ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-K
March 01, 2010

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, 2009

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	New York Stock Exchange
(Including related preferred stock purchase rights)	
8.375% Series C Cumulative Redeemable Preferred Stock	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Act). Large accelerated filer [X] Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

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

The aggregate market value of the shares of Common Stock held by non-affiliates of registrant was approximately $1.4 billion based on the closing price for such shares on the New York Stock Exchange on June 30, 2009.

As of February 24, 2010, the registrant had outstanding 44,286,871 shares of Common Stock.

Documents Incorporated By Reference

Part III of this annual report on Form 10-K incorporates certain information by reference from the registrant s definitive proxy statement to be filed within 120 days of the end of the fiscal year covered by this annual report on Form 10-K in connection with the registrant s annual meeting of stockholders to be held on or about May 27, 2010.

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ALEXANDRIA REAL ESTATE EQUITIES, INC.

PART I

Certain information and statements included in this annual report on Form 10-K, including, without limitation, statements containing the words believes, expects, may, will, should, seeks, approximately, intends, plans, estimates, or anticipates, or the negative of these words, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of 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 the forward-looking statements, including, but not limited to the following:

- negative worldwide economic, financial and banking conditions;
- worldwide economic recession and lack of confidence;
- financial, banking and credit market conditions;
- the seizure or illiquidity of credit markets;
- our inability to obtain capital (debt, construction financing and or equity) or refinance debt maturities;
- increased interest rates and operating costs;
- adverse economic or real estate developments in our markets;
- our failure to successfully complete and lease our existing space held for redevelopment and new properties acquired for that purpose and any properties undergoing development;
- significant decreases in our active development, active redevelopment or preconstruction activities resulting in significant increases in our interest, operating and payroll expenses;
- our failure to successfully operate or lease acquired properties;
- the financial condition of our insurance carriers;
- general and local economic conditions;
- decreased rental rates or increased vacancy rates/failure to renew or replace expiring leases;
- defaults on or non-renewal of leases by tenants;
- our failure to comply with laws or changes in law;
- compliance with environmental laws;
- our failure to maintain our status as a real estate investment trust (REIT);
- certain ownership interests outside the United States may subject us to different or greater risks than those associated with our domestic operations; and

- fluctuations in foreign currency exchange rates.

This list of risks and uncertainties, however, is only a summary and is not intended to be exhaustive. Additional information regarding risk factors that may affect us is included under the headings Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in this annual report on Form 10-K. Readers of our annual report on Form 10-K should also read our Securities and Exchange Commission (SEC) and other publicly filed documents for further discussion regarding such factors.

As used in this annual report on Form 10-K, references to the Company, 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 REIT for federal income tax purposes. We are the largest owner and pre-eminent first-in-class REIT focused principally on science-driven cluster formation. We are the leading provider of high-quality environmentally sustainable real estate, technical infrastructure and services to the broad and diverse life science industry. Client tenants include institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, product, service and translational entities, as well as government agencies. Our operating platform is based on the principle of clustering, with assets and operations located in key life science markets. As of December 31, 2009, we had 156 properties (152 properties located in ten states in the United States and four properties located in Canada) containing approximately 12.7 million rentable square feet (including spaces undergoing active redevelopment) and properties undergoing ground-up development of approximately 980,000 rentable square feet.

Business and strategy

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

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

Our client 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.

2009 demonstrated the strength and durability of our core operations providing office/laboratory space to the broad and diverse life science industry. Our core operating results were relatively steady for the year ended December 31, 2009, during the continuing extraordinary and unprecedented United States and worldwide economic, financial, banking and credit market crises, significant worldwide economic recession and drastic decline in consumer confidence and the consumer driven economy. Financial systems throughout the world have recently experienced significant periods of illiquidity with banks much less willing to lend substantial amounts to other banks and borrowers.

The economic, financial and banking environment and consumer confidence have improved since the depth of the crisis in the fourth quarter of 2008 and first quarter of 2009. Even with the recent improvements, we remain cautious regarding the economic, financial and banking environment. We intend to continue to focus on the completion of our existing active redevelopment projects aggregating approximately 575,152 rentable square feet and our existing active development projects aggregating approximately an additional 980,000 rentable square feet. Additionally, we intend to continue with preconstruction activities for certain land parcels for future ground-up/vertical above ground development in order to preserve and create value for these projects. These important preconstruction activities add significant value to our land for future ground-up development and are required for the ultimate vertical construction of the buildings. We also intend to be very careful and prudent with any future decisions to add new projects to our active ground-up/vertical developments. Future ground-up/vertical development projects will likely require significant pre-leasing from high quality and/or credit entities. We also intend to continue to reduce debt as a percentage of our overall capital structure over a multi-year period. During this period, we may also extend and/or refinance certain debt maturities. We expect the source of funds for construction activities and repayment of outstanding debt to be provided over several years by opportunistic sales of real estate, joint ventures, cash flows from operations, new secured or unsecured debt and the issuance of additional equity securities, as appropriate. As of December 31, 2009, we had identified three assets as held for sale, which have been classified in discontinued operations.

We seek to maximize funds from operations (FFO), balance sheet liquidity and flexibility and cash available for distribution to our stockholders through the ownership, operation, management and 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 Operations-Funds From Operations 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 maximize FFO, balance sheet liquidity and flexibility and cash available for distribution by:

- maintaining a strong, liquid and flexible balance sheet;
- re-tenanting and re-leasing space at higher rental rates while minimizing tenant improvement costs;
- maintaining solid occupancy while also maintaining high lease rental rates;
- realizing contractual rental rate escalations, which are currently provided for in approximately 93% of our leases (on a rentable square footage basis);
- implementing effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures;
- improving investment returns through leasing of vacant space and replacement of existing tenants with new tenants at higher rental rates;
- achieving higher rental rates from existing tenants as existing leases expire;
- selectively redeveloping existing office, warehouse, 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; and
- selectively developing properties in our target life science cluster markets.

Redevelopment

A key component of our long term business model is the redevelopment of existing office, warehouse or shell space as generic office/laboratory space, including the conversion of single tenancy space to multi-tenancy spaces or multi-tenancy spaces to single tenancy space that can be leased at higher rates. As of December 31, 2009, we had approximately 575,152 rentable square feet undergoing redevelopment at ten projects. In addition to properties undergoing redevelopment, as of December 31, 2009, our asset base contained embedded opportunities for a future permanent change of use to office/laboratory space through redevelopment aggregating approximately 1.5 million rentable square feet.

Development

Another key component of our long term business model is ground-up development projects. Our development strategy is primarily to pursue selective projects where we expect to achieve appropriate investment returns. 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, 2009, we had six parcels of land undergoing ground-up development approximating 980,000 rentable square feet of office/laboratory space. We also have an embedded pipeline for future ground-up development approximating 11.1 million developable square feet of office/laboratory space. Future ground-up/vertical development projects will likely require significant pre-leasing from high quality and/or credit entities.

Tenants

As of December 31, 2009, we had 417 leases with a total of 342 tenants, and 74 of our 156 properties were single-tenant properties. Our three largest tenants accounted for approximately 17.1% of our aggregate annualized base rent, or approximately 8.0%, 4.7% and 4.4%, respectively. None of our tenants represented more than 10% of total revenues for the year ended December 31, 2009.

Competition

In general, other life science properties are located in close proximity to our properties. The amount of rentable space available in any market could have a material effect on our ability to rent space and on the rents that we can earn. In addition, we compete for investment opportunities with 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. Competition in acquiring existing properties and land, both from institutional capital sources and from other REITs, has been very strong over the past several years. We believe we have differentiated ourselves from our competitors, as we are the largest owner, manager and developer of life science properties, in key life science markets.

Financial information about our operating segment

See Note 2 to our consolidated financial statements for information about our operating segment.

Available information

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

Employees

As of December 31, 2009, we had 142 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

The global financial crisis, and other events or circumstances beyond the control of the Company, may adversely affect our industry, business, results of operations, contractual commitments, and access to capital.

What began initially in 2007 and 2008 as a subprime mortgage crisis turned into an extraordinary United States and worldwide structural economic and financial crisis coupled with the rapid decline of the consumer economy. Recently, in 2008 and 2009 significant concerns over energy costs, geopolitical issues, the availability and cost of credit, the United States mortgage market and a declining real estate market in the United States have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated a steep economic decline and fears of a deep and prolonged recession. Further, severe financial and structural strains on the banking and financial systems have led to significant lack of trust and confidence in the global credit and financial system. Consumers and money managers have and may liquidate equity investments and consumers and banks have and may hold cash and other lower risk investments, resulting in significant and, in some cases, catastrophic declines in the equity capitalization of companies and unusual failures of financial institutions. Additionally, financial systems throughout the world are undergoing severe structural changes with banks much less willing to lend substantial amounts to other banks and borrowers. This extraordinary level of illiquidity has caused a significant decline in available credit from financial institutions and other lenders and the unprecedented declines in the market values of United States and foreign stock exchanges has led to significantly higher cost of debt and equity capital.

The United States and foreign governments have taken extraordinary actions in an attempt to deal with the worldwide financial crisis and the severe decline in the consumer driven economy. These extraordinary actions, including the merger of large financial institutions and significant investment in and control by government bodies, has so far resulted in some relief to the frozen markets. Additionally, extraordinary government controls have been attempted, including a temporary ban of short sales on certain publicly traded stocks and guarantees of money market funds, which have also resulted in limited relief, if any, to the credit markets. The resulting and ongoing lack of available credit, lack of lending between financial institutions and other key lending sources (such as life insurance companies and pension funds), lack of lending to borrowers and further failures and consolidation of financial institutions could materially and adversely affect our tenants, key vendors and contractors, financial condition, results of operations, ability to fund our construction activities, ability to refinance debt and other capital needs and our access to capital.

There can be no assurance that actions of the United States Government, Federal Reserve, and other government and regulatory bodies for the purpose of stabilizing the financial markets will achieve the intended effect.

In an unprecedented response to the financial and economic crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, former President Bush signed the Emergency Economic Stabilization Act of 2008 (EESA) into law. Pursuant to the EESA, the United States Treasury has the authority to, among other things, purchase up to $700 billion of mortgage-backed and other securities from financial institutions for the purpose of stabilizing the financial markets. The federal government, the Federal Reserve Board, and other government and regulatory bodies have taken or are considering other actions to address the financial crisis. There can be no assurance as to what impact such actions or future actions will have on the financial markets, including the extreme levels of volatility currently being experienced. Such continued volatility could materially and adversely affect our business, financial condition, and results of operations, or the trading price of our common stock.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers underlying financial and/or operating strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our business, financial condition, and results of operations. Disruptions, uncertainty or volatility in the capital markets may also limit our access to capital from financial institutions on favorable terms, or at all, and our ability to raise capital through the issuance of equity securities could be adversely affected by causes beyond the control of the Company through ongoing extraordinary disruptions in the global economy and financial systems or other events.

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

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

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, the conversion of convertible debt securities or the conversion or redemption of preferred stock), or the perception that such sales may occur, could adversely affect prevailing market prices for our common stock.

We have reserved a number of shares of common stock for issuance to our officers, directors and employees pursuant to our Amended and Restated 1997 Stock Award and Incentive Plan (sometimes referred to herein as our equity incentive plan). As of December 31, 2009, a total of 629,896 shares of our common stock were reserved for issuance under our Amended and Restated 1997 Stock Award and Incentive Plan.

As of December 31, 2009, options to purchase 118,225 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). Affiliates will be able to sell shares of our common stock subject to restrictions under Rule 144.

The price per share of our stock may fluctuate significantly.

The market price per share of our common stock may fluctuate significantly in response to many factors, including:

- **the availability of debt and/or equity capital;**
- **the condition of our balance sheet;**
- **the condition of the financial and banking industries;**
- **actual or anticipated variations in our quarterly operating results or dividends;**
- **the amount and timing of debt maturities and other contractual obligations;**
- **changes in our FFO or earnings estimates;**
- **the publication of research reports about us, the real estate industry, or the life science industry;**

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

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

• changes in our analyst ratings;

• changes in market valuations of similar companies;

• adverse market reaction to any additional debt we incur in the future;

• additions or departures of key management personnel;

• actions by institutional stockholders;

• speculation in the press or investment community;

• terrorist activity adversely affecting the markets in which our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending;

• government regulatory action and changes in tax laws;

• the realization of any of the other risk factors included in this annual report on Form 10-K; and

• general market and economic conditions.

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

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

We use debt to finance our operations, including the development, redevelopment 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; and
- the terms of our debt obligations may require a reduction in our distributions to stockholders.

As of December 31, 2009, we had outstanding mortgage indebtedness of approximately $937.0 million (net of $2.1 million discount), secured by 57 properties and one land development parcel, and outstanding debt under our unsecured line of credit and unsecured term loan of approximately $1.2 billion. In addition, as of December 31, 2009, we had approximately $368.0 million (net of $16.7 million discount) and $215.9 million (net of $24.1 million discount) of 3.70% and 8.00% unsecured convertible notes outstanding, respectively.

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

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

We have approximately $1.8 billion in unsecured corporate debt. This debt may be unassumable by a potential purchaser and may be subject to significant prepayment penalties.

We may not be able to borrow additional amounts under our unsecured line of credit and unsecured term loan.

Aggregate unsecured borrowings under our unsecured line of credit and unsecured term loan is limited to an amount based primarily on the net operating income derived from a pool of unencumbered properties and our cost basis of certain land and construction projects and compliance with certain financial and non-financial covenants. Borrowings under our unsecured line of credit and unsecured term loan are funded by a group of approximately 50 banks. Our ability to borrow additional amounts under our unsecured line of credit and unsecured term loan may be negatively impacted by a decrease in cash flows from our properties, a default or cross default under our unsecured line of credit and unsecured term loan, non-compliance with one or more loan covenants and non-performance or failure of one or more lenders under our unsecured line of credit and unsecured term loan. In addition, we may not be able to refinance or repay outstanding borrowings on our unsecured line of credit or unsecured term loan. Our inability to borrow additional amounts could delay or prevent us from acquiring, financing and completing desirable investments, which could adversely affect our business; and our inability to refinance or repay amounts under our unsecured line of credit or unsecured term loan may adversely affect our cash flows, ability to make distributions to our stockholders, financial condition and results of operations.

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 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 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.

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

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

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

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

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

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

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

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

The conversion rights of our 3.70% unsecured convertible notes may be detrimental to holders of our common stock.

