

99

$$\frac{(\text{LOCATION})^3}{\text{INNOVATION}} =$$

ALEXANDRIA REAL ESTATE EQUITIES, INC.
ANNUAL REPORT

ALEXANDRIA Real Estate Equities (ARE) is the first and only publicly traded real estate operating company that fills a unique niche with a principal operating and investment focus on office and laboratory facilities strategically located in concentrated science and technology cluster markets. Alexandria owns, operates, manages, acquires, converts, retrofits, expands, develops and redevelops properties containing office and laboratory space (including the rendition of related services and capital investment). In addition to principally serving the life science industry, Alexandria provides high technology and creative space to information technology and Internet tenants in its cluster markets.

PERFORMANCE

OF ALEXANDRIA REAL ESTATE EQUITIES, INC.
COMPARED TO NAREIT INDEX AND S&P 500
INDEX (TOTAL RETURN PERFORMANCE FROM
IPO ON MAY 28, 1997 TO DECEMBER 31, 1999)

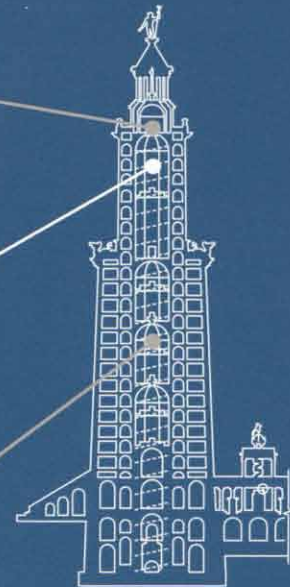
THE PHAROS LIGHTHOUSE,
ALEXANDRIA, EGYPT

Alexandria's mission is to be the landlord
of choice to the life science industrySM

S&P 500 INDEX
180.0%

ARE
177.2%

NAREIT INDEX
94.1%





JERRY M. SUDARSKY
CHAIRMAN OF THE BOARD

Dear Shareholders:

1999 was a year of significant innovation. The technological revolution taking place around the world has changed the way we work, communicate and even shop. Technology has brought us efficiencies we never thought imaginable just five years ago, resulting in a healthy investor appetite for life science companies and a boom of initial public offerings for high technology and Internet companies. 1999 was also a year of innovation for us as we continued to strategically position ourselves to take advantage of these technological innovations, benefit from the convergence of key technologies and continue our mission of becoming the landlord of choice to the life science industry.SM

Our financial performance once again surpassed analysts' expectations as we continued to achieve strong internal and external growth. We were among the very top financial performers overall in the office sector. Our strategic niche focus enabled us to achieve strong financial metrics while operating in a depressed REIT capital market. Most importantly, our deep and entrepreneurial management team, strong operational experience and intimate knowledge of our science and technology cluster markets, coupled with the life science sector in which we operate, have enabled us to continue to build and solidify our franchise and platform. We have maintained our innovative approach to create value and perpetuate our growth prospects while maintaining a conservative and flexible capital structure. Our goal is to continue to work hard to build a stronger, more visionary company that will prosper for the long term.

GROWTH OF STRATEGIC FRANCHISE AND OPERATING PLATFORM

We are strategic, as well as opportunistic, with the platform we have built, always looking for ways to leverage our strong franchise in the leading science and technology cluster centers and the solid relationships we have built with our tenants. Our understanding of and experience in the life science industry have enabled us to identify significant real estate trends affecting the sectors we serve and have allowed us to develop meaningful value-added capabilities for our expanding tenant base.

An important key to our success has been the target market focus of our niche. We have established a strategic location/innovation platform in eight key cluster markets. During 1999, we focused in particular on Silicon Valley in California and on Eastern Massachusetts, two of the fastest-growing and most dynamic markets in the country. This led to the natural broadening of our niche focus given the convergence of the key life science and information technologies.

Technology companies generally congregate in communities that surround prestigious academic centers, regulatory agencies, research institutions and centers of capital. By being geographically clustered, tenants form a community that has ready access to intellectual as well as financial capital. It is this clustering of the technology industries that has enabled us to leverage our existing infrastructure and platform to provide state-of-the-art office and laboratory space to life science companies, as well as creative high-tech space to select information technology and Internet companies.

We are very proud of our tenant base, which includes leading national and international companies, prestigious scientific research institutions, government agencies and related entities in the life sciences, including some of our new tenants such as IDEC Pharmaceuticals Corporation, Amylin Pharmaceuticals, Inc., and Structural GenomiX Inc. In addition, a highly select group of information technology and Internet companies has joined the Alexandria family, such as Ascend Communications/Lucent Technologies Inc., Equinix, Inc., Google Inc. and Hitachi Software Engineering America, Ltd.

Our markets evidence significant barriers to entry, limited land supply and strong demand generators. As we enter the 21st century, we are well-positioned to take advantage of the evolving technological revolution, developing new value-added strategic initiatives that serve the rapidly growing technology communities.

STRONG OPERATING FUNDAMENTALS FIRMLY IN PLACE

During 1999, we continued to successfully execute our operating strategy realizing significant growth internally and externally in selectively acquiring, expanding, retrofitting, converting, developing and redeveloping high quality office and laboratory space. Our unique business model enabled us to



JOEL S. MARCUS
CHIEF EXECUTIVE OFFICER

"Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition." —Michael E. Porter, HARVARD BUSINESS REVIEW, Nov.-Dec, 1998

maintain our operating margins at approximately 78% and a year-end debt-to-total market capitalization of approximately 43%. Our careful management of the balance sheet has enabled us to enter the year 2000 with significant financial flexibility.

