22, 2007, except in order to preserve our status as a REIT. Investors in our Series B preferred stock generally have no voting rights. On or after January 22, 2007, we may, at our option, redeem our Series B preferred stock, in whole or in part, at any time with proceeds from the sale of equity securities at a redemption price of $25.00 per share, plus accrued and unpaid dividends.

In February 2007, we announced that we will redeem all 2,300,000 outstanding shares of our Series B preferred stock at a redemption price of $25.00 per share plus $0.4107639 per share representing accumulated and unpaid dividends through the redemption date of March 20, 2007.

Series C cumulative redeemable preferred stock

In June 2004, we completed a public offering of 5,185,500 shares of our 8.375% Series C cumulative redeemable preferred stock ("Series C preferred stock") (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of $25.00 per share, resulting in aggregate proceeds of approximately $124.0 million (after deducting underwriters' discounts and other offering costs). The proceeds were used to redeem our Series A preferred stock with the remaining portion used to pay down our unsecured line of credit. The dividends on our Series C preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of $2.09375 per share. Our Series C preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to June 29, 2009, except in order to preserve our status as a REIT. Investors in our Series C preferred stock generally have no voting

rights. On or after June 29, 2009, we may, at our option, redeem our Series C preferred stock, in whole or in part, at any time for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends.

Preferred stock and excess stock authorizations

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock, of which 7,485,500 shares were issued and outstanding as of December 31, 2006. In addition, 200,000,000 shares of "excess stock" (as defined) are authorized, none of which were issued and outstanding at December 31, 2006.

12. Stock option plans and stock grants

1997 Stock plan

In 1997, we adopted a stock option and incentive plan (the "Stock Plan") for the purpose of attracting and retaining the highest quality personnel, providing for additional incentives and promoting the success of the company by providing employees the opportunity to acquire common stock pursuant to (i) options to purchase common stock; and (ii) share awards. As of December 31, 2006, a total of 942,283 shares were reserved for the granting of future options and share awards under the Stock Plan.

Options under our plan have been granted at prices that are equal to the market value of the stock on the date of grant and expire ten years after the date of grant. We have not granted any stock options since 2002. The options outstanding under the Stock Plan expire at various dates through October 2012.

The fair values of the options issued under the Stock Plan were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2006, 2005 and 2004:

	Year Ended December 31,		
	2006	2005	2004
Risk-free interest rate	4.64%	4.34%	3.94%
Dividend yield	2.71%	3.19%	3.79%
Volatility factor of the expected market price	20.83%	21.14%	21.50%
Weighted average expected life of the options	5.0 years	5.2 years	6.7 years

A summary of the stock option activity under our Stock Plan and related information for the years ended December 31, 2006, 2005 and 2004 follows:

	2006		2005		2004	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	492,016	$ 34.92	607,331	$ 35.36	809,583	$ 35.39
Granted	--	--	--	--	--	--
Exercised	(153,336)	27.69	(115,315)	37.22	(200,252)	35.44
Forfeited	--	--	--	--	(2,000)	42.15
Outstanding at end of year	338,680	$ 38.20	492,016	$ 34.92	607,331	$ 35.36

Exercisable at end of year	338,680	$ 38.20	492,016	$ 34.92	500,000	$ 33.38
Weighted average fair value of options granted		$ -		$ -		$ -

The following table summarizes information about stock options outstanding at December 31, 2006:

	Options Outstanding and Exercisable			
Range of Exercise Prices	Weighted Average Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	
$20.00 - $37.00	$27.21	116,310	1.4	
$38.38 - $43.50	$40.95	123,466	4.8	
$47.20 - $47.69	$47.69	98,904	5.5	
$20.00-$47.69	$38.20	338,680	3.8	

In addition, the Stock Plan permits us to issue share awards to our employees and non-employee directors. A share award is an award of common stock, which (i) may be fully vested upon issuance or (ii) may be subject to the risk of forfeiture under Section 83 of the Internal Revenue Code. Shares issued generally vest over a one to three year period from the date of issuance and the sale of the shares is restricted prior to the date of vesting. The unearned portion of these awards is amortized as stock compensation expense on a straight-line basis over the vesting period.