As of December 31, 2009, we had approximately $368.0 million, net of $16.7 million discount, outstanding on our unsecured convertible notes with a coupon of 3.70% (the 3.70% Unsecured Convertible Notes). Prior to January 15, 2012, we will not have the right to redeem the 3.70% Unsecured Convertible Notes, except to preserve our qualification as a REIT. On and after that date, we have the right to redeem the 3.70% Unsecured Convertible 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 3.70% Unsecured Convertible Notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date. Holders of the 3.70% Unsecured Convertible Notes may require us 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. Holders of the 3.70% Unsecured Convertible Notes may require us to repurchase all or a portion of their notes upon the occurrence of specified corporate transactions, including a change in control, certain merger or consolidation transactions or the liquidation of the Company (each, a Fundamental Change), at a repurchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. At issuance, the 3.70% Unsecured Convertible Notes had an initial conversion rate of approximately 8.4774 shares of common stock per $1,000 principal amount of the 3.70% Unsecured Convertible Notes, representing a conversion price of approximately $117.96 per share of our common stock. This initial conversion price represented a premium of 20% based on the last reported sale price of $98.30 per share of our common stock on January 10, 2007. The conversion rate of the 3.70% Unsecured Convertible Notes is subject to adjustments for certain events, including, but not limited to, certain dividends on our common stock in excess of $0.74 per share per quarter and dividends on our common stock payable in shares of our common stock. As of December 31, 2009, the 3.70% Unsecured Convertible Notes had a conversion rate of approximately 8.5207 shares of common stock per $1,000 principal amount of the 3.70% Unsecured Convertible Notes, which is equivalent to a conversion price of approximately $117.36 per share of our common stock. Holders of the 3.70% Unsecured Convertible Notes may convert their notes into cash and, if applicable, shares of our common stock prior to the stated maturity of January 15, 2027 only under the following circumstances: (1) during any calendar quarter after the calendar quarter ending March 31, 2007, if the closing sale price of our 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) during the five consecutive business days immediately after any five consecutive trading day period (the 3.70% Unsecured Convertible Note Measurement Period) in which the average trading price per $1,000 principal amount of 3.70% Unsecured Convertible Notes was equal to or less than 98% of the average conversion value of the 3.70% Unsecured Convertible Notes during the 3.70% Unsecured Convertible Note Measurement Period; (3) upon the occurrence of a Fundamental Change; (4) if we call the 3.70% Unsecured Convertible Notes for redemption; and (5) 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.

The conversion of the 3.70% Unsecured Convertible Notes into our common stock would dilute stockholder ownership in the Company, and could adversely affect the market price of our common stock or impair our ability to raise capital through the sale of additional equity securities. Any adjustments that increase the conversion rate of the 3.70% Unsecured Convertible Notes would increase their dilutive effect. Further, the 3.70% Unsecured Convertible Notes may be converted into cash at a time when we need to conserve our cash reserves, in which event, such conversion may adversely affect us and our stockholders.

The conversion rights of our 8.00% unsecured convertible notes may be detrimental to holders of our common stock.

In April 2009, we completed a private offering of $240 million unsecured convertible notes with a coupon of 8.00% (the 8.00% Unsecured Convertible Notes). As of December 31, 2009, we had approximately $215.9 million, net of $24.1 million discount, outstanding on our 8.00%

Unsecured Convertible Notes. Prior to April 20, 2014, we will not have the right to redeem the 8.00% Unsecured Convertible Notes, except to preserve our qualification as a REIT. On and after that date, we have the right to redeem the 8.00% Unsecured Convertible 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 8.00% Unsecured Convertible Notes may require us to repurchase their notes, in whole or in part, on April 15, 2014, 2019 and 2024 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. Holders of the 8.00% Unsecured Convertible Notes may require us to repurchase all or a portion of their notes upon the occurrence of a Fundamental Change, at a repurchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. At issuance, the 8.00% Unsecured Convertible Notes had an initial conversion rate of approximately 24.1546 shares of common stock per $1,000 principal amount of the 8.00% Unsecured Convertible Notes, representing a conversion price of approximately $41.40 per share of our common stock. This initial conversion price represented a premium of 15% based on the last reported sale price of $36.00 per share of our common stock on April 21, 2009. The conversion rate of the 8.00% Unsecured Convertible Notes is subject to adjustments for certain events, including, but not limited to, certain cash dividends on our common stock in excess of $0.35 per share per quarter and dividends on our common stock payable in shares of our common stock. As of December 31, 2009, there was no change from the initial conversion rate of our 8.00% Unsecured Convertible Notes. Holders of the 8.00% Unsecured Convertible Notes may convert their notes prior to the stated maturity date of April 15, 2029 only under the following circumstances: (1) during any calendar quarter after the calendar quarter ending June 30, 2009, if the closing sale price of our 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 or is equal to 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five consecutive business days immediately after any five consecutive trading day period (the 8.00% Unsecured Convertible Note Measurement Period) in which the average trading price per $1,000 principal amount of the 8.00% Unsecured Convertible Notes was equal to or less than 98% of the average conversion value of the 8.00% Unsecured Convertible Notes during the 8.00% Unsecured Convertible Note Measurement Period; (3) upon the occurrence of a Fundamental Change; (4) if we call the 8.00% Unsecured Convertible Notes for redemption; and (5) at any time from, and including, March 15, 2029 until the close of business on the business day immediately preceding April 15, 2029 or earlier redemption or repurchase. Upon conversion, holders of the 8.00% Unsecured Convertible Notes will receive cash, shares of our common stock, or a combination thereof, as the case may be, at our election.

The conversion of the 8.00% Unsecured Convertible Notes into our common stock would dilute stockholder ownership in the Company, and could adversely affect the market price of our common stock or impair our ability to raise capital through the sale of additional equity securities. Any adjustments that increase the conversion rate of the 8.00% Unsecured Convertible Notes would increase their dilutive effect. Further, the 8.00% Unsecured Convertible Notes may be converted into cash at a time when we need to conserve our cash reserves, in which event, such conversion may adversely affect us and our stockholders.

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

As of December 31, 2009, we had approximately $250 million outstanding of 7.00% series D cumulative convertible preferred stock (Series D Convertible Preferred Stock). The Series D Convertible Preferred Stock may be converted into shares of our common stock subject to certain conditions. At December 31, 2009, the conversion rate for the Series D Convertible Preferred Stock was 0.2480 shares of our common stock per $25.00 liquidation preference, which was equivalent to a conversion price of approximately $100.81 per share of common stock. The conversion rate for the Series D Convertible Preferred Stock is subject to adjustments for certain events, including, but not limited to certain dividends on our common stock in excess of $0.78 per share per quarter and dividends on our common stock payable in shares of our common stock. In addition, on or after April 20, 2013, we may, at our option, be able to cause some or all of our Series D Convertible Preferred Stock to be automatically converted if the closing sale price per share of our common stock equals or exceeds 150% of the then-applicable conversion price of the Series D Convertible Preferred Stock for at least 20 trading days in a period of 30 consecutive trading days ending on the trading day immediately prior to our issuance of a press release announcing the exercise of our conversion option. Holders of our Series D Convertible Preferred Stock, at their option, may, at any time and from time to time, convert some or all of their outstanding shares.

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

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

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

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

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

- national, local and worldwide economic conditions;
- competition from other life science properties;
- changes in the life science industry;
- real estate conditions in our target markets;
- our ability to collect rent payments;
- the availability of financing;
- changes to the financial and banking industries;
- changes in interest rate levels;
- vacancies at our properties and our ability to re-lease space;
- changes in tax or other regulatory laws;
- the costs of compliance with government regulation;
- the lack of liquidity of real estate investments; and
- increases in operating costs.

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

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;
- restrictions under Maryland law; and
- other factors our board of directors deems relevant.

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

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

As a REIT, we are required to distribute at least 90% of our taxable income to our stockholders. Typically, we generate cash for distributions through our operations, the disposition of assets, or the incurrence of additional debt. Our board of directors may determine in the future, to pay dividends on our common stock in cash, shares of common stock or a combination of cash and shares of common stock. The Internal Revenue Service recently issued Revenue Procedure 2010-12, which provides guidance regarding certain dividends payable in cash or stock at the election of stockholders and declared with respect to taxable years ending on or before December 31, 2011. Under Revenue Procedure 2010-12, a distribution of our stock pursuant to such an election will be considered a taxable distribution of property in an amount equal to the amount of cash that could have been received instead if, among other things, 10% or more of the distribution is payable in cash. Any such dividend would be distributed in a manner intended to count toward satisfaction of our annual distribution requirements and to qualify for the dividends paid deduction. A reduction in the cash yield on our common stock may negatively impact our stock price.

We may be unsuccessful with our real estate development and redevelopment activities.

A key component of our long term business model consists of the ground-up development and redevelopment of space for lease. Our success with our development and redevelopment projects depends on many risks that may adversely affect our business, including those associated with:

- negative worldwide economic, financial, and banking conditions;
- worldwide economic recession and lack of confidence;
- the seizure or illiquidity of credit markets;
- national, local and worldwide economic conditions;
- delays in construction;
- budget overruns;
- lack of availability and/or increasing costs of materials;
- commodity pricing of building materials and supplies;
- financing availability;
- changes in the life sciences, financial and banking industries;
- volatility in interest rates;
- labor availability and/or strikes;
- uncertainty of leasing;
- timing of the commencement of rental payments;
- changes in local submarket conditions;
- delays or denials of entitlements or permits; and
- other property development uncertainties.

In addition, development and redevelopment 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.

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

A key component of our long term business model is redevelopment of existing office, warehouse or shell space as generic office/laboratory space, including the conversion of single tenancy space to multi-tenancy spaces or multi-tenancy spaces to single tenancy space that can be leased at higher rates. There can be no assurance that we will be able to complete spaces undergoing redevelopment or initiate additional redevelopment projects. Redevelopment activities subject us to many risks, including delays in permitting, financing availability, engaging contractors, the 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.

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

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

- reinforced concrete floors;
- upgraded roof loading capacity;
- increased floor to ceiling heights;
- heavy-duty heating, ventilation and air conditioning (HVAC) systems;
- enhanced environmental control technology;
- significantly upgraded electrical, gas and plumbing infrastructure; and
- laboratory benches.

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

As of December 31, 2009, we held ground lease obligations including leases for 19 of our properties and three land development parcels. These lease obligations have remaining lease terms from 23 to 97 years, excluding extension options. If we default under the terms of any particular lease, we may lose the ownership rights to the property subject to the lease. Upon expiration of a lease and all of its options, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase of rental expense could have a material adverse effect on our financial condition, results of operations, cash flow, stock price and ability to satisfy our debt service obligations and to pay distributions to our stockholders.

We may not be able to operate properties successfully.

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

- our properties may not perform as we expect;
- we may lease space at rates below our expectations;
- we may not be able to obtain financing on acceptable terms; and
- we may underestimate the cost of improvements required to maintain or improve space 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 distributions to our stockholders could be adversely affected.

We may experience increased operating costs, which may reduce profitability.

Our properties are subject to increases in operating expenses including cleaning, electricity, HVAC, administrative costs and other costs associated with security, landscaping and repairs and maintenance of our properties. As of December 31, 2009, approximately 88% of our leases (on a rentable 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, approximately 8% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses. **However, we cannot be certain that our tenants will be able to bear the full burden of these higher costs, or that such increased costs will not lead them, or other prospective tenants, to seek space elsewhere. If operating expenses increase, the availability of other comparable space in the markets we operate in may hinder or limit our ability to increase our rents; if operating expenses increase without a corresponding increase in revenues, our profitability could diminish and limit 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
- owners/occupants.

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

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

Our properties are located in the following markets:

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

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, tax, currency fluctuations, and other competitive factors specific to markets in confined geographic areas. Our operations may also be affected if too many competing properties are built in any of these markets. An economic downturn in any of these markets could adversely affect our operations and our ability to make distributions to stockholders. We cannot assure our stockholders that these markets will continue to grow or will remain favorable to the life science industry.

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

In general, our business and 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 is impacted by the current economic, financial and banking crisis or if the life science industry migrates from the United States 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 on 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 depend on availability of reimbursements from various government entities or private insurance plans and reimbursements may decrease in the future.

- 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, including the approval of the United States Food and Drug Administration, prior to being made, marketed, sold and used. The regulatory approval process to manufacture and market drugs is costly, typically takes several years, requires 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 the 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, may be less effective or accepted than a 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 venture capital firms, private investors, the public markets, companies in the life science industry or federal, state and local governments. Such funding may become unavailable or difficult to obtain. The ability of each tenant to raise capital will depend on their financial and operating condition and the overall condition of the financial, banking and economic environment.

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

We cannot assure our stockholders 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.

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

Our revenues are derived primarily from rental payments and reimbursement of operating expenses under our leases. If 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 generate less cash flow from the affected properties than expected, which could negatively impact our business. We may have to divert cash flow generated by other properties to meet our debt service payments, if any, or to pay other expenses related to owning the affected properties. As of December 31, 2009, leases at our properties representing approximately 8.7% and 15.1% of the aggregate total square footage of our properties, excluding month-to-month leases, were scheduled to expire in 2010 and 2011, respectively.

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

As of December 31, 2009, we had 417 leases with a total of 342 tenants, and 74 of our 156 properties were single-tenant properties. Our three largest tenants accounted for approximately 17.1% of our aggregate annualized base rent, or approximately 8.0%, 4.7% and 4.4%, respectively. Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2009, 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, insurance, utilities, 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 United States Bankruptcy Code, as amended, we cannot evict that tenant solely because of its bankruptcy. The bankruptcy court may authorize the tenant to reject and terminate its lease with us. Our claim against such a tenant for 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 United States government tenants may not receive annual budget appropriations, which could adversely affect their ability to pay us.

United States government tenants may be subject to annual budget appropriations. If one of our United States 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 United States government tenants provide that the government tenant may terminate the lease under certain circumstances. As of December 31, 2009, leases with United States government tenants at our properties accounted for approximately 2.7% of our aggregate annualized base rent.

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 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 businesses and their ability to make rental payments to us.

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.

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, non-compliance could result in the imposition of fines or an award of damages to private litigants.

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

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

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

We 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 government 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 they will result in material environmental costs or liabilities to us.

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

- the discharge of 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, nor that assessments on future acquisitions will 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.

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

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

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

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

Our insurance may not adequately cover all potential losses.

If we experience a loss at any of our properties that is not covered by insurance 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 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.

Our tenants are also required to maintain comprehensive insurance, including liability and casualty insurance, that is customarily obtained for similar properties. There are, however, certain types of losses that we and our tenants do not generally insure against because they are uninsurable or because it is not economical to insure against them. The availability of coverage against certain types of losses, such as from terrorism or toxic mold, has become more limited and, when available, 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.

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

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

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 our stockholders that our senior executive officers will remain employed with us.

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, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification; and
- 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 in a manner so as to qualify as a REIT, we cannot assure our stockholders that we are or will remain so qualified.

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

We 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, redevelopment 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.

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

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

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

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

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

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

In order for us to maintain our qualification as a REIT, among other reasons, our charter provides for an ownership limit, which prohibits, with certain exceptions, direct or constructive ownership of shares of stock representing more than 9.8% of the combined total value of our outstanding shares of stock by any person, as defined in our charter. Our board of directors, in its sole discretion, may or may not waive the ownership limit for any person. However, our board of directors may not grant such waiver if, after giving effect to such waiver, five individuals could beneficially own, in the aggregate, more than 49.9%

of the value of our outstanding stock. As a condition to waiving the ownership limit, our board of directors may require a ruling from the Internal Revenue Service or an opinion of counsel in order to determine our status as a REIT. Notwithstanding the receipt of any such ruling or opinion, our board of directors may impose such conditions or restrictions as it deems appropriate in connection with granting a waiver.

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

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

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

As authorized by Maryland law, our charter allows our board of directors to cause us to issue additional authorized but unissued shares of our common stock or preferred stock and to classify or reclassify unissued shares of common or preferred stock without any stockholder approval. Our board of directors could establish a series of preferred stock that could delay, defer or prevent a transaction that might involve a premium price for our common stock or 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.