Strong internal growth was fueled by our highly focused leasing efforts. During 1999, 445,000 square feet in our portfolio expired. We successfully leased 368,000 square feet, realizing an average increase in cash rents of 21%. ARE achieved same store net operating income growth on a cash basis of 7.5% for the year.

Our external growth was equally impressive as we completed \$74.8 million in acquisitions, acquiring seven properties comprising 437,000 square feet in several of our key science and technology markets.

During the year we broke ground on a total of 221,000 square feet of office and laboratory facilities representing new development projects in three separate target markets. Our new development projects included the second building of the Alexandria Technology Center at Science Park in Torrey Pines, San Diego; IDEC Pharmaceuticals Corporation, which has signed a ten-year lease, will be the anchor tenant. In another project, Paradigm Genetics, Inc., a leader in functional genomics, contracted with us to build the Center for Functional Genomics Research in Research Triangle Park, North Carolina. In Eastern Massachusetts, we completed an investment in a land parcel aggregating 4.9 acres for the build-to-suit development of an office and laboratory facility; AstraZeneca PLC, a top-tier international pharmaceutical company, is the primary tenant. Our development efforts represent an important component of the Company's external growth strategy and reflect the demand for office and laboratory space that meets the needs of the fast-growing life science industry sectors.

FINANCIAL HIGHLIGHTS AND FLEXIBILITY OF CAPITAL STRUCTURE

Our financial performance has been consistently strong since our initial public offering in 1997. Funds from operations (FFO) for the year were \$38.5 million on revenues of \$86.3 million, once again exceeding consensus analysts' FFO per share estimates for each quarter, with 17% growth in 1999 versus 1998. ARE's total return since its IPO is approximately 77%.

As a result of our strong FFO growth, in the second quarter ARE announced a 7.5% increase in its dividend payment, raising the annual dividend to \$1.72 per common share. ARE continues to maintain a conservative dividend payout ratio in order to utilize internally generated cash to fund our continued growth.

During 1999, we continued our strategy of maintaining a conservative and flexible capital structure while identifying creative opportunities to raise capital. During the year, we raised \$66.7 million through two unique "match

In 1999, ARE raised \$66.7 million through two unique "match fund" offerings and invested the proceeds in our Silicon Valley and San Diego target markets.

\$66.7M

fund" equity offerings to fuel our growth and maintain balance sheet flexibility. We are particularly proud of this achievement, given the difficult capital markets for the REIT industry, and believe it reflects our favorable track record in executing our strategic plan and solid financial performance. Minimization of dilution to our shareholders was also of paramount importance, as we utilized the proceeds primarily to continue to invest in and build our strategic franchise and operating platform in our target markets.

OUTLOOK FOR 2000

We have always maintained a close connection with our broad and diverse life science tenant base. Our unique blend of real estate experience coupled with our life science knowledge and expertise has enabled us to strategically build our franchise and platform.

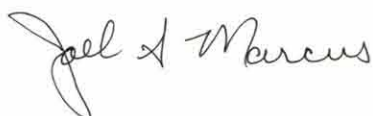
Realizing the limitations surrounding the REIT structure, and recognizing an opportunity to participate in the rapid evolution and growth of the technology sectors we serve, we will embark upon new innovative and strategic initiatives for our niche during 2000.

The dawn of the new millennium is an exciting time for us. As we approach our third anniversary as a public company, we believe we have a strong franchise and platform in place coupled with the management and strategy to leverage its possibilities. We successfully surpassed the ambitious objectives we set for 1999 and are very proud of our company's results and accomplishments. We have positioned ARE to continue to successfully execute our unique niche strategy and our tradition of being at the leading edge of innovation.

In closing, we would like to thank our shareholders, tenants and employees for their continuing support.



JERRY M. SUDARSKY
CHAIRMAN OF THE BOARD



JOEL S. MARCUS
CHIEF EXECUTIVE OFFICER



818.5

643.1

DECEMBER 31, 1999



699.2

530.3

DECEMBER 31, 1998



430.8

248.5

DECEMBER 30, 1997



305.3

230.0

JUNE 30, 1997

Shown in millions of dollars:

 Total Assets

 Market Capitalization

These are the organizations defining research in chemistry, biology, genomics, information technology. Each is located in one of the most significant science and technology hubs in the U.S. (Alexandria tenants are high-tech)

THE HUB INNOVATION

SEATTLE

UNIVERSITY OF WASHINGTON • FRED HUTCHINSON CANCER RESEARCH CENTER • CORIXA CORPORATION • ICOS CORPORATION
IMMUNEX CORPORATION • MICROSOFT CORPORATION
FRAZIER & COMPANY • DENDREON CORPORATION

SAN FRANCISCO BAY

STANFORD UNIVERSITY, DEPARTMENTS OF ELECTRICAL ENGINEERING AND COMPUTER SCIENCE • UNIVERSITY OF CALIFORNIA, BERKELEY & SAN FRANCISCO • THE FOOD AND DRUG ADMINISTRATION • EQUINIX, INC. • GENENTECH, INC. • GOOGLE INC. HEWLETT-PACKARD COMPANY • BENCHMARK CAPITAL • INTEL CORPORATION • HITACHI SOFTWARE ENGINEERING AMERICA, LTD. KLEINER PERKINS CAUFIELD & BYERS • LUCENT TECHNOLOGIES INC. (ASCEND COMMUNICATIONS, INC.) • SOFINNOVA VENTURES