As of December 31, 2006 and 2005 there were 444,349 and 271,537 nonvested share awards outstanding, respectively. During 2006, we granted 286,569 shares of common stock, 105,782 of share awards vested and 7,975 of shares were forfeited. The weighted average grant-date fair value of share awards granted during 2006 was approximately $91.36 and the total fair value of share awards vested, based on the market price on the vesting date, was approximately $11.9 million. As of December 31, 2006, there was $24.3 million of unrecognized compensation related to nonvested share awards under the Stock Plan, which is expected to be recognized over a weighted average period of approximately 2 years.

13. Non-cash transactions

During the year ended December 31, 2006, our non-cash transactions related to one transaction in connection with the acquisitions of seven properties located in the Eastern Massachusetts market and another transaction in connection with the acquisitions of one land parcel located in the San Francisco Bay market. During the year ended December 31, 2005, our non-cash transactions related to acquisitions of seven properties, in seven separate transactions, located in the San Francisco Bay, Suburban Washington D.C., Eastern Massachusetts, Seattle and Canada markets. The following table summarizes these transactions (in thousands):

	2006	2005	2004
Aggregate purchase price	$ 608,363	$ 55,400	$ 185,912
Minority interest	36,898	--	--
Notes payable	232,525	31,853	127,653
Cash paid for the properties	$ 338,940	$ 23,547	$ 58,259

The following is a summary of operations and net assets of the properties included in discontinued operations presented in compliance with SFAS 144 (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Total revenue	$ 2,402	$ 6,073	$ 4,998
Operating expenses	548	1,453	1,351
Revenue less operating expenses	1,854	4,620	3,647
Interest	--	--	--
Depreciation	467	1,423	1,176
Income before gain/loss on sales of property	1,387	3,197	2,471
Gain/loss on sales of property	59	36	1,627
Income from discontinued operations, net	$ 1,446	$ 3,233	$ 4,098

	December 31,	
	2006	2005
Properties held for sale, net	$ 6,160	$ --
Other assets	1,156	--
Total assets	$ 7,316	$ --
Total liabilities	--	--
Net assets of discontinued operations	$ 7,316	$ --

Income from discontinued operations, net for 2006 includes the results of operations of one property that was designated as "held for sale" as of December 31, 2006, and three properties sold during 2006, Income from discontinued operations, net for 2005 reflects the results of operations of one property that was designated as "held

14. Discontinued operations (continued)

for sale" as of December 31, 2006, three properties sold during 2006 and one property sold during 2005. Income from discontinued operations, net for 2004 reflects the results of operations of one property that was designated as "held for sale" as of December 31, 2006, three properties sold during 2006, one property sold during 2005 and one property sold in 2004. See Note 2, Basis of Presentation and Summary of Significant Accounting Policies.

As of December 31, 2006, we had one property designated as "held for sale" in accordance with SFAS 144. During 2006, we sold one property located in the New Jersey/Suburban Philadelphia market and two properties located in the Suburban Washington D.C. market . The total sale price for these properties was approximately $41.8 million. In connection with this sale, we recorded a gain on sale of property of approximately $59,000. During 2005, we sold one property located in the Southeast market. The total sale price for the property was approximately $1.3 million. In connection with this sale, we recorded a gain on sale of property of approximately $36,000. During 2004, we sold one property located in the Suburban Washington D.C. market. The total sale price for the property was approximately $5.7 million. In connection with the sale, we recorded a gain on sale of property of approximately $1.6 million. Gains and losses on sales of these properties are included in the income statement in income from discontinued operations, net.