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 face risks associated with short-term liquid investments.

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

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

We have four operating properties and one development parcel in Canada and two development parcels in China. International development, ownership and operating activities involve risks that are different from those we face with respect to our domestic properties and operations. These risks include but are not limited to:

- adverse effects of changes in exchange rates for foreign currencies;
- 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;
- challenges with respect to the repatriation of foreign earnings;
- changes in foreign political, regulatory and economic conditions, including regionally, nationally, and locally;
- challenges in managing international operations;
- challenges of complying with a wide variety of foreign laws and regulations, including those relating to real estate, corporate governance, operations, taxes, employment and legal proceedings;
- differences in lending practices;
- differences in languages, cultures and time zones; and
- changes in applicable laws and regulations in the United States that affect foreign operations.

Although our international activities currently represent a relatively small portion of our overall business, these risks could increase in significance which, in turn, could have an adverse impact on our results of operations and financial condition.

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

We have four operating properties and one development parcel in Canada and two development parcels in China. Investments in countries where the United States dollar is not the local currency are subject to international currency risk from the potential fluctuations in exchange rates between the United States dollar and the local currency. A significant decrease in the value of the Canadian dollar, Chinese Renminbi, 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, 2009, we had 156 properties containing approximately 11.8 million rentable square feet of office/laboratory space. Excluding properties undergoing redevelopment and properties classified as held for sale, our properties were approximately 94.1% leased as of December 31, 2009. 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, 2009, we held a fee simple interest in each of our properties, except for 19 properties that accounted for approximately 17% of the total rentable square footage of our properties. Of the 19 properties, we held three properties in the San Francisco Bay market, one property in the Southeast market, two properties in the Suburban Washington, D.C. market and 13 properties in the Eastern Massachusetts market pursuant to ground leasehold interests. See further discussion in our consolidated financial statements and notes thereto in Item 15. Exhibits and Financial Statement Schedules.

In addition, as of December 31, 2009, our asset base contained land parcels aggregating approximately 1.6 million developable square feet in Canada, New York City and San Francisco Bay markets which we held pursuant to ground leasehold interests and two land parcels aggregating approximately 547,000 rentable square feet in China which we held pursuant to land usage rights.

As of December 31, 2009, we had 417 leases with a total of 342 tenants, and 74 of our 156 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 ten to 20 years. As of December 31, 2009:

- approximately 88% of our leases (on a rentable square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area and other operating expenses (including increases thereto) in addition to base rent, and, in addition to our triple net leases, approximately 8% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses;

- approximately 93% of our leases (on a rentable square footage basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index; and

- approximately 91% of our leases (on a rentable 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 are reusable generic office/laboratory improvements and remain our property after termination of the lease at our election. However, we are permitted under the terms of most of our leases to require that the tenant, at its expense, remove certain non-generic improvements and restore the premises to their original condition.

Location of properties

The locations of our properties are diversified among a number of life science cluster submarkets. The following table sets forth, as of December 31, 2009, 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	Encumbrances (2)
California San Diego	32	1,665,475	14.2%	$ 41,454	13.0%	$ 135,782
California San Francisco Bay	18	1,580,943	13.5	53,949	17.0	192,953
Eastern Massachusetts	36	3,310,001	28.1	110,973	34.9	276,404
New Jersey/Suburban Philadelphia	8	459,904	3.9	9,601	3.0	15,763
Southeast	13	756,564	6.4	16,364	5.2	-
Suburban Washington, D.C.	30	2,447,603	20.8	47,120	14.8	184,895
Washington Seattle	12	975,121	8.3	30,044	9.5	84,049
International Canada	4	342,394	2.9	8,158	2.6	-
Properties Continuing Operations	153	11,538,005	98.1	$ 317,663	100.0%	$ 889,846
Properties Discontinued Operations	3	221,638	1.9			
Properties Total	156	11,759,643	100.0%			

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(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2009 (using rental revenue computed on a straight-line basis in accordance with GAAP). Amounts exclude spaces at properties totaling approximately 575,152 rentable square feet undergoing a permanent change in use to office/laboratory space through redevelopment.

(2) Certain properties are pledged as security under our secured notes payable as of December 31, 2009. See Schedule III Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation of Alexandria Real Estate Equities, Inc. in Item 15. Exhibits and Financial Statement Schedules for additional information on our properties, including encumbered properties. Excludes approximately $47.2 million of encumbrances related to land held for future development and construction in progress.

Value Add Activities

The following table summarizes our current and embedded future development and redevelopment square footage including preconstruction projects. Preconstruction projects include significant value add projects undergoing important and substantial activities to bring these assets to their intended use. These critical activities add significant value for future ground-up development (which are projected to yield substantial revenues and cash flows) and are required for the ultimate vertical construction of buildings. Amounts are classified as construction in progress as required under GAAP while construction activities are ongoing to bring the asset to its intended use. When construction activities cease, the asset is transferred out of construction in progress and classified as rental properties, net or land held for future development. Land held for future development includes certain land parcels with improvements to the land, including, grading, piles, foundations and other land improvements.

	Square Footage						
	Construction in Progress						
Markets	**Redevelopment**	**Development**	**Preconstruction**	**New Markets and Other Projects**	**Land**	**Future Redevelopment**	**Total Value Add Square Footage**
California San Diego	116,431		298,000		145,000	178,000	737,431
California San Francisco Bay/ Mission Bay		263,000	2,320,000				2,583,000
California San Francisco Bay/ So. San Francisco		292,000	144,000		1,051,000	25,000	1,512,000
Eastern Massachusetts	245,308		2,019,000		225,000	520,000	3,009,308
Suburban Washington, D.C.	192,222				787,000	415,000	1,394,222
Washington Seattle		115,000	248,000		1,049,000	165,000	1,577,000
International Canada					827,000		827,000
Other	21,191	310,000	200,000	1,057,000	741,000	222,000	2,551,191
Total	575,152	980,000	5,229,000	1,057,000(1)	4,825,000(2)	1,525,000(3)	14,191,152

(1) Includes approximately 410,000 rentable square feet related to our project in New York City and approximately 547,000 rentable square feet related to two ground-up development projects in China.

(2) Excludes a parcel with approximately 442,000 rentable square feet in New York City that we have an option to ground lease for future development and a 924,000 developable square foot parcel in Edinburgh, Scotland that we have a long-term right to purchase.

(3) Future redevelopment represents non-laboratory operating assets (office, industrial or warehouse uses) that will undergo conversion to office/laboratory through redevelopment.

Redevelopment

A key component of our business model is redevelopment of existing office, warehouse or shell space as generic office/laboratory space, including the conversion of single tenancy space to multi-tenancy spaces or multi-tenancy spaces to single tenancy space, that can be leased at higher rates. As of December 31, 2009, we had approximately 575,152 rentable square feet undergoing redevelopment at ten projects. In addition to properties undergoing redevelopment, as of December 31, 2009, our asset base contained embedded opportunities for a future permanent change of use to office/laboratory space through redevelopment aggregating approximately 1.5 million rentable square feet.

The following table summarizes total rentable square footage undergoing redevelopment as of December 31, 2009:

Markets/Submarkets	**Estimated In-Service Dates**	**Rentable Square Footage Undergoing Redevelopment/ Total Property**
California San Diego/Torrey Pines	2010	84,504 / 84,504
California San Diego/Torrey Pines	2010	31,927 / 76,084
Eastern Massachusetts/Cambridge	2010	85,149 / 366,412
Eastern Massachusetts/Cambridge	2011	17,114 / 194,776
Eastern Massachusetts/Suburban	2010	113,045 / 113,045
Eastern Massachusetts/Suburban	2010	30,000 / 30,000
Southeast/Florida	2010	21,191 / 44,855
Suburban Washington, D.C./ Shady Grove	2010	58,632 / 58,632
Suburban Washington, D.C./ Shady Grove	2010	50,633 / 123,501
Suburban Washington, D.C./Shady Grove	2011	82,957 / 157,974
		575,152 / 1,249,783

As of December 31, 2009, our estimated cost to complete was approximately $93 per rentable square foot for the 575,152 rentable square feet undergoing a permanent change in use to office/laboratory space through redevelopment. Our final costs for these redevelopment projects will ultimately depend on many factors, including construction requirements for each tenant, final lease negotiations and the amount of costs funded by each tenant.

Development

Another key component of our business model is ground-up development. Our development strategy is primarily to pursue selective projects where we expect to achieve appropriate investment returns. 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, 2009, we had six parcels of land undergoing ground-up development in the United States approximating 980,000 rentable square feet of office/laboratory space as summarized in the table below. We also have an embedded pipeline for future ground-up development approximating 11.1 million developable square feet of office/laboratory space. Future ground-up/vertical development projects will likely require significant pre-leasing from high quality and/or credit entities.

Markets/Submarkets	Building Description	Estimated In-Service Dates	Leased/ Committed/ Negotiating	Rentable Square Feet	Leasing Status
California San Francisco Bay/ Mission Bay	Multi-tenant Bldg. with 3% Retail	2010	98%	158,000	158,000 Rentable Square Feet Leased or Committed to UCSF and a Large Cap Life Science Company
California San Francisco Bay/ Mission Bay	Single or Multi-tenant Bldg. with 4% Retail	2011	65%	105,000	Negotiating Lease for Significant Amount of Space with a Large Cap Life Science Company
California San Francisco Bay/ So. San Francisco	Two Bldgs., Single or Multi-tenant	2010	0%	162,000	Redesign for Multi-Tenancy at Both Buildings/Marketing
California San Francisco Bay/ So. San Francisco	Single Tenant Bldg.	2010	55%	130,000	72,000 Rentable Square Feet Leased to Exelixis Inc.; Marketing
New York New York City East Tower	Multi-tenant Bldg. with 6% Retail	2010/2011	100%	310,000	100,000 Rentable Square Feet Leased to Eli Lilly and Company; Leasing 57,000 Rentable Square Feet for Food, Conference and Core Services; Current Office/Laboratory Negotiations for All Remaining Space
Washington Seattle	Single Tenant Bldg. with 5% Retail	2010	100%	115,000	109,000 Rentable Square Feet Leased to Gilead Sciences, Inc.
			74%	980,000	

As of December 31, 2009, our estimated cost to complete the approximately 980,000 rentable square feet undergoing ground-up development was approximately $140 per rentable square foot. This estimate includes costs related to tenant infrastructure costs, including requirements for executed leases with Eli Lilly and Company, Gilead Sciences, Inc. and UCSF. This estimate also includes certain costs related to incremental investment by the Company with incremental returns which are beyond the original estimated investment anticipated at the beginning of each project. Our final costs for these projects will ultimately depend on many factors, including construction and infrastructure requirements for each tenant, final lease negotiations and the amount of costs funded by each tenant.

A component of our business model also includes ground-up development projects outside of the United States. We have the ability to develop up to 924,000 rentable square feet in Edinburgh, Scotland. We have a right to purchase the land for this development over the next 13 years. We also have a development site in Toronto, Canada for the ground-up development of a multi-story building aggregating 763,000 rentable square feet. This parcel is subject to a 99-year ground lease. We also have two development parcels in China subject to land use rights. One development parcel is located in South China where a two-building project aggregating 275,000 rentable square feet is under construction. The second development parcel is located in North China where a two-building project aggregating 272,000 rentable square feet is under construction. Our final costs for these projects will ultimately depend on many factors, including construction requirements for each tenant, final lease negotiations and the amount of costs funded by each tenant. Future ground-up/vertical development projects will likely require significant pre-leasing from high quality and/or credit entities.

Tenants

Our life science properties are leased principally to a diverse group of tenants, with no tenant being responsible for more than 8.0% of our annualized base rent. The chart below shows annualized base rent by tenant business type as of December 31, 2009:

The following table sets forth information regarding leases with our 20 largest tenants based upon annualized base rent as of December 31, 2009:

	Tenant	Number of Leases	Remaining Lease Term in Years (1)	Remaining Lease Term in Years (2)	Approximate Aggregate Rentable Square Feet	Percentage of Aggregate Total Square Feet	Annualized Base Rent (3) (in thousands)	Percentage of Aggregate Annualized Base Rent
1	Novartis AG	5	6.1 (4)	6.5	424,641	3.7%	$ 25,390	8.0%
2	Roche Holding Ltd	5	7.8 (5)	8.0	387,813	3.4	14,850	4.7
3	GlaxoSmithKline plc	6	5.4 (6)	6.4	350,278	3.0	14,038	4.4
4	ZymoGenetics, Inc. (7)	2	9.4	9.4	203,369	1.8	8,747	2.8
5	United States Government	6	3.6 (8)	3.6	308,205	2.7	8,495	2.7
6	Massachusetts Institute of Technology	3	2.3 (9)	2.6	178,952	1.6	7,899	2.5
7	Theravance, Inc. (10)	2	2.3	2.3	170,244	1.5	6,136	1.9
8	Pfizer Inc.	2	10.0 (11)	9.9	120,140	1.0	5,647	1.8
9	Amylin Pharmaceuticals, Inc.	3	6.4 (12)	6.6	158,983	1.4	5,467	1.7
10	The Scripps Research Institute	2	6.9 (13)	6.9	96,500	0.8	5,193	1.6
11	Forrester Research, Inc.	1	1.8	1.8	145,551	1.3	4,987	1.6
12	Alnylam Pharmaceuticals, Inc.	1	6.8	6.8	95,410	0.8	4,466	1.4
11	Dyax Corp.	1	2.2	2.2	67,373	0.6	4,361	1.4
14	Quest Diagnostics Incorporated	1	7.0	7.0	248,186	2.2	4,341	1.4
15	Infinity Pharmaceuticals, Inc.	2	3.0	3.0	67,167	0.6	4,302	1.4
16	Johnson & Johnson	2	3.7 (14)	3.2	170,451	1.5	3,917	1.2
17	Monsanto Company	3	9.1 (15)	11.0	120,050	1.0	3,904	1.2
18	Fred Hutchinson Cancer Research Center	2	4.5 (16)	4.6	123,322	1.1	3,853	1.2
18	Merck & Co., Inc.	2	3.4 (17)	4.1	102,196	0.9	3,847	1.2
20	Qiagen N.V.	2	6.2 (18)	6.2	158,879	1.4	3,845	1.2
	Total/Weighted Average:	53	5.6	5.9	3,697,710	32.3%	$ 143,685	45.3%

(1) Represents remaining lease term in years based on percentage of leased square feet.
(2) Represents remaining lease term in years based on percentage of annualized base rent.
(3) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2009 (using rental revenue computed on a straight-line basis in accordance with GAAP).

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(4) Amount shown is a weighted average of multiple leases with this tenant for 255,441 rentable square feet, 24,386 rentable square feet, 16,188 rentable square feet, 47,185 rentable square feet and 81,441 rentable square feet, with remaining lease terms of 8.3 years, 4.8 years, 4.5 years, 3.8 years and 1.5 years, respectively.

(5) Amount shown is a weighted average of multiple leases with this tenant for 155,685 rentable square feet, 126,971 rentable square feet, 66,262 rentable square feet, 16,406 rentable square feet and 22,489 rentable square feet and with remaining lease terms of 9.3 years, 8.8 years, 4.8 years, 3.9 years and 3.8 years, respectively.