LOS ANGELES/PASADENA

CALIFORNIA INSTITUTE OF TECHNOLOGY • UNIVERSITY OF CALIFORNIA, LOS ANGELES • UNIVERSITY OF SOUTHERN CALIFORNIA • AMGEN INC. • IDEALAB! • CALIFORNIA TECHNOLOGY VENTURES

SAN DIEGO

THE SCRIPPS RESEARCH INSTITUTE • UNIVERSITY OF CALIFORNIA, SAN DIEGO • THE SALK INSTITUTE FOR BIOLOGICAL STUDIES
THE BURNHAM INSTITUTE • IDEC PHARMACEUTICALS CORPORATION
MÉRCK & CO., INC. (SIBIA NEUROSCIENCES, INC.) • NOVARTIS AG
WARNER-LAMBERT COMPANY (AGOURON PHARMACEUTICALS, INC.)
QUALCOMM INCORPORATED • STRUCTURAL GENOMIX INC.
FORWARD VENTURES

20B

California attracted over \$20 billion in venture investments during 1999.

70%

Nine states (California, Washington, Oregon, Massachusetts, New Jersey, New York, Pennsylvania, Maryland, Virginia) and Washington D.C. have about 70% of the 500 fastest-growing technology companies in the U.S. (as reported in USA Today. Source: Deloitte & Touche 1999).

140,000

The pharmaceutical industry was responsible for 140,000 jobs in New Jersey and contributed \$10.3 billion to the state's economy in 1998.

our future with
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gy regions of
ghted in silver.)

S OF
ION

120

Massachusetts has 120 colleges and universities and the largest per capita student concentration in the world.

NEW JERSEY/SUBURBAN PHILADELPHIA

JOHNSON & JOHNSON • MERCK & CO., INC. • SMITHKLINE BEECHAM PLC • BRISTOL-MYERS SQUIBB COMPANY
NOVARTIS AG • SCHERING-PLOUGH CORPORATION • WARNER-LAMBERT COMPANY • CELL PATHWAYS, INC. • HEALTHCARE VENTURES • S. R. ONE, LTD. • DOMAIN ASSOCIATES

SUBURBAN WASHINGTON DC

THE NATIONAL INSTITUTES OF HEALTH • THE FOOD AND DRUG ADMINISTRATION • JOHNS HOPKINS UNIVERSITY • UNIVERSITY OF MARYLAND • U.S. ARMY CORPS OF ENGINEERS • THE INSTITUTE FOR GENOMIC RESEARCH • HUMAN GENOME SCIENCES, INC.
NOVARTIS AG (GENETIC THERAPY INC.) • CELERA GENOMICS GROUP
MEDIMMUNE, INC. • SHIRE PHARMACEUTICALS GROUP PLC
BIOMÉRIEUX SA • GENE LOGIC INC. • THE GILLETTE COMPANY

SOUTHEAST

DUKE UNIVERSITY • UNIVERSITY OF NORTH CAROLINA • NORTH CAROLINA STATE UNIVERSITY • GLAXO WELLCOME PLC
QUINTILES TRANSNATIONAL CORP. • A. M. PAPPAS & ASSOCIATES
PARADIGM GENETICS, INC.

BOSTON/CAMBRIDGE AND EASTERN MASSACHUSETTS

MASSACHUSETTS INSTITUTE OF TECHNOLOGY • HARVARD UNIVERSITY • THE WHITEHEAD INSTITUTE
UNIVERSITY OF MASSACHUSETTS • BIOGEN, INC. • MILLENNIUM PHARMACEUTICALS, INC.
GENZYME CORPORATION • PFIZER INC. • ATLAS VENTURE • ARES-SERONO GROUP • OXFORD BIOSCIENCE PARTNERS • ASTRAZENECA PLC



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(LOCATION)³ = SCIENCE/TECHNOLOGY CLUSTERS

INNOVATION = CONVERGING DISCIPLINES

INNOVATION

has been associated with certain locations throughout history. The original research park was probably the olive grove outside Athens where Plato taught philosophy. One of the first centers for scientific excellence was the trading port of Alexandria, founded by Alexander the Great in Egypt in 332 BC. And in the modern era, Silicon Valley was carved out of the fertile agricultural region of Santa Clara county, founded in 1909 when the president of Stanford University gave \$500 of venture capital toward the development of the first vacuum tube. Centers of innovation can shift over long periods of time, but they emerge where progressive ideas and entrepreneurial instincts are allowed to thrive.



Alexandria's logo is adapted from the Pharos Lighthouse, one of the Seven Wonders of the Ancient World, completed in the third century B.C. to guide ships safely into the harbor of Alexandria. Our name is shared with a city that represented the center of scientific excellence in the Hellenistic world. Our objective today is inspired by the culture that built the great Egyptian city: to provide a harbor for innovative thinking by constructing environments that foster the development of scientific and technological breakthroughs.