15. Quarterly financial data (unaudited)

The following is a summary of consolidated financial information on a quarterly basis for 2006 and 2005:

	Quarter			
	First	Second	Third	
	(In thousands, except per share amounts			
2006				
Revenues	$ 68,283	$ 70,187	$ 84,911	$
Net income available to common stockholders	$ 12,733	$ 13,139	$ 14,942	$
Earnings per share:				
Basic	$ 0.57	$ 0.57	$ 0.57	$
Diluted	$ 0.56	$ 0.57	$ 0.56	$

	Quarter			
	First	Second	Third	
	(In thousands, except per share amounts			
2005				
Revenues	$ 54,764	$ 56,987	$ 61,735	$
Net income available to common stockholders	$ 10,967	$ 12,250	$ 11,969	$
Earnings per share:				
Basic	$ 0.56	$ 0.59	$ 0.57	$
Diluted	$ 0.55	$ 0.58	$ 0.56	$

16. Subsequent events

In January 2007, we completed a private offering of $460 million of convertible notes that are due in 2027 (the "Notes") with a coupon of 3.70%. The Notes have an initial conversion rate of approximately 8.4774 common shares per $1,000 principal amount of the Notes representing a conversion price of approximately $117.96 per share of the Company's common stock and a conversion premium of 20% based on the last reported sale price of $98.30 per share of the Company's common stock on January 10, 2007. The net proceeds from this offering, after underwriters' discount, were approximately $450.8 million.

Holders of the Notes may convert their Notes into cash and, if applicable, shares of the Company's common stock prior to stated maturity only under the following circumstances: (1) the Notes will be convertible during any calendar quarter after the calendar quarter ending March 31, 2007, if the closing sale price of the Company's common stock for each of 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) the Notes will be convertible during the five consecutive business days immediately after any five consecutive trading day period (the "Note Measurement Period") in which the average trading price per $1,000 principal amount of Notes was equal to or less than 98% of the average conversion value of the Notes during the Note measurement period; (3) the Notes will convertible upon the occurrence of specified corporate transactions; (4) the Notes will be convertible if the Company has called the Notes for redemption; and (5) the Notes will convertible at any time from, and including, December 15, 2026 until the close of business on the business day immediately preceding January 15, 2027 or earlier redemption or repurchase.

Prior to January 15, 2012, the Company will not have the right to redeem the Notes, except to preserve its qualification as a real estate investment trust. On and after that date, we have the right to redeem the Notes, in whole or in part, at any time and from time to time, for cash equal to 100% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest to, but excluding, the redemption date.

Holders of the Notes may require the Company to repurchase their Notes, in whole or in part, on January 15, 2012, 2017 and 2022 for cash equal to 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest to but excluding the repurchase date.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Schedule III
Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation
December 31, 2006
(Dollars in thousands)