(6) Amount shown is a weighted average of multiple leases with this tenant for 128,759 rentable square feet (representing two leases at two properties containing 68,000 and 60,759 rentable square feet, respectively), 52,627 rentable square feet, 17,932 rentable square feet and 150,960 rentable square feet with remaining lease terms of 10.3 years, 8.0 years, 1.8 years and 0.9 years, respectively.

(7) As of September 30, 2009, Novo A/S owned approximately 32% of ZymoGenetics, Inc.

(8) Amount shown is a weighted average of multiple leases with this tenant for 81,580 rentable square feet, 114,568 rentable square feet (representing three leases at three properties containing 50,325 rentable square feet, 9,337 rentable square feet and 54,906 rentable square feet, respectively), 105,000 rentable square feet and 7,057 rentable square feet with remaining lease terms of 5.3 years, 3.8 years, 2.4 years and 0.6 years, respectively.

(9) 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 3.5 years, 1.8 years and 1.1 years, respectively.

(10) As of October 30, 2009, GlaxoSmithKline plc owned 15% of the outstanding stock of Theravance, Inc.

(11) Amount shown is a weighted average of multiple leases with this tenant for 102,283 rentable square feet and 17,857 rentable square feet with remaining lease terms of 10.1 years and 9.3 years, respectively.

(12) Amount shown is a weighted average of multiple leases with this tenant for 71,510 rentable square feet and 87,473 rentable square feet (representing two leases at two properties containing 45,030 rentable square feet and 42,443 rentable square feet, respectively) with remaining lease terms of 8.1 years and 5.1 years, respectively.

(13) Amount shown is a weighted average of multiple leases with this tenant for 19,606 rentable square feet and 76,894 rentable square feet with remaining lease terms of 7.8 years and 6.7 years, respectively.

(14) Amount shown is a weighted average of multiple leases with this tenant for 111,451 rentable square feet and 59,000 rentable square feet with remaining lease terms of 4.3 years and 2.7 years, respectively.

(15) Amount shown is a weighted average of multiple leases with this tenant for 65,719 rentable square feet, 22,555 rentable square feet and 31,776 rentable square feet with remaining lease terms of 14.2 years, 5.9 years and 0.8 years, respectively.

(16) Amount shown is a weighted average of multiple leases with this tenant for 106,425 rentable square feet and 16,897 rentable square feet with remaining lease terms of 4.9 years and 2.2 years, respectively.

(17) Amount shown is a weighted average of multiple leases with this tenant for 67,473 rentable square feet and 34,723 rentable square feet with remaining lease terms of 4.8 years and 0.8 years, respectively.

(18) Amount shown is a weighted average of multiple leases with this tenant for 143,585 rentable square feet and 15,294 rentable square feet with remaining lease terms of 6.8 years and 1.2 years, respectively.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. RESERVED

PART II

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

Our common stock is traded on the NYSE under the symbol ARE. On February 24, 2010, the last reported sales price per share of our common stock was $61.68, and there were approximately 257 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 our common stock for each such period:

Period	High	Low	Per Share Distribution
2009			
Fourth Quarter	$68.24	$51.35	$0.35
Third Quarter	$62.49	$30.33	$0.35
Second Quarter	$43.76	$30.48	$0.35
First Quarter	$66.69	$31.19	$0.80
2008			
Fourth Quarter	$112.72	$33.12	$0.80
Third Quarter	$116.50	$92.55	$0.80
Second Quarter	$107.50	$92.73	$0.80
First Quarter	$104.23	$85.97	$0.78

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. No dividends can be paid on our common stock unless we have paid full cumulative dividends on our 8.375% series C cumulative redeemable preferred stock (Series C Preferred Stock) and Series D Convertible Preferred Stock. From the date of issuance of our preferred stock through December 31, 2009, we have paid full cumulative dividends on our Series C Preferred Stock and Series D Convertible Preferred Stock. We cannot assure our stockholders that we will make any future distributions.

The tax treatment of distributions on common stock paid in 2009 was as follows: (1) 98.8% ordinary dividend and (2) 1.2% return of capital. The tax treatment of distributions on common stock paid in 2008 was as follows: (1) 81.1% ordinary dividend, (2) 6.6% capital gain at 15%, and (3) 12.3% return of capital.

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 annual report on Form 10-K. See Item 15. Exhibits and Financial Statement Schedules. Amounts for the years prior to 2009 presented in the table below include the retrospective impact of new accounting literature adopted on January 1, 2009 related to accounting for and disclosure of convertible debt, noncontrolling interests and participating securities. Additionally, certain amounts for the years prior to 2009 presented in the table below have been reclassified to conform to the presentation of our consolidated financial statements for the year ended December 31, 2009.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands, except per share amounts)				
Operating Data:					
Total revenue	$ 480,140	$ 451,637	$ 388,339	$ 294,174	$ 215,129
Total expenses	354,964	350,577	312,373	228,541	163,350
Gain on early extinguishment of debt	11,254	-	-	-	-
Income from continuing operations	136,430	101,060	75,966	65,633	51,779
Income from discontinued operations, net	5,218	19,037	14,014	10,070	12,288
Net income	141,648	120,097	89,980	75,703	64,067
Net income attributable to noncontrolling interests	7,047	3,799	3,669	2,287	634
Dividends on preferred stock	28,357	24,225	12,020	16,090	16,090
Preferred stock redemption charge	-	-	2,799	-	-
Net income attributable to unvested restricted stock awards	1,270	1,327	1,075	873	540
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$ 104,974	$ 90,746	$ 70,417	$ 56,453	$ 46,803
Earnings per share attributable to Alexandria Real Estate Equities, Inc. s common stockholders basic					
Continuing operations	$ 2.59	$ 2.28	$ 1.90	$ 1.85	$ 1.65
Discontinued operations, net	0.13	0.59	0.47	0.40	0.58
Earnings per share basic	$ 2.72	$ 2.87	$ 2.37	$ 2.25	$ 2.23
Earnings per share attributable to Alexandria Real Estate Equities, Inc. s common stockholders diluted					
Continuing operations	$ 2.59	$ 2.27	$ 1.90	$ 1.84	$ 1.63
Discontinued operations, net	0.13	0.59	0.46	0.39	0.57
Earnings per share diluted	$ 2.72	$ 2.86	$ 2.36	$ 2.23	$ 2.20
Weighted average shares of common stock outstanding					
Basic	38,586,909	31,653,829	29,668,231	25,102,200	20,948,915
Diluted	38,600,069	31,765,055	29,832,013	25,342,048	21,239,080
Cash dividends declared per share of common stock	$ 1.85	$ 3.18	$ 3.04	$ 2.86	$ 2.72

	Year Ended December 31, 2009	2008	2007	2006	2005
			(Dollars in thousands)		
Balance Sheet Data (at year end):					
Rental properties, net	$ 3,383,308	$ 3,215,723	$ 3,057,294	$ 2,663,088	$ 1,662,905
Land held for future development	$ 255,025	$ 109,478	$ 89,621	$ 63,163	$ 12,615
Construction in progress	$ 1,400,795	$ 1,398,895	$ 1,143,314	$ 596,331	$ 442,636
Total assets	$ 5,457,227	$ 5,132,077	$ 4,641,245	$ 3,617,477	$ 2,362,450
Total debt	$ 2,746,946	$ 2,938,108	$ 2,750,648	$ 2,024,866	$ 1,406,666
Total liabilities	$ 3,051,148	$ 3,357,014	$ 3,025,502	$ 2,208,348	$ 1,512,535
Redeemable noncontrolling interests	$ 41,441	$ 33,963	$ 35,342	$ 20,132	$ 20,115
Alexandria Real Estate Equities, Inc. s stockholders equity	$ 2,323,408	$ 1,700,010	$ 1,540,219	$ 1,351,652	$ 829,800
Noncontrolling interests	$ 41,230	$ 41,090	$ 40,182	$ 37,345	$ -
Total equity	$ 2,364,638	$ 1,741,100	$ 1,580,401	$ 1,388,997	$ 829,800
Reconciliation of net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders to funds from operations attributable to Alexandria Real Estate Equities, Inc. s common stockholders					
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$ 104,974	$ 90,746	$ 70,417	$ 56,453	$ 46,803
Add:					
Depreciation and amortization (1)	118,508	108,743	97,335	74,039	55,416
Net income attributable to noncontrolling interests	7,047	3,799	3,669	2,287	634
Net income attributable to unvested restricted stock awards	1,270	1,327	1,075	873	540
Subtract:					
Gain on sales of property (2)	(2,627)	(20,401)	(7,976)	(59)	(36)
FFO attributable to noncontrolling interests	(3,843)	(4,108)	(3,733)	(1,928)	(668)
FFO attributable to unvested restricted stock awards	(2,694)	(2,596)	(2,418)	(2,006)	(1,171)
FFO attributable to Alexandria Real Estate Equities, Inc. s common stockholders (3)	$ 222,635	$ 177,510	$ 158,369	$ 129,659	$ 101,518
Other Data:					
Cash provided by operating activities	$ 205,950	$ 255,837	$ 188,031	$ 125,641	$ 123,970
Cash used in investing activities	$ (409,923)	$ (494,933)	$ (949,253)	$ (961,636)	$ (433,645)
Cash provided by financing activities	$ 203,440	$ 302,227	$ 766,304	$ 835,032	$ 310,428
Number of properties at year end	156	159	166	158	132
Rentable square feet of properties at year end	11,759,643	11,769,136	12,259,416	11,338,060	8,922,856
Occupancy of properties at year end	89%	90%	88%	88%	88%
Occupancy of properties at year end, excluding properties undergoing redevelopment and properties held for sale	94%	95%	94%	93%	93%

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

(2) Gain on sales of property is included in the consolidated statements of income in income from discontinued operations, net.

(3) 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 Operations - Funds From Operations.

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this annual report on Form 10-K. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of 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 annual report on Form 10-K. We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements contained in this or any other document, whether as a result of new information, future events or otherwise.

Overview

We are a publicly traded REIT focused principally on science-driven cluster formation. We are the leading provider of high-quality environmentally sustainable real estate, technical infrastructure services and capital to the broad and diverse life science industry. Client tenants include institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, product, service and translational entities, as well as government agencies. Our operating platform is based on the principle of clustering, with assets and operations located in key life science markets.

In 2009, we:

- Executed 142 leases for 1,864,000 rentable square feet.
- Reported occupancy at 94% as of December 31, 2009.
- Entered into a 15-year lease with Eli Lilly and Company as an anchor tenant at the Alexandria CenterTM for Life Science New York City.
- Leased 310,000 rentable square feet of redevelopment and development space.
- Completed ground-up development of one property at Mission Bay, San Francisco aggregating 102,000 rentable square feet pursuant to a 15-year lease with Pfizer Inc.
- Reduced principal balances of secured notes payable by $267 million.
- Completed redevelopment of multiple spaces at 10 properties aggregating 227,000 rentable square feet of which approximately 72% was leased.
- Closed 10-year secured loan for $120 million.
- Sold four properties for approximately $21 million.
- Closed two follow-on common stock offerings with aggregate net proceeds of $488 million.

- Closed private offering of 8.00% unsecured convertible notes with net proceeds of $233 million.
- Repurchased, in privately negotiated transactions, approximately $75 million (par value) of our 3.70% unsecured convertible notes.
- Received LEED® gold certification for a building in the San Diego market.

2009 demonstrated the strength and durability of our core operations providing office/laboratory space to the broad and diverse life science industry. Our core operating results were relatively steady for the year ended December 31, 2009, during the continuing extraordinary and unprecedented United States and worldwide economic, financial, banking and credit market crisis, significant worldwide economic recession and the drastic decline in consumer confidence and the consumer driven economy. Financial systems throughout the world have recently experienced significant periods of illiquidity with banks much less willing to lend substantial amounts to other banks and borrowers.

The economic, financial and banking environment and consumer confidence have improved since the depth of the crisis in the fourth quarter of 2008 and first quarter of 2009. Even with the recent improvements, we remain cautious regarding the economic, financial and banking environment. We intend to continue to focus on the completion of our existing active redevelopment projects aggregating approximately 575,152 rentable square feet and our existing active development projects aggregating approximately an additional 980,000 rentable square feet. Additionally, we intend to continue with preconstruction activities for certain land parcels for future ground-up/vertical above ground development in order to preserve and create value for these projects. These important preconstruction activities add significant value to our land for future ground-up development and are required for the ultimate vertical construction of the buildings. We also intend to be very careful and prudent with any future decisions to add new projects to our active ground-up/vertical developments. Future ground-up/vertical development projects will likely require significant pre-leasing from high quality and/or credit entities. We also intend to continue to reduce debt as a percentage of our overall capital structure over a multi-year period. During this period, we may also extend and/or refinance certain debt maturities. We expect the source of funds for construction activities and repayment of outstanding debt to be provided over several years by opportunistic sales of real estate, joint ventures, cash flows from operations, new secured or unsecured debt and the issuance of additional equity securities, as appropriate. As of December 31, 2009, we had identified three assets as held for sale, which have been classified in discontinued operations.

As of December 31, 2009, we had 156 properties containing approximately 11.8 million rentable square feet of office/laboratory space including approximately 575,152 rentable square feet of space undergoing a permanent change in use to office/laboratory space through redevelopment, including the conversion of single tenancy space to multi-tenancy spaces or multi-tenancy spaces to single tenancy space. As of that date, our properties were approximately 94.1% leased, excluding spaces at properties undergoing redevelopment. In addition, as of December 31, 2009, our asset base contained properties undergoing ground-up development approximating 980,000 rentable square feet.

The following table is a summary of our properties as of December 31, 2009 (dollars in thousands):

Markets	Number of Properties	Rentable Square Feet Operating	Redevelopment	Total	Annualized Base Rent (1)	Occupancy Percentage (1)(2)
California San Diego	32	1,549,044	116,431	1,665,475	$ 41,454	89.2%
California San Francisco Bay	18	1,580,943	-	1,580,943	53,949	95.4
Eastern Massachusetts	36	3,064,693	245,308	3,310,001	110,973	94.3
New Jersey/Suburban Philadelphia	8	459,904	-	459,904	9,601	88.0
Southeast	13	735,373	21,191	756,564	16,364	93.7
Suburban Washington, D.C.	30	2,255,381	192,222	2,447,603	47,120	94.3
Washington Seattle	12	975,121	-	975,121	30,044	99.1
International Canada	4	342,394	-	342,394	8,158	100.0
Properties Continuing Operations	153	10,962,853	575,152	11,538,005	$ 317,663	94.1%
Properties Discontinued Operations	3	221,638	-	221,638		
Properties Total	156	11,184,491	575,152	11,759,643		

(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2009 (using rental revenue computed on a straight-line basis in accordance with GAAP). Amounts exclude spaces at properties totaling approximately 575,152 rentable square feet undergoing a permanent change in use to office/laboratory space through redevelopment.

(2) Including spaces undergoing a permanent change in use to office/laboratory space through redevelopment, occupancy as of December 31, 2009 was approximately 89.4%.