Though futurists predicted that faster transportation and communication networks would diminish the importance of geographical proximity, in today's business environment, companies and institutions working in related fields still develop in synergistic clusters, from vineyards in California to auto companies in Germany. "Brain trust" markets continue to emerge around scientific research centers, as in the San Francisco Bay area and Cambridge, Massachusetts.

At the same time, the old divisions between scientific disciplines are diminishing. The field of biology, for example, with its new focus on sequencing and visualizing DNA, has increasingly come to resemble information science. The fact that once-distinct scientific disciplines are converging and cross-fertilizing only makes the clusters richer and more potent.

Alexandria Real Estate Equities' niche strategy and operating platform are based on the cluster principle. Our assets and operations are located in or near hubs for science and technology in the fields of chemistry, genomics, biology, and information technology. Our credo is that innovation flourishes in these centers, where there is competition and a shared pool of financial and intellectual wealth.



FUNDING FOR RESEARCH AND DEVELOPMENT PROVIDED
BY THE NATIONAL INSTITUTES OF HEALTH WILL REACH


\$18 BILLION IN 2000

INNOVATION¹ = CHEMISTRY

WITH OUR AGING POPULATION

and all its attendant health issues, the demand for quicker, more cost-effective alternatives for chronic illnesses is increasing. Recent drug developments include new treatments for such age-related conditions as osteoporosis, diabetes and Alzheimer's disease. A key part in the drug research and development process is increasingly played by structure-based drug design—the use of new technologies to engineer chemically synthesized drugs.

In the cluster of biotechnology firms located in the San Diego region, two of Alexandria's tenants are achieving pioneering breakthroughs in this area. Agouron Pharmaceuticals has successfully applied this technology and developed the world's best-selling protease inhibitor for AIDS. Scientists at Structural GenomiX are using industrial scale X-ray crystallography to determine the three-dimensional structures of proteins that serve as drug targets. This breakthrough will expedite the advancement of drug candidates through clinical trials at an unprecedented rate.



By gaining structural information of a protein, Structural GenomiX is able to provide information into the protein's function, which can result in more quickly identifying a validated drug target. Shown here is the influenza virus neuraminidase, with an inhibitor bound in the active site.

20B

IN 1999

Research and development expenditures by the pharmaceutical industry reached approximately \$20 billion in 1999.

INNOVATION² = BIOLOGY

IF THE 20TH CENTURY

was known as the information age, the 21st will be the age of life science. Research at a molecular level is revolutionizing our understanding of the human body and giving us the means to deal with killer diseases. Scientists have even predicted that certain forms of cancer may be conquered within the next ten years.

One emerging area of research is developmental biology, which focuses on differentiation, or how a single cell transforms and changes its function, size and shape. By stimulating new cell growth and differentiation, scientists hope to repair and regenerate function to the damaged system of the human body. Another promising area stemming from developmental biology is the study of cell aging. By intervening with the aging process at the cellular level, biologists are attempting to develop therapies that counteract diseases caused by the cellular "clock." This research may even lead to the development of miracle cures that slow down the natural aging process.

350

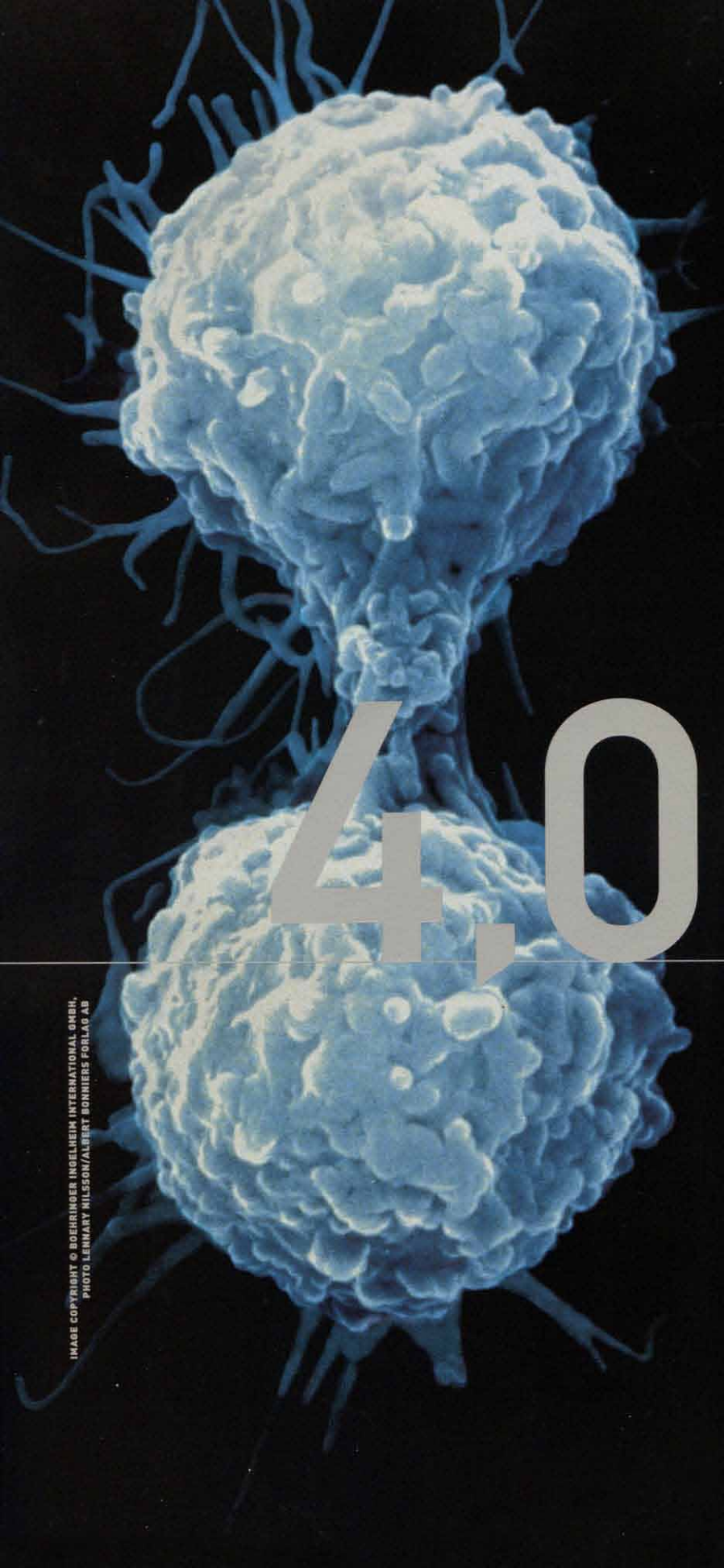
At the Scripps Research Institute, an Alexandria tenant in San Diego, California, scientists this year announced that they have developed a method of combining proteins — the molecules produced by cells — to work as genetic switches. One of the Institute's goals is to develop a new class of therapeutic proteins to inhibit the growth of tumors, or halt HIV.