Property Name	Square Footage (unaudited)	Initial Costs		Costs Capitalized Subsequent to Acquisition	Total C	
		Land	Buildings and Improvements		Land	Bu Im
California – Los Angeles Metro	31,343	$ 2,172	$ 812	$ 10,627	$ 2,172	$
California – Los Angeles Metro	29,660	928	4,280	118	928	
California – San Diego	107,709	1,321	5,960	7,407	1,321	
California – San Diego	74,557	1,013	–	16,802	1,013	
California – San Diego	44,733	620	9,531	9,667	620	
California – San Diego	86,962	2,663	10,649	5,223	2,663	
California – San Diego	76,084	2,651	18,046	1,460	2,651	
California – San Diego	43,600	1,227	9,554	330	1,227	
California – San Diego	18,173	463	1,840	2,787	463	
California – San Diego	67,050	2,548	13,638	263	2,548	
California – San Diego	64,000	2,248	10,952	14,261	2,248	
California – San Diego	34,723	1,122	–	3,881	1,122	
California – San Diego	55,200	1,683	–	5,647	1,683	
California – San Diego	29,333	733	2,273	1,878	733	
California – San Diego	17,603	444	1,699	1,842	444	
California – San Diego	15,410	651	1,375	1,922	651	
California – San Diego	45,030	275	8,621	3,666	275	
California – San Diego	51,768	320	10,070	2,965	320	
California – San Diego	41,780	258	8,170	8,725	258	
California – San Diego	17,590	506	2,581	2,352	506	
California – San Diego	30,147	754	4,288	619	754	
California – San Diego	22,577	564	3,224	43	564	
California – San Diego	17,433	436	2,480	431	436	
California – San Diego	24,208	605	3,459	42	605	
California – San Diego	21,940	515	1,566	2,502	515	
California – San Diego	71,510	4,329	16,165	10,497	4,329	
California – San Diego	56,698	1,984	10,397	238	1,984	
California – San Diego	87,140	10,124	9,448	4,233	10,124	
California – San Diego	87,298	3,492	18,285	212	3,492	
California – San Francisco Bay	61,015	1,506	5,357	3,691	1,506	
California – San Francisco Bay	27,745	775	1,917	1,632	775	
California – San Francisco Bay	47,777	1,200	3,880	447	1,200	
California – San Francisco Bay	68,711	1,800	9,731	755	1,800	
California – San Francisco Bay	153,837	4,751	12,612	14,476	4,751	
California – San Francisco Bay	32,074	–	6,628	8,385	–	
California – San Francisco Bay	98,964	–	21,323	20,954	–	
California – San Francisco Bay	53,980	3,519	–	12,941	3,519	
California – San Francisco Bay	53,980	3,519	–	7,671	3,519	
California – San Francisco Bay	110,428	7,730	24,397	24	7,730	
California – San Francisco Bay	59,816	4,187	14,020	25	4,187	
California – San Francisco Bay	126,971	8,250	33,846	4,287	8,250	
California – San Francisco Bay	67,482	1,349	9,915	372	1,349	
California – San Francisco Bay	91,644	–	19,154	1,150	–	
California – San Francisco Bay	140,143	7,038	39,704	3,337	7,038	