Our primary sources of revenue are rental income and tenant recoveries (consisting of reimbursement of real estate taxes, insurance, utilities, repairs and maintenance, and other operating expenses from certain tenants) from leases of our properties. The comparability of financial data from period to period is affected by the timing of our property development, redevelopment and acquisition activities. Of the 156 properties owned as of December 31, 2008, two were acquired in 2008 (the 2008 Properties), 15 in 2007, 119 prior to 2007. In addition, we completed the development of one property in 2009, one property in 2007 (together with the 15 properties acquired in 2007, the 2007 Properties) and 18 properties prior to 2007. As a result of these development and acquisition activities, as well as our ongoing redevelopment and leasing activities, there have been significant increases in total revenues and expenses, including significant increases in total revenues and expenses for 2009 as compared to 2008 as well as 2008 as compared to 2007. Our operating expenses generally consist of real estate taxes, insurance, utilities, common area and other operating expenses.

Leasing

As of December 31, 2009, approximately 88% of our leases (on a rentable 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, approximately 8% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses. Additionally, approximately 91% of our leases (on a rentable square footage basis) provided for the recapture of certain capital expenditures, and approximately 93% of our leases (on a rentable square footage basis) contained effective annual rent escalations that were either fixed or indexed based on the consumer price index or another index.

The following table summarizes information with respect to the lease expirations at our properties as of December 31, 2009:

Year of Lease Expiration	Number of Leases Expiring	Rentable Square Footage of Expiring Leases	Percentage of Aggregate Total Rentable Square Feet	Annualized Base Rent of Expiring Leases (per rentable square foot)
2010	78 (1)	1,003,316 (1)	8.7%	$24.31
2011	79	1,747,901	15.1	28.02
2012	66	1,366,663	11.8	32.82
2013	49	953,388	8.3	29.92
2014	49	1,105,663	9.6	28.31
2015	32	664,559	5.8	26.55
2016	18	1,037,632	9.0	31.65
2017	13	684,973	5.9	34.63
2018	11	737,172	6.4	44.60
2019	6	254,703	2.2	34.64

(1) Excludes three month-to-month leases for approximately 2,000 rentable square feet.

Our revenues are derived primarily from rental payments and reimbursement of operating expenses 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, if 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 properties, 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 properties.

Value Add Activities

Construction in progress includes the following value add activities as of December 31, 2009 (in thousands):

Value Add Activities		Amount	Square Feet
Redevelopment projects	$	135,521	575,152
Development projects		407,084	980,000
Preconstruction projects		617,964	5,229,000
New markets and other projects		240,226	1,057,000
Total	$	1,400,795	7,841,152

Amounts are classified as construction in progress as required under GAAP while construction activities are ongoing to bring the asset to its intended use. When construction activities cease, the asset is transferred out of construction in progress and classified as rental properties, net or land held for future development.

A key component of our business model is our value add redevelopment and development programs. These programs are focused on providing high quality generic office/laboratory space to meet the real estate requirements and are reusable by various life science industry tenants. Upon completion, each value add project is expected to generate significant revenues and cash flows. Our redevelopment and development projects are generally in locations highly desirable by life science entities which we believe results in higher occupancy levels, longer lease terms and higher rental income and returns. Redevelopment projects consist of the permanent change in use of office, warehouse and shell space into generic office/ laboratory space, including the conversion of single tenancy space to multi-tenancy spaces or multi-tenancy spaces to single tenancy space. Our investment in redevelopment projects generally range from $75-150 per square foot depending on the nature of the existing building improvement and office/laboratory design. Development projects consist of the ground-up development of generic office/laboratory facilities. We also have certain significant value add projects undergoing important and substantial preconstruction activities to bring these assets to their intended use. These critical activities add significant value for future ground-up development and are required for the ultimate vertical construction of buildings. Ultimately, these land parcels will provide valuable opportunities for new ground-up construction projects. The projects will provide high quality facilities for the life science industry and will generate significant revenue and cash flows for the Company. See Item 2. Properties for additional information and tables summarizing our properties undergoing redevelopment, development and preconstruction activities as of December 31, 2009.

A component of our business model also includes ground-up development projects in new markets and other unique projects. We have two development parcels in China. One development parcel is located in South China where a two-building project aggregating approximately 275,000 rentable square feet is under construction. The second development parcel is located in North China where a two-building project aggregating approximately 272,000 rentable square feet is under construction. Additionally, other projects include construction related to site work, plaza, park and underground parking at the Alexandria CenterTM for Life Science New York City, a unique one-of-a-kind highly advanced state-of-the-art urban science park in the city and in the adjoining future building approximating 410,000 rentable square feet.

Our success with our redevelopment, development and preconstruction projects depends on many risks that may adversely affect our business, including those associated with:

- negative worldwide economic, financial and banking conditions;
- worldwide economic recession and lack of confidence;
- the seizure or illiquidity of credit markets;
- national, local and worldwide economic conditions;
- delays in construction;
- budget overruns;
- lack of availability and/or increasing costs of materials;
- commodity pricing of building materials and supplies;
- financing availability;
- changes in the life sciences, financial and banking industries;
- volatility in interest rates;
- labor availability and/or strikes;
- uncertainty of leasing;
- timing of the commencement of rental payments;
- changes in local submarket conditions;

- delays or denials of entitlements or permits; and
- other property development uncertainties.

In addition, redevelopment, development and preconstruction 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 redevelopment, development and preconstruction projects successfully, our business may be adversely affected.

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 GAAP. Our significant accounting policies are described in the notes to our consolidated financial statements appearing elsewhere in this annual report on Form 10-K. 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. Changes in estimates could affect our financial position and specific items in our results of operations that are used by our stockholders, potential investors, industry analysts and lenders in their evaluation of our performance. Actual results may differ from these estimates under different assumptions or conditions.

REIT compliance

We have elected to be taxed as a 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 will be significantly reduced for each of the years involved and we will no longer be required to make distributions to our stockholders.

Rental properties, net, land held for future development and construction in progress

In December 2007, the Financial Accounting Standards Board (FASB) issued new accounting literature with respect to business combinations. We prospectively adopted the new guidance on January 1, 2009. In accordance with the new guidance, we recognize assets acquired (including the intangible value to above or below market leases, acquired in-place leases, tenant relationships and other intangible assets or liabilities), liabilities assumed, and any noncontrolling interest in an acquired entity at their fair value as of the acquisition date. The value of tangible assets acquired is based upon our estimation of value on an as if vacant basis. The value of acquired in-place leases includes the estimated carrying costs during the hypothetical lease-up period and other costs that would have been incurred to execute similar leases, considering market conditions at the acquisition date of the acquired in-place lease. We assess the fair value of tangible and intangible assets based on numerous factors, including estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends and market/economic conditions that may affect the property. We also recognize the fair values of assets acquired, the liabilities assumed and any noncontrolling interest in acquisitions of less than a 100% interest when the acquisition constitutes a change in control of the acquired entity. In addition, acquisition-related costs and restructuring costs are expensed as incurred. Prior to the adoption of the new guidance related to business combinations, the purchase price was allocated based upon relative fair values and acquisition-related costs on successful acquisitions were capitalized and amortized over the estimated useful lives of the assets acquired.

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, the shorter of the term of the respective ground lease or 40 years for buildings and building improvements, the respective lease term for tenant improvements and the estimated useful life for equipment. The values of acquired above and below market leases are amortized over the lives of the related leases and recorded as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The values of acquired in-place leases are classified as leasing costs, included in other assets in the accompanying consolidated balance sheets and amortized over the remaining terms of the related leases.

Rental properties, land held for future development, construction in progress and intangibles are individually evaluated for impairment 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. Impairment indicators for our rental properties, land held for future development and construction in progress are assessed by project and include, but are not limited to, significant fluctuations in estimated net operating income, occupancy changes, construction costs, estimated completion dates, rental rates and other market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, historical operating results, known trends and market/economic conditions that may affect the property and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recorded to reduce the carrying amount to its estimated fair value.

Capitalization of costs

We are required to 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. 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. Should development, redevelopment or construction activity cease, interest, property taxes, insurance and certain other costs would no longer be eligible for capitalization and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

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 and are recorded at fair value. Fair value has been determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of total equity. The classification of each investment is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of each investment sold is determined by the specific identification method, with net realized gains included in other income.

Investments in privately held entities are generally accounted for under the cost method when our interest in the entity is so minor that we have virtually no influence over the entities operating and financial policies. Certain investments in privately held entities are accounted for under the equity method when our interest in the entity is not deemed so minor that we have virtually no influence over the entities operating and financial policies. 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. Additionally, we limit our ownership percentage in the voting stock of each individual entity to less than 10%.

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

Interest rate hedge agreements

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of interest rate hedge agreements. Specifically, we enter into interest rate hedge agreements to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our interest rate hedge agreements are used to manage differences in the amount, timing, and duration of our known or expected cash payments principally related to our borrowings based on the London Interbank Offered Rate (LIBOR). We do not use derivatives for trading or speculative purposes and currently all of our derivatives are designated as hedges. Our objectives in using interest rate hedge agreements are to add stability to interest expense and to manage our exposure to interest rate movements in accordance with our interest rate risk management strategy. Interest rate swap agreements designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed rate payments over the life of the interest rate swap agreements without exchange of the underlying notional amount. Interest rate cap agreements designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

We record our interest rate hedge agreements on the consolidated balance sheets at their estimated fair values with an offsetting adjustment reflected as unrealized gains/losses in accumulated other comprehensive income in total equity. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based up on the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Our interest rate hedge agreements are considered cash flow hedges as they are designated and qualify as hedges of the exposure to variability in expected future cash flows. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the earnings effect of the hedged forecasted transactions in a cash flow hedge. All of our interest rate hedge agreements meet the criteria to be deemed highly effective in reducing our exposure to variable interest rates. We formally document all relationships between interest rate hedge agreements and hedged items, including the method for evaluating effectiveness and the risk strategy. We make an assessment at the inception of each interest rate hedge agreement and on an ongoing 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 hedge 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.

The fair value of our interest rate hedge agreements is determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of each derivative. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities (also referred to as significant other observable inputs). The fair values of our interest rate swap agreements are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair value of our interest rate cap agreement is determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the interest rate cap agreement. The variable interest rate used in the calculation of projected receipts on the interest rate cap agreement is based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The fair value calculation also includes an amount for risk of non-performance using significant unobservable inputs such as estimates of current credit spreads to evaluate the likelihood of default, which we have determined to be insignificant to the overall fair value of our interest rate hedge agreements. In adjusting the fair value of our interest rate hedge agreements for the effect of non-performance risk, we have considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts and guarantees. These methods of assessing fair value result in a general approximation of value, and such value may never be realized.

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 our 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, utilities, 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, 2009 and 2008, we had no allowance for doubtful accounts.

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 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, including any interest expense directly attributable to it, are classified as discontinued operations in our consolidated statements of income and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. 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.**

Impact of recently issued accounting standards

In January 2010, the FASB issued an Accounting Standard Update (ASU) to address implementation issues associated with the accounting for decreases in the ownership of a subsidiary. The new guidance clarified the scope of the entities covered by the guidance related to accounting for decreases in the ownership of a subsidiary and specifically excluded in-substance real estate or conveyances of oil and gas mineral rights from the scope. Additionally, the new guidance expands the disclosures required for a business combination achieved in stages and deconsolidation of a business or nonprofit activity. The new guidance became effective for interim and annual periods ending on or after December 31, 2009 and must be applied on a retrospective basis to the first period that an entity adopted the new guidance related to noncontrolling interests. The adoption of this new guidance did not have an impact on our consolidated financial statements.

In January 2010, the FASB issued an ASU to address diversity in practice related to the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or shares of equivalent value with a potential limitation on the total amount of cash that shareholders can elect to receive in the aggregate. The new guidance clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively as opposed to a stock dividend that is retroactively applied by restating shares outstanding and earnings per share for all periods presented. The new guidance became effective for interim and annual periods ending on or after December 31, 2009 and must be applied on a retrospective basis. The adoption of this new guidance did not have an impact on our consolidated financial statements.

In June 2009, the FASB established the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification became effective for interim or annual financial periods ending after September 15, 2009. The adoption of the Codification did not have an impact on our consolidated financial statements.

In June 2009, the FASB issued new accounting literature with respect to the consolidation of variable interest entities (VIEs). The new guidance impacts the consolidation guidance applicable to VIEs and among other things require a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE, continuous assessments of whether a company is the primary beneficiary of a VIE and enhanced disclosures about a company s involvement with a VIE. The new guidance applies to our fiscal year beginning on January 1, 2010 and early adoption is prohibited. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In May 2009, the FASB issued new accounting literature with respect to subsequent events. The new guidance, among other things, clarifies accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. We adopted the new guidance effective April 1, 2009 and the adoption did not have an impact on our consolidated financial statements.

Results of operations

Comparison of the year ended December 31, 2009 to the year ended December 31, 2008

Rental revenues increased by $25.1 million, or 7%, to $366.2 million for the year ended December 31, 2009 compared to $341.1 million for the year ended December 31, 2008. The increase resulted from rental revenue from properties placed in service or redeveloped during the periods after January 1, 2008 and increases in rental rates related to renewed and/or releasable space leased. Additionally, in 2009 and 2008, we recognized additional rental income aggregating $18.5 million and $11.3 million, respectively, primarily related to a modification of a lease for a property in South San Francisco, California.

Tenant recoveries increased by $2.8 million, or 3%, to $102.1 million for the year ended December 31, 2009 compared to $99.4 million for the year ended December 31, 2008. The increase resulted primarily from properties placed in service or redeveloped during the periods after January 1, 2008. As of December 31, 2009 and 2008, approximately 88% and 89%, respectively, of our leases (on a rentable 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.

Other income for the years ended December 31, 2009 and 2008 of $11.8 million and $11.2 million, respectively, represents construction management fees, interest, investment income and storage income. Other income for the year ended December 31, 2009 also includes a $7.2 million cash payment related to real estate acquired in November 2007. Excluding this cash payment, the decrease in other income is primarily due to decreases in investment income for the year ended December 31, 2009 as compared to the year ended December 31, 2008.

Rental operating expenses increased by $8.5 million, or 8%, to $120.5 million for the year ended December 31, 2009 compared to $112.0 million for the year ended December 31, 2008. The increase resulted primarily from increases in rental operating expenses (primarily payroll, property taxes and insurance) from properties placed in service or redeveloped during the periods after January 1, 2008. The majority of the increase in rental operating expenses was recoverable from our tenants.

General and administrative expenses increased by $1.5 million, or 4%, to $36.3 million for the year ended December 31, 2009 compared to $34.8 million for the year ended December 31, 2008. As a percentage of total revenues, general and administrative expenses for 2009 remained consistent with 2008 at approximately 8%.

Interest expense decreased by $2.8 million, or 3%, to $81.3 million for the year ended December 31, 2009 compared to $84.1 million for the year ended December 31, 2008. The decrease resulted from a decrease in LIBOR rates and a decrease in the outstanding balance on our unsecured line of credit partially offset by the issuance of our 8% unsecured convertible notes. The weighted average interest rate on our unsecured line of credit and unsecured term loan, including the impact of our interest rate hedge agreements, decreased from approximately 4.30% as of December 31, 2008 to approximately 4.10% as of December 31, 2009. We have entered into certain interest rate hedge 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 Hedge Agreements).