There are more than 350 biotechnology drug products and vaccines currently in human clinical trials in the U.S.

IMAGE COPYRIGHT © BOEHRINGER INGELHEIM INTERNATIONAL OHB/H,
PHOTO LENNARY NILSSON/ALBERT BONNIERS FORLAG AB

4,000

EVERY YEAR 4,000 PEOPLE DIE WHILE WAITING FOR AN ORGAN
TRANSPLANT. BY SOME ESTIMATES, THE MARKET FOR ENGINEERED
AND REGENERATED TISSUES AND ORGANS COULD REACH \$80 BILLION.



INNOVATION³ = GENOMICS

ONE OF THE MOST IMPORTANT

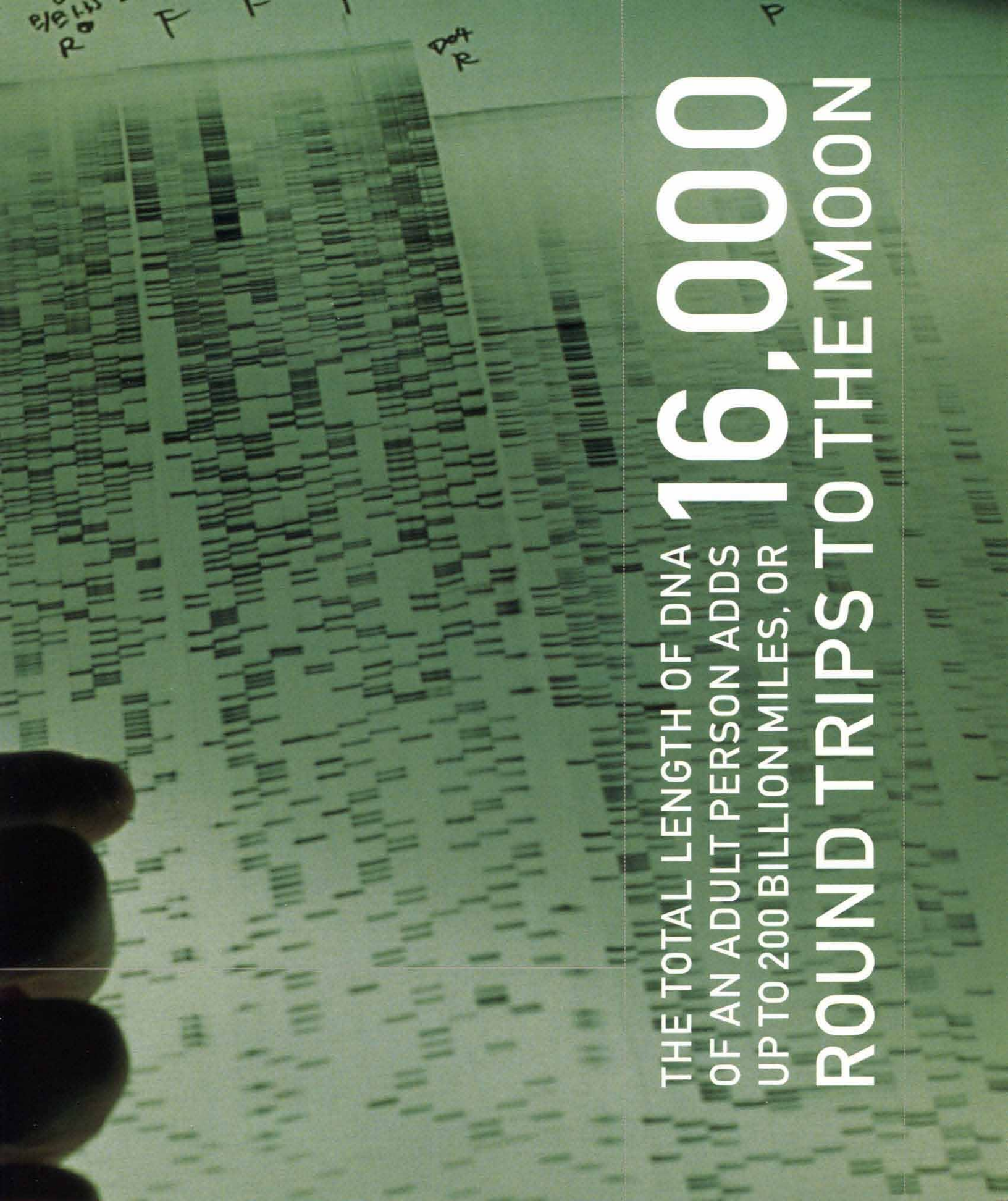
scientific discoveries of the 20th century was that DNA is the chemical carrier of our hereditary characteristics. Billions of dollars of public and private monies have since been invested in mapping DNA, a project known as the Human Genome Project. The payoff of the investment will be the explosion of highly specific and effective diagnostics and medicines for chronic and fatal diseases that are incurable today.