California - San Francisco Bay	60,000	4,800	6,693	4,412	4,800
California - San Francisco Bay	116,284	28,290	-	17	28,290
California - San Francisco Bay	58,400	3,568	5,255	572	3,568
California - San Francisco Bay	82,712	6,617	7,091	667	6,617
California - San Francisco Bay	70,328	9,799	-	24	9,799
California - San Francisco Bay	150,960	25,259	48,796	-	25,259
Eastern Massachusetts	24,940	-	6,247	399	-
Eastern Massachusetts	24,867	622	3,053	70	622
Eastern Massachusetts	40,200	960	3,032	8,196	960
Eastern Massachusetts	115,179	2,734	14,567	4,545	2,734
Eastern Massachusetts	92,711	2,352	14,173	2,512	2,352
Eastern Massachusetts	92,423	651	-	15,860	651
Eastern Massachusetts	92,500	3,360	7,316	14,719	3,360
Eastern Massachusetts	59,000	1,475	7,194	11,426	1,475
Eastern Massachusetts	51,000	6,507	-	21,759	6,507
Eastern Massachusetts	47,497	6,058	-	21,345	6,058
Eastern Massachusetts	96,150	6,413	5,457	30,885	6,413
Eastern Massachusetts	46,700	2,567	4,522	9,763	2,567
Eastern Massachusetts	78,916	1,578	10,195	901	1,578
Eastern Massachusetts	11,774	228	1,501	301	228
Eastern Massachusetts	48,640	876	5,033	17	876
Eastern Massachusetts	60,759	1,220	22,375	44	1,220
Eastern Massachusetts	82,330	1,466	9,046	3,931	1,466
Eastern Massachusetts	26,828	1,341	8,448	50	1,341
Eastern Massachusetts	128,325	12,833	27,333	55	12,833
Eastern Massachusetts	30,000	750	3,312	37	750
Eastern Massachusetts	45,820	2,775	7,679	5,071	2,775
Eastern Massachusetts	36,000	1,440	5,238	15	1,440
Eastern Massachusetts	38,000	893	4,000	81	893
Eastern Massachusetts	26,589	1,628	3,554	3,369	1,628
Eastern Massachusetts	54,391	1,278	7,057	22	1,278
Eastern Massachusetts	131,547	15,774	54,481	12,406	15,774
Eastern Massachusetts	113,045	2,261	7,099	4,014	2,261
Eastern Massachusetts	97,566	2,342	9,892	30	2,342
Eastern Massachusetts	1,136,734	-	619,658	2,638	-
Eastern Massachusetts	27,960	2,209	9,059	-	2,209
Eastern Massachusetts	184,577	58,697	38,331	-	58,697
Eastern Massachusetts	132,135	36,852	5,377	-	36,852
International - Canada	68,000	2,930	17,735	1,050	2,930
International - Canada	162,362	6,995	20,651	535	6,995
International - Canada	66,000	2,281	8,612	198	2,281
New Jersey/Suburban Philadelphia	42,782	654	4,234	738	654
New Jersey/Suburban Philadelphia	40,000	600	3,110	3,542	600
New Jersey/Suburban Philadelphia	41,015	621	4,258	28	621
New Jersey/Suburban Philadelphia	111,451	1,289	12,039	70	1,289
New Jersey/Suburban Philadelphia	50,000	1,625	19,715	98	1,625
New Jersey/Suburban Philadelphia	37,000	740	4,506	1,266	740
New Jersey/Suburban Philadelphia	78,501	1,840	2,298	14,565	1,840
New Jersey/Suburban Philadelphia	42,600	1,161	1,438	4,423	1,161
Southeast	20,580	214	3,802	5	214
Southeast	65,114	337	5,795	1,325	337
Southeast	59,397	288	5,789	5,840	288
Southeast	60,519	289	5,899	7,477	289
Southeast	32,120	161	3,410	261	161
Southeast	82,206	-	376	11,842	-
Southeast	38,861	339	3,383	7,168	339
Southeast	46,557	363	9,101	8,452	363
Southeast	48,236	364	8,734	6	364
Southeast	81,580	713	12,827	442	713
Southeast	77,395	785	11,546	-	785
Southeast	45,841	2,916	5,314	1,349	2,916
Suburban Washington D.C.	105,000	1,733	9,611	3,482	1,733

Suburban Washington D.C.	47,558	871	5,362	3,095	871	
Suburban Washington D.C.	63,154	1,129	6,940	1,012	1,129	
Suburban Washington D.C.	138,938	3,281	14,416	207	3,281	
Suburban Washington D.C.	44,500	775	4,122	350	775	
Suburban Washington D.C.	131,415	2,800	11,533	20,962	2,800	
Suburban Washington D.C.	49,225	1,267	3,031	5,168	1,267	
Suburban Washington D.C.	44,464	900	2,732	1,592	900	
Suburban Washington D.C.	72,170	1,514	21,946	3,627	1,514	
Suburban Washington D.C.	45,989	748	3,609	1,599	748	
Suburban Washington D.C.	191,884	-	13,679	1,669	-	
Suburban Washington D.C.	75,500	1,510	5,210	1,849	1,510	
Suburban Washington D.C.	143,585	2,463	493	23,577	2,463	
Suburban Washington D.C.	25,175	376	3,192	2,199	376	
Suburban Washington D.C.	53,464	971	5,141	6,936	971	
Suburban Washington D.C.	54,000	947	5,092	5,002	947	
Suburban Washington D.C.	54,874	970	5,138	919	970	
Suburban Washington D.C.	59,838	983	6,638	105	983	
Suburban Washington D.C.	58,632	1,466	5,708	4,182	1,466	
Suburban Washington D.C.	92,449	2,773	23,906	3,856	2,773	
Suburban Washington D.C.	49,185	1,476	7,267	37	1,476	
Suburban Washington D.C.	37,861	2,576	5,661	55	2,576	
Suburban Washington D.C.	343,100	10,052	106,240	17,895	10,052	
Suburban Washington D.C.	54,906	1,647	13,258	3,586	1,647	
Suburban Washington D.C.	180,650	5,527	26,365	3,649	5,527	
Suburban Washington D.C.	26,127	784	4,705	85	784	
Suburban Washington D.C.	83,541	2,924	19,664	433	2,924	
Suburban Washington D.C.	248,186	4,800	27,639	390	4,800	
Washington - Seattle	164,345	5,654	22,916	18,191	5,654	
Washington - Seattle	70,647	2,119	11,275	4,781	2,119	
Washington - Seattle	47,746	1,432	7,497	3,323	1,432	
Washington - Seattle	106,003	4,240	31,232	25	4,240	
Washington - Seattle	97,366	1,570	15,917	14,929	1,570	
Washington - Seattle	165,493	6,940	-	60,427	6,940	
Washington - Seattle	32,279	2,156	1,645	5,933	2,156	
Washington - Seattle	2,896	1,700	344	103	1,700	
Washington - Seattle	121,790	8,525	20,064	197	8,525	
Washington - Seattle	27,633	2,212	6,788	347	2,212	
Washington - Seattle	24,000	5,134	-	19	5,134	
Washington - Seattle	19,053	5,114	-	319	5,114	
	11,232,351	$482,310	$ 2,044,459	$ 677,732	$482,310	$