Depreciation and amortization increased by $10.5 million, or 10%, to $116.9 million for the year ended December 31, 2009 compared to $106.4 million for the year ended December 31, 2008. The increase resulted primarily from depreciation associated with the improvements and properties placed in service or redeveloped during the periods after January 1, 2008.

During 2009, we recognized a gain on early extinguishment of debt of approximately $11.3 million related to the repurchase, in privately negotiated transactions, of approximately $75 million (par value) of certain of our 3.70% Unsecured Convertible Notes.

During 2008, we recognized aggregate non-cash impairment charges of $13.3 million associated with other-than-temporary declines in the value of certain investments below their carrying value.

Income from discontinued operations, net of approximately $5.2 million for the year ended December 31, 2009 reflects the results of operations of three properties that were classified as held for sale as of December 31, 2009 and four properties sold during 2009. In connection with the properties sold in 2009, we recorded a gain of approximately $2.6 million. Income from discontinued operations, net of approximately $19.0 million for the year ended December 31, 2008 reflects the results of operations of three properties that were classified as held for sale as of December 31, 2009, four properties sold during 2009 and eight properties sold during 2008. In connection with the properties sold in 2008, we recorded a gain of approximately $20.4 million. We also recorded a non-cash impairment charge of $4.7 million in March 2008 related to an industrial building located in a suburban submarket south of Boston and an office building located in the San Diego market which has been included in income from discontinued operations, net. These properties were sold later in 2008.

Comparison of the year ended December 31, 2008 to the year ended December 31, 2007

Rental revenues increased by $47.6 million, or 16%, to $341.1 million for the year ended December 31, 2008 compared to $293.4 million for the year ended December 31, 2007. The increase resulted from rental revenue from properties acquired, placed in service or redeveloped during the periods after January 1, 2007 and increases in rental rates related to renewed and/or releasable space leased. Additionally, during the year ended December 31, 2008, we recognized additional rental income aggregating $11.3 million primarily related to a modification of a lease for a property in South San Francisco, California.

Tenant recoveries increased by $19.1 million, or 24%, to $99.4 million for the year ended December 31, 2008 compared to $80.2 million for the year ended December 31, 2007. The increase resulted primarily from properties acquired, placed in service or redeveloped during the periods after January 1, 2007. As of December 31, 2008 and 2007, approximately 89% and 88%, respectively, of our leases (on a rentable 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.

Other income for the years ended December 31, 2008 and 2007 of $11.2 million and $14.7 million, respectively, represents construction management fees, interest, investment income and storage income. As a percentage of total revenues, other income for the years ended December 31, 2008 and 2007 remained relatively consistent at approximately 2% to 4% of total revenues.

Rental operating expenses increased by $17.1 million, or 18%, to $112.0 million for the year ended December 31, 2008 compared to $94.9 million for the year ended December 31, 2007. The increase resulted primarily from increases in rental operating expenses (primarily property taxes and utilities) from properties acquired, placed in service or redeveloped during the periods after January 1, 2007. The majority of the increase in rental operating expenses was recoverable from our tenants.

General and administrative expenses increased by $2.5 million, or 8%, to $34.8 million for the year ended December 31, 2008 compared to $32.3 million for the year ended December 31, 2007, primarily due to the growth in both the depth and breadth of our operations in multiple markets, including internationally. As a percentage of total revenues, general and administrative expenses for the year ended December 31, 2008 remained consistent with the year ended December 31, 2007 at approximately 8%.

Interest expense decreased by $8.2 million, or 9%, to $84.1 million for the year ended December 31, 2008 compared to $92.3 million for the year ended December 31, 2007. The decrease resulted primarily from a decrease in outstanding borrowings on our unsecured line of credit due to the issuance of 10.0 million shares of our Series D Convertible Preferred Stock in March and April 2008. Additionally, the decrease resulted from a decrease in LIBOR rates. These decreases were partially offset by increases in indebtedness on our unsecured line of credit. These borrowings were utilized to finance the development, redevelopment and acquisition of the 2007 Properties and 2008 Properties. The weighted average interest rate on our unsecured line of credit and unsecured term loan, including the impact of our interest rate hedge agreements, decreased from approximately 5.85% as of December 31, 2007 to approximately 4.30% as of December 31, 2008. We have entered into certain interest rate hedge 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 Hedge Agreements).

Depreciation and amortization increased by $13.5 million, or 15%, to $106.4 million for the year ended December 31, 2008 compared to $92.9 million for the year ended December 31, 2007. The increase resulted primarily from depreciation associated with the improvements and properties acquired, placed in service or redeveloped during the periods after January 1, 2007.

During 2008, we recognized aggregate non-cash impairment charges of $13.3 million associated with other-than-temporary declines in the value of certain investments below their carrying value.

Income from discontinued operations, net of $19.0 million for the year ended December 31, 2008 reflects the results of operations of three properties that were classified as held for sale as of December 31, 2009, four properties sold in 2009 and eight properties sold during 2008. In connection with the properties sold in 2008, we recorded a gain of approximately $20.4 million. We also recorded a non-cash impairment charge of $4.7 million in March 2008 related to an industrial building located in a suburban submarket south of Boston and an office building located in the San Diego market, which has been included in income from discontinued operations, net. These properties were sold later in 2008. Income from discontinued operations, net of $14.0 million for the year ended December 31, 2007 reflects the results of operations of three properties that were classified as held for sale as of December 31, 2009, four properties sold in 2009, eight properties sold during 2008, and four properties and four land parcels sold during 2007. In connection with the properties sold during the year ended December 31, 2007, we recorded a gain of approximately $8.0 million.

Liquidity and capital resources

Overview

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 development, redevelopment and other construction projects, scheduled debt maturities and non-recurring capital improvements, through net cash provided by operating activities, periodic asset sales, 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.

Notwithstanding our expectations, financial markets have recently experienced unusual volatility and uncertainty. While this condition has occurred initially within the subprime mortgage lending sector of the credit market, financial systems throughout the world have recently highlighted significant periods of illiquidity with banks much less willing to lend substantial amounts to other banks and borrowers. Consequently, there is greater uncertainty regarding our ability to access the credit markets in order to attract financing or capital on reasonable terms or at any terms. Our ability to finance our development and redevelopment projects and pending or new acquisitions, as well as our ability to refinance debt maturities, could be adversely affected by our inability to secure capital on reasonable terms, if at all. See Item 1A. Risk Factors - We May Not Be Able to Obtain Additional Capital to Further Our Business Objectives and - We May Not Be Able to Refinance Our Debt.

The current economic, financial and banking environment, worldwide economic recession and lack of consumer confidence have improved since the fourth quarter of 2008 and first quarter of 2009. Even with the recent improvements, we remain cautious over the economic, financial and banking environment. We intend to continue to focus on the completion of our existing active redevelopment projects aggregating approximately 575,152 rentable square feet and our existing active development projects aggregating approximately an additional 980,000 rentable square feet. Additionally, we intend to continue with preconstruction activities for certain land parcels for future ground-up/vertical above ground development in order to preserve and create value for these projects. These important preconstruction activities add significant value to our land for future ground-up development and are required for the ultimate vertical construction of the buildings. We also intend to be very careful and prudent with any future decisions to add new projects to our active ground-up/vertical developments. Future ground-up/vertical development projects will likely require significant pre-leasing from high quality and/or credit entities. We also intend to continue to reduce debt as a percentage of our overall capital structure over a multi-year period. During this period, we may also extend and/or refinance certain debt maturities. We expect the source of funds for construction activities and repayment of outstanding debt to be provided over several years by cash flows from operations, opportunistic sales of real estate, joint ventures, new secured or unsecured debt and the issuance of additional equity securities, as appropriate. As of December 31, 2009, we had identified three assets as held for sale, that have been classified in discontinued operations.

As further discussed below, our principal liquidity needs are to fund:

- **normal recurring expenses;**
- **current development and redevelopment costs;**
- **capital expenditures, including tenant improvements and leasing costs;**
- **principal and interest payments due under our debt obligations, including balloon payments of principal; and**
- **dividend distributions in order to maintain our REIT qualification under the Internal Revenue Code.**

We believe that our sources of capital for our principal liquidity needs will be satisfied by:

- **cash on hand of approximately $70.6 million as of December 31, 2009;**
- **restricted cash of approximately $24.1 million as of December 31, 2009 to fund certain construction costs;**
- **cash flows generated by operating activities (for the year ended December 31, 2009, we generated approximately $206.0 million of cash flows from operating activities);**
- **availability under our $1.9 billion unsecured line of credit and unsecured term loan (approximately $1.2 billion outstanding as of December 31, 2009);**
- **cash proceeds from new secured or unsecured financings;**
- **cash proceeds generated from potential asset sales including three properties that were classified as held for sale as of December 31, 2009;**
- **cash proceeds from the issuance of common or preferred equity or debt securities; and**
- **cash proceeds from joint ventures.**

Principal liquidity needs

Contractual obligations and commitments

Contractual obligations as of December 31, 2009 consisted of the following (in thousands):

	Payments by Period				
	Total	2010	2011-2012	2013-2014	Thereafter
Secured notes payable (1)	$ 937,017	$ 35,982	$ 176,191	$ 308,096	$ 416,748
Unsecured line of credit (2)	476,000		476,000		
Unsecured term loan (2)	750,000		750,000		
Unsecured convertible notes	624,700		384,700	240,000	
Estimated interest payments	598,252	120,955	193,638	113,605	170,054
Ground lease obligations	611,440	6,558	15,831	17,079	571,972
Other obligations	3,288	1,357	1,931		
Total	$ 4,000,697	$ 164,852	$ 1,998,291	$ 678,780	$ 1,158,774

(1) Assumes we exercise our sole right to extend the maturity dates of a secured note payable of approximately $28.5 million from January 1, 2011 to January 1, 2012, and a secured note payable of approximately $38.4 million from January 2, 2012 to April 6, 2013. Amounts include noncontrolling interests share of scheduled principal maturities of approximately $39.3 million, of which approximately $17.6 million and $20.8 million mature in 2013 and 2014, respectively. Also, amounts are net of unamortized discounts of approximately $2.1 million.

(2) Assumes we exercise our sole right to extend the maturity date of our unsecured line of credit from October 2010 to October 2011 and our unsecured term loan from October 2011 to October 2012.

Secured notes payable as of December 31, 2009 consisted of 26 notes secured by 57 properties and one land development parcel. Our secured notes payable require monthly payments of principal and interest and had weighted average interest rates of approximately 5.83% at December 31, 2009. Noncontrolling interests share of secured notes payable aggregated approximately $39.3 million as of December 31, 2009. The total book values of rental properties, net, land held for future development and construction in progress securing debt were approximately $1.4 billion at December 31, 2009. At December 31, 2009, our secured notes payable were comprised of approximately $831.5 million and $105.5 million of fixed and variable rate debt, respectively.

Our unsecured line of credit matures in October 2010 and may be extended at our sole option for an additional one-year period to October 2011. Our unsecured term loan matures in October 2011 and may be extended at our sole option for an additional one-year period to October 2012.

In April 2009, we completed a private offering of $240 million principal amount of 8.00% Unsecured Convertible Notes. In January 2007, we completed a private offering of $460 million principal amount of 3.70% Unsecured Convertible Notes. In April 2009, we repurchased, in privately negotiated transactions, approximately $75 million (par value) of certain of our 3.70% Unsecured Convertible Notes. See additional information under Note 7 to our consolidated financial statements **appearing elsewhere in this annual report on Form 10-K** regarding our ability to redeem the notes, the ability of the holders to require us to repurchase the notes and circumstances under which the holders may convert the notes.

Estimated interest payments on our fixed rate debt and hedged variable rate debt were calculated based upon contractual interest rates, including the impact of interest rate swap agreements, interest payment dates and scheduled maturity dates. As of December 31, 2009, approximately 83% of our debt was fixed rate debt or variable rate debt subject to interest rate hedge agreements. See additional information regarding our interest rate hedge agreements under Liquidity and Capital Resources Interest Rate Hedge Agreements. The remaining 17% of our debt is unhedged variable rate debt based primarily on LIBOR. Interest payments on our unhedged variable rate debt have been excluded from the table on the prior page because we cannot reasonably determine the future interest obligations on variable rate debt as we cannot predict the applicable variable interest rates in the future. See additional information regarding our debt under Notes 5, 6, 7 and 8 to our consolidated financial statements appearing elsewhere in this annual report on Form 10-K.

Ground lease obligations as of December 31, 2009 included leases for 19 of our properties and three land development parcels. These lease obligations have remaining lease terms from 23 to 97 years, excluding extension options.

In addition to the above, as of December 31, 2009, remaining aggregate costs under contracts for the construction of properties undergoing development, redevelopment and generic office/laboratory infrastructure improvements under the terms of leases approximated $186.8 million. We expect payments for these obligations to occur over one to three years, subject to capital planning adjustments from time to time. We are also committed to fund approximately $48.3 million for certain investments over the next six years.

Capital expenditures, tenant improvements and leasing costs

As of December 31, 2009, we had an aggregate of approximately 980,000 rentable square feet undergoing vertical ground-up construction and an aggregate of approximately 575,152 rentable square feet undergoing a permanent change in use to office/laboratory space through redevelopment including the conversion of single tenancy space to multi-tenancy spaces or multi-tenancy spaces to single tenancy space.

For the years ended December 31, 2009, 2008 and 2007, we paid property-related capital expenditures and tenant improvements related to our properties, including expenditures related to our development and redevelopment projects, aggregating approximately $446.1 million, $542.5 million and $589.7 million, respectively. These amounts include payments for property-related capital expenditures and tenant improvements presented in the table below including non-revenue enhancing capital expenditures and tenant improvement and leasing costs related to re-tenanted and renewal space. We expect our future property-related capital expenditures and tenant improvements related to our life science properties to decrease in 2010 as compared to 2009.

The following table shows total and the five-year average per square foot property-related capital expenditures, tenant improvements and leasing costs (excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue-enhancing or related to properties that have undergone redevelopment) for the years ended December 31, 2009, 2008, 2007, 2006 and 2005:

	Five-Year Average	Year Ended December 31, 2009	2008	2007	2006	2005
Capital expenditures (1):						
Major capital expenditures	$ 772,000	$ 529,000	$ 405,000	$ 1,379,000	$ 575,000	$ 972,000
Recurring capital expenditures	$ 985,000	$ 1,405,000	$ 955,000	$ 648,000	$ 639,000	$ 1,278,000
Square feet in portfolio	10,581,399	11,740,993	11,770,769	11,476,217	9,790,326	8,128,690
Per square foot:						
Major capital expenditures	$ 0.07	$ 0.05	$ 0.03	$ 0.12	$ 0.06	$ 0.12
Recurring capital expenditures	$ 0.09	$ 0.12	$ 0.08	$ 0.06	$ 0.07	$ 0.16
Tenant improvements and leasing costs:						
***Re-tenanted space* (2)**						
Tenant improvements and leasing costs	$ 1,619,000	$ 1,475,000	$ 3,481,000	$ 1,446,000	$ 1,370,000	$ 324,000
Re-tenanted square feet	264,382	211,638	505,773	224,767	248,846	130,887
Per square foot	$ 6.12	$ 6.97	$ 6.88	$ 6.43	$ 5.51	$ 2.48
Renewal space						
Tenant improvements and leasing costs	$ 1,861,000	$ 3,263,000	$ 2,364,000	$ 1,942,000	$ 957,000	$ 778,000
Renewal square feet	703,645	976,546	748,512	671,127	455,980	666,058
Per square foot	$ 2.64	$ 3.34	$ 3.16	$ 2.89	$ 2.10	$ 1.17

(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 consist of roof replacements and HVAC systems that are typically identified and considered at the time a property is acquired.