100,000

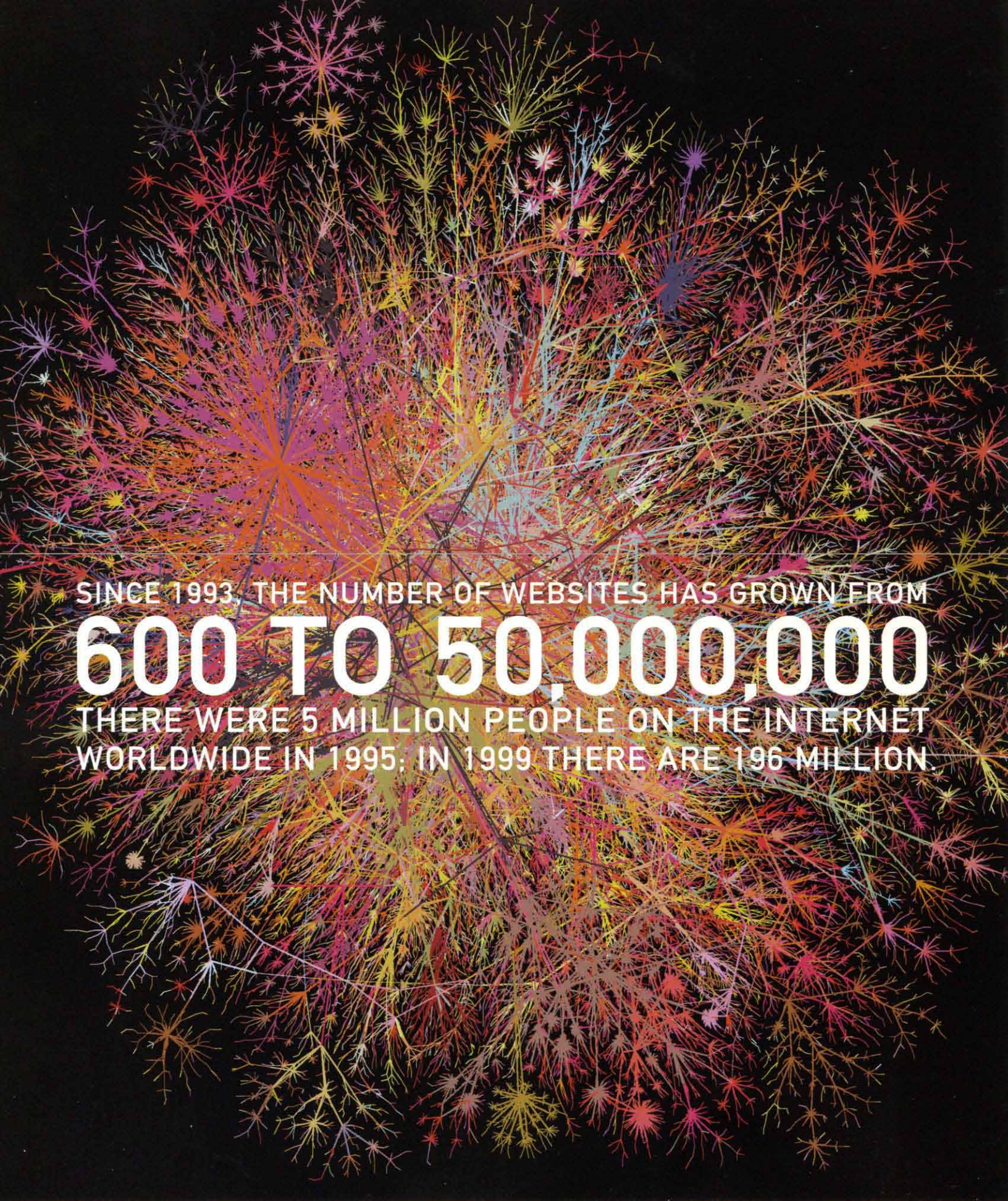
By the year 2002, the Human Genome Project expects to have mapped the three billion units of genetic code that describe a person. Not only will this inexorably change the way we conduct research and treat diseases, it also will provide the opportunity to prevent certain medical conditions from occurring in the first place. As individual genes related to certain diseases are discovered, companies are developing products for treating and preventing those diseases. Alexandria's tenant Human Genome Sciences, for example, has conducted research which has led to uncovering a protein associated with asthma and allergic reactions.