1. The depreciable life for buildings and improvements ranges from 30 to 40 years, 20 for land improvements, and the term of the respective lease for tenant improvements.
2. Loan of $36,655 secured by 4 properties identified by this reference.
3. Loan of $31,600 secured by 4 properties identified by this reference.
4. Loan of $88,581 secured by 6 properties identified by this reference.
5. Loan of $22,915 secured by 6 properties identified by this reference.
6. The balance shown includes an unamortized premium of $1,212.
7. Loan of $32,070 secured by 2 properties identified by this reference.
8. Loan of $145,391 secured by 4 properties identified by this reference.
9. The balance shown includes an unamortized premium of $44.
10. Loan of $14,541 secured by 1 property identified by this reference and a property undergoing development.
11. Loan of $32,880 secured by 2 properties identified by this reference.
12. The balance shown includes an unamortized premium of $260.
13. Loan of $23,438 secured by 2 properties identified by this reference.
14. Loan of $28,866 secured by 3 properties identified by this reference.
15. Loan of $26,903 secured by 3 properties identified by this reference.

16. Loan of $9,319 secured by 3 properties identified by this reference.
17. The balance shown includes an unamortized premium of $794.
18. The balance shown includes an unamortized premium of $195.
19. Loan of $17,877 secured by 2 properties identified by this reference.
20. Loan of $36,486 secured by 4 properties identified by this reference.
21. Loan of $9,155 secured by 2 properties identified by this reference.
22. The balance shown includes an unamortized premium of $343.
23. The balance shown includes an unamortized premium of $241.
24. The balance shown includes an unamortized premium of $90.
25. The balance shown includes an unamortized discount of $4,359.
26. The balance shown includes an unamortized premium of $145.
27. The aggregate cost of real estate for federal income tax purposes is not materially different from the cost basis under GAAP (unaudited).
28. Excludes $175,200 of encumbrances primarily related to 11 land parcels.

A summary of activity of consolidated rental properties and accumulated depreciation is as follows (in thousands):

	Rental Properties Year Ended December 31,		
	2006	2005	2004
Balance at beginning of period	$ 2,009,708	$ 1,603,912	$ 1,123,857
Purchase of rental properties	1,030,439	272,532	383,350
Sale of properties	(41,913)	(1,237)	(4,084)
Additions	76,717	94,210	70,248
Transfer of costs from properties under development and land held for development	129,550	40,291	30,541
Balance at end of period	$ 3,204,501	$ 2,009,708	$ 1,603,912