(2) Excludes space that has undergone redevelopment before re-tenanting.

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. As of December 31, 2009 approximately 91% (on a rentable square footage basis) 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 re-tenanted space) the involvement of external leasing agents and overall competitive market conditions.

We expect our future capital expenditures, tenant improvements and leasing costs (excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue-enhancing or related to properties that have undergone redevelopment) to be approximately in the range as shown in the table immediately above.

Unsecured line of credit and unsecured term loan

We use our unsecured line of credit and unsecured term loan to fund working capital, construction activities and, from time to time, acquisition of properties. Our $1.9 billion unsecured credit facilities consist of a $1.15 billion in unsecured line of credit and a $750 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. As of December 31, 2009, we had borrowings of $476 million and $750 million outstanding under our unsecured line of credit and unsecured term loan, respectively, with a weighted average interest rate, including the impact of our interest rate swap agreements, of approximately 4.10%.

Our unsecured line of credit and unsecured term loan, as amended, bear interest at a floating rate based on our election of either (1) a LIBOR-based rate plus 1.00% to 1.45% depending on our leverage or (2) the higher of a rate based upon Bank of America s prime rate plus 0.0% to 0.25% depending on our leverage and the Federal Funds rate plus 0.50%. 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 to October 2011. Our unsecured term loan matures in October 2011 and may be extended at our sole option for an additional one-year period to October 2012.

Our unsecured line of credit and unsecured term loan contain financial covenants, including, among others, the following (as defined under the terms of the agreement):

- leverage ratio less than 65.0%;
- fixed charge coverage ratio greater than 1.40;
- minimum book value of $1.6 billion; and
- secured debt ratio less than 55.0%.

As of December 31, 2009, we believe our two most restrictive financial covenants under our unsecured line of credit and unsecured term loan are the leverage and fixed charge ratios. Future changes in interest rates, our outstanding debt balances and other changes in our business, operations or financial statements may result in a default of these and other financial covenants under our unsecured line of credit and unsecured term loan.

In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other things, certain investments, indebtedness, distributions, mergers, developments, land and borrowings available under our unsecured line of credit and unsecured term loan for developments, land and encumbered assets. As of December 31, 2009 and 2008, we were in compliance with all such covenants. Management continuously monitors the Company s compliance and projected compliance with the covenants. Our current expectation is that we will continue to meet requirements of our debt covenants in the short and long term. However, in the event of a continued economic slow-down, continued crisis in the credit markets and rising cost of capital, there is no certainty that we will be able to continue to satisfy all of the covenant requirements.

Aggregate unsecured borrowings may be limited to an amount based primarily on the net operating income derived from a pool of unencumbered properties and our cost basis of development assets and land. Aggregate unsecured borrowings may increase as we complete the development, redevelopment, or acquisition of additional unencumbered properties. As of December 31, 2009, aggregate unsecured borrowings were limited to approximately $2.8 billion. If net operating income from properties supporting our borrowing capacity under our unsecured credit facilities decreases, our borrowing capacity under our credit facilities will also decrease. Additionally, we may be required to reduce our outstanding borrowings under our credit facilities in order to maintain compliance with one or more covenants under our credit facilities.

As of December 31, 2009, we had approximately 49 lenders providing commitments under our $1.9 billion unsecured line of credit and unsecured term loan. During 2009, all lenders under our unsecured line of credit and unsecured term loan funded all borrowings requested under these agreements. In the future, if one or more such lenders fail to fund a borrowing request, we may not be able to borrow funds necessary for working capital, construction activities, dividend payments, debt repayment and monthly debt service and other recurring capital requirements. The failure of one or more lenders to fund their share of a borrowing request may have a material impact on our financial statements.

We have risks associated with the maturity of our unsecured line of credit and unsecured term loan. There may be fewer, if any, lenders willing to participate in future unsecured credit facilities and future commitments from lenders may be lower than existing commitments. In addition, key terms and covenants may be less favorable than existing key terms and covenants and we may not be able to raise capital to repay our outstanding balance on our unsecured credit facilities prior to or at maturity.

Interest rate hedge agreements

We utilize interest rate hedge agreements, including interest rate swap and cap 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 interest rate hedge 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, 2009 (dollars in thousands):

Transaction Dates	Effective Dates	Termination Dates	Interest Pay Rates	Notional Amounts	Effective at December 31, 2009	Fair Values
December 2006	December 29, 2006	March 31, 2014	4.990%	$ 50,000	$ 50,000	$ (4,948)
December 2006	January 2, 2007	January 3, 2011	5.003	28,500	28,500	(1,389)
October 2007	October 31, 2007	September 30, 2012	4.546	50,000	50,000	(3,733)
October 2007	October 31, 2007	September 30, 2013	4.642	50,000	50,000	(4,195)
December 2005	January 2, 2008	December 31, 2010	4.768	50,000	50,000	(2,103)
June 2006	June 30, 2008	June 30, 2010	5.325	50,000	50,000	(1,255)
June 2006	June 30, 2008	June 30, 2010	5.325	50,000	50,000	(1,255)
October 2007	July 1, 2008	March 31, 2013	4.622	25,000	25,000	(2,018)
October 2007	July 1, 2008	March 31, 2013	4.625	25,000	25,000	(2,020)
October 2008	October 16, 2008	January 31, 2010	2.755	100,000	100,000	(203)
June 2006	October 31, 2008	December 31, 2010	5.340	50,000	50,000	(2,391)
June 2006	October 31, 2008	December 31, 2010	5.347	50,000	50,000	(2,395)
October 2008	September 30, 2009	January 31, 2011	3.119	100,000	100,000	(2,693)
December 2006	November 30, 2009	March 31, 2014	5.015	75,000	75,000	(7,496)
December 2006	November 30, 2009	March 31, 2014	5.023	75,000	75,000	(7,493)
December 2006	December 31, 2010	October 31, 2012	5.015	100,000		(4,359)
Total					$ 828,500	$ (49,946)

We have entered into master derivative agreements with each counterparty. These master derivative agreements (all of which are adapted from the standard International Swaps & Derivatives Association, Inc. form) define certain terms between the Company and each counterparty to address and minimize certain risks associated with our interest rate hedge agreements. In order to limit our risk of non-performance by an individual counterparty under our interest rate hedge agreements, our interest rate hedge agreements are spread among various counterparties. As of **December 31, 2009**, the largest aggregate notional amount with an individual counterparty was $175 million. If one or more of our counterparties fail to perform under our interest rate hedge agreements, we may incur higher costs associated with our variable rate LIBOR-based debt than the interest costs we originally anticipated.

As of **December 31**, 2009, our interest rate swap agreements were classified in accounts payable, accrued expenses and tenant security deposits based upon their respective fair values aggregating a liability balance of approximately $49.9 million with the offsetting adjustment reflected as unrealized losses in accumulated other comprehensive loss in total equity. Balances in accumulated other comprehensive loss are recognized in earnings in the period that the forecasted hedge transactions affect earnings. Also, during the year ended **December 31**, 2009, we entered into an interest rate cap agreement with a notional amount approximating $38.4 million effective May 15, 2009 and terminating on January 3, 2012. This agreement sets a ceiling on one-month LIBOR at 2.50% related to one secured note. The interest rate cap agreement was classified in other assets based upon its fair value aggregating an asset balance of approximately $189,000. We have not posted any collateral related to our interest rate hedge agreements. For the year ended **December 31**, 2009, approximately $37.5 million was reclassified from accumulated other comprehensive income to interest expense as an increase to interest expense. During the next twelve months, we expect to reclassify approximately $28.6 million from accumulated other comprehensive loss to interest expense as an increase to interest expense.

Secured notes payable

As of December 31, 2009, we had aggregate secured notes payable of approximately $937.0 million. If we are unable to refinance, extend principal payments due at maturity or pay principal maturities with proceeds from other capital sources, then our cash flows may be insufficient to pay dividends to our stockholders and to repay debt upon maturity. Furthermore, even if we are able to refinance debt prior to maturity, the interest rate, loan to value and other key loan terms may be less favorable than existing loan terms. Less favorable loan terms, assuming we are able to refinance our secured notes payable, may result in higher interest costs, additional required capital as a result of less proceeds or lower loan to value upon refinancing and new or more restrictive covenants or loan terms.

Dividends

We are required to distribute 90% of our REIT taxable income on an annual basis in order to continue to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to preferred and common stockholders from cash flow from operating activities. All such distributions are at the discretion of our board of directors. We may be required to use borrowings under our unsecured line of credit, if necessary, to meet REIT distribution requirements and maintain our REIT status. We consider market factors and our performance in addition to REIT requirements in determining distribution levels. During the year ended December 31, 2009, we paid dividends on our common stock aggregating approximately $86.7 million. Also, during the year ended December 31, 2009, we paid dividends on our Series C Preferred Stock and Series D Convertible Preferred Stock aggregating approximately $10.9 million and $17.5 million, respectively.

Sources of capital

Cash and cash equivalents

As of December 31, 2009, we had approximately $70.6 million of cash and cash equivalents.

Tenant security deposits and other restricted cash

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

	December 31,	
	2009	**2008**
Funds held in trust under the terms of certain secured notes payable	**$ 19,340**	**$ 16,118**
Funds held in escrow related to construction projects	**24,054**	**49,499**
Other restricted funds	**3,897**	**2,165**

Total	**$**	**47,291**	**$**	**67,782**

The funds held in escrow related to construction projects will be used to pay for certain construction costs.

Cash flows

Net cash provided by operating activities for the year ended December 31, 2009 decreased by $49.9 million to $206.0 million compared to $255.8 million for the year ended December 31, 2008. The decrease resulted primarily from a decrease in cash flows from overall changes in operating assets and liabilities partially offset by an increase in net income. **Cash flows from operations are primarily dependent upon the occupancy level of our portfolio, the net effective rental rates achieved on our leases, the collectability of rent and operating escalations and recoveries from our tenants and the level of operating and other costs. We believe our cash flows from operating activities provide a stable source of cash to fund operating expenses. In addition, as of December 31, 2009,** approximately 88% of our leases (on a rentable square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area and other operating expenses, including increases thereto, and approximately 8% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses.

We are largely dependent on the life science industry for revenues due under lease agreements. Our business could be adversely affected if the life science industry is impacted by the current economic downturn and financial and banking crisis or if the life science industry migrates from the United States to other countries. Our tenants may not be able to pay amounts due under their lease agreements if they are unsuccessful in discovering, developing, making or selling their products or technologies.

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 United States Bankruptcy Code, the bankruptcy court must approve any eviction. 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.

Net cash used in investing activities for the year ended December 31, 2009 was $409.9 million compared to $494.9 million for the year ended December 31, 2008. The decrease in net cash used in investing activities reflects lower proceeds from dispositions as well as lower additions to properties due to our strategy to reduce capital spending in 2009 as compared to 2008.

Net cash provided by financing activities for the year ended **December 31**, 2009 decreased by $98.8 million to $203.4 million compared to $302.2 million for the year ended **December 31**, 2008. For the year ended **December 31**, 2009, proceeds of approximately $1.5 billion from the issuance of common stock, the issuance of our 8.00% Unsecured Convertible Notes and borrowings from secured notes payable and our unsecured line of credit were partially offset by approximately $1.2 billion related to the repurchase of certain of our 3.70% Unsecured Convertible Notes, principal reductions related to repayments of outstanding principal on our secured notes payable and repayments of borrowings from our unsecured line of credit. Additionally, for the year ended **December 31**, 2009, we paid dividends on our common and preferred stock of approximately $115.0 million. For the year ended **December 31**, 2008, proceeds of approximately $1.3 billion from the issuance of Series D Convertible Preferred Stock and borrowings from secured notes payable and our unsecured line of credit were partially offset by principal repayments of approximately $0.9 billion related to outstanding amounts an our second notes payable and unsecured line of credit. Additionally, we paid dividends on our common and preferred stock of approximately $122.0 million during the year ended **December 31**, 2008.

Unsecured line of credit and unsecured term loan

We use our unsecured line of credit and unsecured term loan to fund working capital, construction activities and, from time to time, acquisition of properties. Our $1.9 billion unsecured credit facilities consist of a $1.15 billion unsecured line of credit and a $750 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. As of December 31, 2009, we had borrowings of $476 million and $750 million outstanding under our unsecured line of credit and unsecured term loan, respectively, with a weighted average interest rate, including the impact of our interest rate swap agreements, of approximately 4.10%. See additional information regarding our unsecured line of credit and unsecured term loan on page 47.

Property dispositions

During the year ended December 31, 2009, we sold four properties at an aggregate contract price of approximately $20.9 million. The net sales proceeds were initially used to repay outstanding secured debt related to the properties sold or outstanding debt on our unsecured line of credit. As of December 31, 2009, we had three properties classified as held for sale.

Other resources and liquidity requirements

Under our current shelf registration statement filed with the Securities and Exchange Commission, we may offer common stock, preferred stock, debt and other securities. These securities may be issued from time to time at our discretion based on our needs and market conditions.

In September 2009, we sold 4,600,000 shares of our common stock **in a follow-on offering (including shares issued upon full exercise of the underwriters over-allotment option)**. The shares were issued at a price of $53.25 per share, resulting in aggregate proceeds of approximately $233.5 million (after deducting underwriters discounts and other offering costs).

In April 2009, we completed a private offering of the 8.00% Unsecured Convertible Notes. The net proceeds from this offering, after initial purchasers fees and other offering costs, were approximately $233.0 million. Prior to April 20, 2014, we will not have the right to redeem the 8.00% Unsecured Convertible Notes, except to preserve our qualification as a REIT. On and after that date, we have the right to redeem the 8.00% Unsecured Convertible 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 8.00% Unsecured Convertible Notes may require us to repurchase their notes, in whole or in part, on April 15, 2014, 2019 and 2024 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.