One of the most sophisticated genomics technologies is identifying and sequencing single nucleotide polymorphisms (SNPs) — the variations within a gene that differentiate one person from another. From testing the genome for variations, researchers can develop pharmaceuticals that are targeted toward a particular population, thus developing more effective therapies with fewer side effects.

HUMANS HAVE ABOUT 100,000 GENES.

A photograph of a DNA microarray chip, showing a grid of small dark spots representing individual DNA probes. The chip is held by a person's fingers, visible in the bottom left corner. Handwritten labels 'R' and 'Dot R' are visible in the top left and top right corners of the chip. The background is a dark, textured surface.

THE TOTAL LENGTH OF DNA
OF AN ADULT PERSON ADDS
UP TO 200 BILLION MILES, OR
16,000
ROUND TRIPS TO THE MOON



SINCE 1993, THE NUMBER OF WEBSITES HAS GROWN FROM

600 TO 50,000,000

THERE WERE 5 MILLION PEOPLE ON THE INTERNET
WORLDWIDE IN 1995. IN 1999 THERE ARE 196 MILLION.

INNOVATION⁴ = INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY

is, without question, the driving force behind the longest period of economic expansion in America's history. The Internet continues to be the most visible aspect of the "new economy," as it is commonly called, but one of its less-publicized facts is that most of the business on the Internet is conducted between businesses — not between firms and consumers. While the numbers vary, at either end the estimates are huge. Forrester Research estimates that e-business between U.S. firms will rise from \$43 billion in 1998 to \$1.3 trillion in 2003. On a worldwide scale, according to the Gartner Group, the business-to-business market is forecasted to grow from \$145 billion in 1999 to \$7.29 trillion in 2004.

1/2

By 2006, almost half of the U.S. workforce will be employed in industries that are major producers or users of information technology, according to a report by the U.S. Department of Commerce.

One reason for these dramatic growth forecasts is that online business-to-business transactions have the potential to be considerably more efficient than their real-world counterparts. The e-hubs where companies come together to negotiate are easily accessed at very little cost and allow vast numbers of buyers and sellers to exchange information. In many ways, the B2B e-hub is the economist's model of a perfect market.

Equinix, a new Alexandria tenant in Palo Alto, is building more than 30 Internet Business Exchanges in the next four years — high-security shared hubs for Internet companies to build their businesses. Not only will the hubs provide a secure, high-speed alternative to overloaded data exchange points that now guide traffic on the Internet; they will provide an environment for matching content and application service providers and e-commerce companies with the best carriers, Internet service providers and site management companies.

The picture at left shows "the tin cans and string" of the Internet, says one of its creators, Bill Cheswick of Bell Labs. Every morning the map is updated to show the pathways among 88,054 routers around the world. It covers 140 countries and hundreds of ISPs. These maps can be colored to show regions, ISPs, loads, timing data, and so on. To see more, visit www.cs.bell-labs.com/~ches/map/.

(FINANCIALS)⁹⁹ =

Selected Financial Data

ALEXANDRIA REAL ESTATE EQUITIES, INC.

The following table should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.

| | YEAR ENDED DECEMBER 31 | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------|------------|------------|------------|-----------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| <i>(Dollars in thousands, except per share amounts)</i> | | | | | |
| OPERATING DATA: | | | | | |
| Total revenue | \$ 86,262 | \$ 61,016 | \$ 34,846 | \$ 17,673 | \$ 9,923 |
| Total expenses | 64,209 | 41,613 | 37,643 | 15,498 | 9,057 |
| Income (loss) from operations | 22,053 | 19,403 | (2,797) | 2,175 | 866 |
| Charge in lieu of taxes | - | - | - | - | (105) |
| Net income (loss) | \$ 22,053 | \$ 19,403 | \$ (2,797) | \$ 2,175 | \$ 761 |
| Net income (loss) per share of common stock (pro forma for 1997, pro forma and restated for 1996 and 1995) | | | | | |
| - Basic | \$ 1.48 | \$ 1.60 | \$ (0.35) | \$ 0.60 | \$ 0.43 |
| - Diluted | \$ 1.46 | \$ 1.58 | \$ (0.35) | \$ 0.60 | \$ 0.43 |
| Weighted average shares of common stock outstanding (pro forma for 1997, pro forma and restated for 1996 and 1995) ⁽¹⁾ | | | | | |
| - Basic | 13,525,840 | 12,098,959 | 8,075,864 | 3,642,131 | 1,765,923 |
| - Diluted | 13,670,568 | 12,306,470 | 8,075,864 | 3,642,131 | 1,765,923 |
| Cash dividends declared per share of common stock (pro forma for 1997, pro forma and restated for 1996 and 1995) | \$ 1.69 | \$ 1.60 | \$ 1.60 | \$ 0.87 | \$ 0.51 |
| BALANCE SHEET DATA (AT YEAR END): | | | | | |
| Rental properties - net of accumulated depreciation | \$ 554,706 | \$ 471,907 | \$ 227,076 | \$ 146,960 | \$ 54,353 |
| Total assets | \$ 643,118 | \$ 530,296 | \$ 248,454 | \$ 160,480 | \$ 58,702 |
| Mortgage loans payable and unsecured line of credit | \$ 350,512 | \$ 309,829 | \$ 70,817 | \$ 113,182 | \$ 40,894 |
| Total liabilities | \$ 380,535 | \$ 330,527 | \$ 81,537 | \$ 120,907 | \$ 42,369 |
| Mandatorily redeemable Series V preferred stock | \$ - | \$ - | \$ - | \$ 25,042 | \$ - |
| Stockholders' equity | \$ 262,583 | \$ 199,769 | \$ 166,917 | \$ 14,531 | \$ 16,333 |