Holders of the 8.00% Unsecured Convertible Notes may require us to repurchase all or a portion of their notes upon the occurrence of a Fundamental Change, at a repurchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. At issuance, the 8.00% Unsecured Convertible Notes had an initial conversion rate of approximately 24.1546 shares of common stock per $1,000 principal amount of the 8.00% Unsecured Convertible Notes, representing a conversion price of approximately $41.40 per share of our common stock. This initial conversion price represented a premium of 15% based on the last reported sale price of $36.00 per share of our common stock on April 21, 2009. The conversion rate of the 8.00% Unsecured Convertible Notes is subject to adjustments for certain events, including, but not limited to, certain cash dividends on our common stock in excess of $0.35 per share per quarter and dividends on our common stock payable in shares of our common stock. As of December 31, 2009, there was no change from the initial conversion rate of our 8.00% Unsecured Convertible Notes. Holders of the 8.00% Unsecured Convertible Notes may convert their notes prior to the stated maturity date of April 15, 2029 only under the following circumstances: (1) during any calendar quarter after the calendar quarter ending June 30, 2009, if the closing sale price of our 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 or is equal to 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five consecutive business days immediately after any five consecutive trading day period (the 8.00% Unsecured Convertible Note Measurement Period) in which the average trading price per $1,000 principal amount of the 8.00% Unsecured Convertible Notes was equal to or less than 98% of the average conversion value of the 8.00% Unsecured Convertible Notes during the 8.00% Unsecured Convertible Note Measurement Period; (3) upon the occurrence of a Fundamental Change; (4) if we call the 8.00% Unsecured Convertible Notes for redemption; and (5) at any time from, and including, March 15, 2029 until the close of business on the business day immediately preceding April 15, 2029 or earlier redemption or repurchase. Upon conversion, holders of the 8.00% Unsecured Convertible Notes will receive cash, shares of our common stock, or a combination thereof, as the case may be, at our election. Pursuant to the accounting literature related to convertible debt, at issuance of the 8.00% Unsecured Convertible Notes, we determined the effective interest rate of the notes to be 11.0%.

In March 2009, we sold 7,000,000 shares of our common stock **in a follow-on offering**. The shares were issued at a price of $38.25 per share, resulting in aggregate proceeds of approximately $254.6 million (after deducting underwriters discounts and other offering costs).

In March and April 2008, we completed a public offering of 10,000,000 shares of Series D Convertible Preferred Stock. The shares were issued at a price of $25.00 per share, resulting in aggregate proceeds of approximately $242 million (after deducting underwriters discounts and other offering costs). The proceeds from this offering were used to pay down outstanding borrowings on our unsecured line of credit. The dividends on our Series D Convertible Preferred Stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of $1.75 per share. Our Series D Convertible Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption provisions, and we are not allowed to redeem our Series D Convertible Preferred Stock, except to preserve our status as a REIT. Investors in our Series D Convertible Preferred Stock generally have no voting rights. On or after April 20, 2013, we may, at our option, be able to cause some or all of our Series D Convertible Preferred Stock to be automatically converted if the closing sale price per share of our common stock equals or exceeds 150% of the then-applicable conversion price of the Series D Convertible Preferred Stock for at least 20 trading days in a period of 30 consecutive trading days ending on the trading day immediately prior to our issuance of a press release announcing the exercise of our conversion option. Holders of our Series D Convertible Preferred Stock, at their option, may, at any time and from time to time, convert some or all of their outstanding shares initially at a conversion rate of 0.2477 shares of common stock per $25.00 liquidation preference, which was equivalent to an initial conversion price of approximately $100.93 per share of common stock. The conversion rate for the Series D Convertible Preferred Stock is subject to adjustments for certain events, including, but not limited to, certain dividends on our common stock in excess of $0.78 per share per quarter and dividends on our common stock payable in shares of our common stock. As of December 31, 2009, the Series D Convertible Preferred Stock had a conversion rate of approximately 0.2480 shares of common stock per $25.00 liquidation preference, which is equivalent to a conversion price of approximately $100.81 per share of common stock.

In January 2007, we completed a private offering of the 3.70% Unsecured Convertible Notes. The net proceeds from this offering, after underwriters discount, were approximately $450.8 million. Prior to January 15, 2012, we will not have the right to redeem the Notes, except to preserve our qualification as a REIT. 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 us 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. Holders of the 3.70% Unsecured Convertible Notes may require us to repurchase all or a portion of their notes upon the

occurrence of a Fundamental Change, at a repurchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. At issuance, the Notes had 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 our common stock. This initial conversion price represented a premium of 20% based on the last reported sale price of $98.30 per share of our common stock on January 10, 2007. The conversion rate of the Notes is subject to adjustments for certain events, including, but not limited to, certain dividends on our common stock in excess of $0.74 per share per quarter and dividends on our common stock payable in shares of our common stock. As of December 31, 2009, the Notes had a conversion rate of approximately 8.5207 common shares per $1,000 principal amount of the Notes, which is equivalent to a conversion price of approximately $117.36 per share of our common stock. Holders of the Notes may convert their Notes into cash and, if applicable, shares of our common stock prior to the stated maturity of the Notes 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 our 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 be convertible upon the occurrence of specified corporate transactions, including a change in control, certain merger or consolidation transactions or the liquidation of the Company; (4) the Notes will be convertible if we call the Notes for redemption; and (5) the Notes will be 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. The Note Measurement Period is the five consecutive trading day period following a request by a holder of the Notes to convert his Notes. Pursuant to the accounting literature related to convertible debt, at issuance of the 3.70% Unsecured Convertible Notes, we determined the effective interest rate of the notes to be 5.96%.

We hold interests, together with certain third parties, in a limited partnership and in limited liability companies which we consolidate in our financial statements. These third parties may contribute equity into these entities primarily related to their share of funds for construction and financing related activities.

Off-balance sheet arrangements

As of December 31, 2009, we had no off-balance sheet arrangements.

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 substantially all of our properties.

Inflation

As of December 31, 2009, approximately 88% of our leases (on a rentable square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area and other operating expenses, including increases thereto. In addition, approximately 8% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses. Approximately 93% of our leases (on a rentable square footage basis) contained effective annual rent escalations that were either fixed (generally ranging from 3.0% 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 NAREIT established the measurement tool of FFO. Since its introduction, FFO has become a widely used non-GAAP financial measure among 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 attributable to Alexandria Real Estate Equities, Inc. s common stockholders, the most directly comparable GAAP financial measure to FFO, to FFO attributable to Alexandria Real Estate Equities, Inc. s common stockholders (in thousands):

	Year Ended December 31, 2009		2008	
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	$	104,974	$	90,746
Add:				
Depreciation and amortization (1)		118,508		108,743
Net income attributable to noncontrolling interests		7,047		3,799
Net income attributable to unvested restricted stock awards		1,270		1,327
Subtract:				
Gain on sales of property (2)		(2,627)		(20,401)
FFO attributable to noncontrolling interests		(3,843)		(4,108)
FFO attributable to unvested restricted stock awards		(2,694)		(2,596)
Subtotal	$	222,635	$	177,510
Add:				
Assumed conversion of 8.00% Unsecured Convertible Notes		11,943		
Effect of dilutive securities and assumed conversion attributable to unvested restricted stock		118		9
FFO attributable to Alexandria Real Estate Equities, Inc. s common stockholders assuming effect of dilutive securities and assumed conversion	$	234,696	$	177,519

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

(2) Gain on sales of property relates to four properties sold during 2009 and eight properties sold during 2008. Gain on sales of property is included in the consolidated statements of income in income from discontinued operations, net.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, equity prices and foreign currency exchange rates.

Interest rate risk

The primary market risk to which we believe we are exposed is interest rate risk, which may result from many factors, including government 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 counterparty 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 hedge agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our interest rate hedge agreements in effect on December 31, 2009 and 2008, we estimate that a 1% increase in interest rates on our variable rate debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate hedge agreements, would decrease annual future earnings by approximately $2.4 million and $3.6 million, respectively. We further estimate that a 1% decrease in interest rates on our variable rate debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate hedge agreements in effect on December 31, 2009 and 2008, would increase annual future earnings by approximately $2.4 million and $3.6 million, respectively. A 1% increase in interest rates on our secured debt, unsecured convertible notes and interest rate hedge agreements would decrease their aggregate fair values by approximately $67.8 million and $60.9 million at December 31, 2009 and 2008, respectively. A 1% decrease in interest rates on our secured debt, unsecured convertible notes and interest rate hedge agreements would increase their aggregate fair values by approximately $57.5 million and $63.0 million at December 31, 2009 and 2008, respectively.

These amounts were determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate hedge agreements in effect on December 31, 2009 and 2008. 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.

Equity price risk

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 consolidated balance sheets at fair value with unrealized gains or losses reported as a component of accumulated other 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 value 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, 2009 and 2008 would decrease their fair values by approximately $7.3 million and $6.2 million, respectively.

Foreign currency exchange rate risk

We have exposure to foreign currency exchange rate risk related to our subsidiaries operating in Canada and China. The functional currencies of our foreign subsidiaries operating in Canada and China are the respective local currencies. 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 total 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. Based on our current operating assets outside the United States as of December 31, 2009, we estimate that a 10% increase in foreign currency exchange rates relative to the United States dollar would increase annual future earnings by approximately $746,000. We further estimate that a 10% decrease in foreign currency exchange rates relative to the United States dollar would decrease annual future earnings by approximately $746,000.

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 and 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, 2009 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, 2009, 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, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. 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, 2009.

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 defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, and is a process designed by, or under the supervision of, the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) and effected by the Company s board of directors, management and other personnel, 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

Management has assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. 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, 2009. The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

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

We have audited Alexandria Real Estate Equities, Inc. s (the Company) internal control over financial reporting as of December 31, 2009, 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 included in Management s annual report on internal control over financial reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria**.**

We also have 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, 2009 and 2008, and the related consolidated statements of income, changes in stockholders equity and noncontrolling interests, and cash flows for each of the three years in the period ended December 31, 2009 of the Company and our report dated March 1, 2010 an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

March 1, 2010

ITEM 9B. OTHER INFORMATION

On March 1, 2010, the Company entered into an Amended and Restated Executive Employment Agreement (the Agreement) with Dean A. Shigenaga, the Company s Chief Financial Officer (the Executive). The Agreement amends and restates the Amended and Restated Executive Employment Agreement, effective as of January 1, 2007, between the Company and the Executive, in its entirety. The term of the Agreement begins on January 1, 2010 and ends on December 31, 2012, with automatic one-year extensions thereafter subject to certain conditions.

The Agreement provides for a base salary of $305,000 per year. The Executive s base salary is to be increased in 2010 and each year thereafter by no less than a cost-of-living adjustment based on an index published by the U.S. Department of Labor. The Executive will continue to be eligible for an annual bonus and periodic equity awards.

The Agreement provides that if the Executive s employment terminates due to non-renewal of the Agreement by the Company on or following a change in control of the Company, the Executive is entitled to receive severance generally equal to one year of the Executive s base salary and a bonus equal to the Executive s bonus for the previous year. By contrast, if, upon or within two years following a change in control of the Company, the Company terminates the Agreement without cause or the Executive terminates the Agreement for good reason, the Executive is entitled to receive severance generally equal to two years of the Executive s base salary and a bonus equal to two times the Executive s bonus amount for the previous year. In either situation, all of the Executive s unvested shares in the Company will vest on the Executive s last day of employment and the Executive will receive a proration of annual performance-based grants of restricted stock.

The Agreement also provides that if (a) the Agreement is not renewed by the Company on or following a change in control of the Company, (b) the Company terminates the Agreement without cause or (c) the Executive terminates the Agreement for good reason, the Company will pay the applicable premiums for the Executive s continued coverage under the Company s health insurance plans for up to twelve months after the Executive s last day of employment with the Company.

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 2010 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the end of our fiscal year (the 2010 Proxy Statement) under the captions Board of Directors and Executive Officers, 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 2010 Proxy Statement under the caption Board of Directors and Executive Officers Executive Compensation Tables and Discussion.

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, 2009:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity Compensation Plan Approved by Stockholders - 1997 Incentive Plan	118,225	$43.55	629,896

The other information required by this Item is incorporated herein by reference from our 2010 Proxy Statement under the caption Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference from our 2010 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 2010 Proxy Statement under the caption Fees Billed by Independent Registered Public Accountants.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) Financial Statements and Financial Statement Schedule

The financial statements and financial statement 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) Exhibits

Exhibit Number	**Exhibit Title**

3.1 *	Articles of Amendment and Restatement of the Company, filed as an exhibit to the Company s quarterly report on Form 10-Q filed with the SEC on August 14, 1997
3.2 *	Certificate of Correction of the Company, filed as an exhibit to the Company s quarterly report on Form 10-Q filed with the SEC on August 14, 1997
3.3*	Bylaws of the Company (as amended February 17, 2009), filed as an exhibit to the Company s current report on Form 8-K filed with the SEC on February 20, 2009
3.4 *	Articles Supplementary, dated June 9, 1999, relating to the 9.50% Series A Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company s quarterly report on Form 10-Q filed with the SEC on August 13, 1999

3.5 *	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 the Company s current report on Form 8-K filed with the SEC on February 10, 2000
3.6 *	Articles Supplementary, dated February 10, 2000, relating to the Series A Junior Participating Preferred Stock , filed as an exhibit to the Company s current report on Form 8-K filed with the SEC on February 10, 2000
3.7 *	Articles Supplementary, dated January 18, 2002, relating to the 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company s Form 8-A for registration of certain classes of securities filed with the SEC on January 18, 2002
3.8 *	Articles Supplementary, dated June 22, 2004, relating to the 8.375% Series C Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company s Form 8-A for registration of certain classes of securities filed with the SEC on June 28, 2004
3.9 *	Articles Supplementary, dated March 25, 2008, relating to the 7.00% Series D Cumulative Convertible Preferred Stock, filed as an exhibit to the Company s current report on Form 8-K filed with the SEC on March 25, 2008
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 the Company s current report on Form 8-K filed with the SEC on February 10, 2000
4.2 *	Specimen certificate representing shares of Common Stock, filed as an exhibit to the Company s Registration Statement on Form S-11 (No. 333-23545) filed with the SEC on May 19, 1997
4.3 *	Specimen certificate representing shares of 9.50% Series A Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria s quarterly report on Form 10-Q filed with the SEC on August 13, 1999
4.4 *	Specimen certificate representing shares of 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company s Form 8-A for registration of certain classes of securities filed with the SEC on January 18, 2002
4.5 *	Specimen certificate representing shares of 8.375% Series C Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company s Form 8-A for registration of certain classes of securities filed with the SEC on June 28, 2004
4.6 *	Specimen certificate representing shares of 7.00% Series D Cumulative Convertible Preferred Stock, filed as an exhibit to the Company s current report on Form 8-K filed with the SEC on March 25, 2008
4.7 *	Indenture, dated January 17, 2007, among the Company, Alexandria Real Estate Equities, L.P., as Guarantor, and Wilmington Trust company, as Trustee filed as an exhibit to the Company s current report on Form 8-K filed with the SEC on January 19, 2007
4.8 *	Registration Rights Agreement, dated as of January 17, 2007, among the Company, Alexandria Real Estate Equities, L.P., UBS Securities LLC., Citigroup Global Markets, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated filed as an exhibit to the Company s current report on Form 8-K filed with the SEC on January 18, 2007
4.9*	Indenture, dated as of April 27, 2009, among the Company, as Issuer, Alexandria Real Estate Equities, L.P., as Guarantor, and Wilmington Trust Company, as Trustee filed as an exhibit to the Company s quarterly report on Form 10-Q filed with the SEC on August 10, 2009

10.1 *	(1)	Amended and Restated 1997 Stock Award and Incentive Plan of the Company, dated May 22, 2008, filed as an exhibit to the Company s current report on Form 8-K filed with the SEC on May 28, 2008
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 the Company s Registration Statement on Form S-11 (No. 333-23545) filed with the SEC on May 5, 1997
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 the Company s Registration Statement on Form S-11 (No. 333-23545) filed with the SEC on May 5, 1997
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 the Company s Registration Statement on Form S-11 (No. 333-23545) filed with the SEC on May 5, 1997