YEAR ENDED DECEMBER 31

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|---------------------------------------------------------|--------------------|--------------------|-------------|-------------|------------|
| OTHER DATA: | | | | | |
| Net income (loss) | \$ 22,053 | \$ 19,403 | \$ (2,797) | \$ 2,175 | \$ 761 |
| Less: | | | | | |
| Preferred dividends | (2,036) | - | - | - | - |
| Add: | | | | | |
| Depreciation and amortization | 18,532 | 10,296 | 4,866 | 2,405 | 1,668 |
| Funds from operations ⁽¹⁾ | \$ 38,549 | \$ 29,699 | \$ 2,069 | \$ 4,580 | \$ 2,429 |
| Cash flows from operating activities | \$ 42,295 | \$ 26,111 | \$ 3,883 | \$ (1,646) | \$ 355 |
| Cash flows from investing activities | \$ (109,833) | \$ (246,753) | \$ (87,620) | \$ (94,900) | \$ (1,554) |
| Cash flows from financing activities | \$ 69,430 | \$ 220,136 | \$ 84,101 | \$ 97,323 | \$ 927 |
| Number of properties owned at year end | 58 | 51 | 22 | 12 | 4 |
| Rentable square feet of properties owned at year end | 4,046,126 | 3,588,154 | 1,747,837 | 1,031,070 | 313,042 |
| Occupancy of properties owned at year end | 92% ⁽³⁾ | 93% ⁽³⁾ | 97% | 97% | 96% |

(1) Pro forma shares of common stock outstanding for the years ended December 31, 1997 and 1996 include all shares outstanding after giving effect to the initial public offering, weighted for the period beginning from the date of the Offering, conversion of all series of preferred stock, the 1,765,923 to 1 stock split, the issuance of the stock grants and exercise of substitute stock options. Pro forma restated shares of common stock outstanding for the year ended December 31, 1995 also include shares outstanding after giving effect to the 1,765,923 to 1 stock split.

(2) We compute funds from operations ("FFO") in accordance with standards established by the Board of Governors of NAREIT in its October 1999 White Paper ("White Paper"). The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO for 1997 has been restated to conform to the White Paper as amended in October 1999. FFO for 1997 has been impacted by non-recurring expenses associated with the initial public offering of \$12,197,000, and the write-off of unamortized loan costs of \$2,295,000. For a more detailed discussion of FFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds from Operations."

(3) Includes properties under renovation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

ALEXANDRIA REAL ESTATE EQUITIES, INC.

The terms "we," "our," "ours" and "us" as used in this report refer to Alexandria Real Estate Equities, Inc. and its subsidiaries. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.

OVERVIEW

In June 1997, we completed an initial public offering of our common stock (the "Offering"). Since the Offering, we have devoted substantially all of our resources to the ownership, operation, management, acquisition, conversion, retrofit, expansion and selective development and redevelopment of high quality, strategically located properties leased principally to tenants in the life science industry (we refer to these properties as "Life Science Facilities").

In 1999, we:

- Sold 1,150,000 shares of common stock resulting in aggregate proceeds of approximately \$29.8 million, net of underwriting discounts and commissions and other offering costs.
- Sold 1,543,500 shares of Series A cumulative redeemable preferred stock resulting in aggregate proceeds of approximately \$36.9 million, net of underwriters' discounts and commissions and other offering costs.
- Acquired seven properties with an aggregate of approximately 437,000 rentable square feet. In addition, we completed the development of one property with approximately 55,000 rentable square feet.

Our primary source of revenue is rental income and tenant recoveries from leases at the properties we own. Of the 58 properties we owned as of December 31, 1999, four were acquired in calendar year 1994, eight in 1996, 10 in 1997 (the "1997 Properties"), 29 in 1998 (the "1998 Properties") and seven in 1999. In addition, we completed the development of one property in 1999 (together with the seven properties acquired in 1999, the "1999 Properties"). As a result of our acquisition activities, there were significant increases in total revenues and expenses for 1999 as compared to 1998.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 1999 to the Year Ended December 31, 1998

Rental revenue increased by \$19.9 million, or 41%, to \$68.4 million for 1999 compared to \$48.5 million for 1998. The increase resulted primarily from the 1998 Properties being owned for a full period and the addition of the 1999 Properties. Rental revenue from the properties we acquired before January 1, 1998 (the "1999 Same Properties") increased by \$1.1 million, or 3.8%, due to increases in rental rates and occupancy.

Tenant recoveries increased by \$5.0 million, or 44%, to \$16.3 million for 1999 compared to \$11.3 million for 1998. The increase resulted primarily from the 1998 Properties being owned for a full period and the addition of the 1999 Properties. Tenant recoveries for the 1999 Same Properties increased by \$838,000, or 11.7%, generally due to an increase in recoverable operating expenses.

Interest and other income increased by \$298,000, or 24%, to \$1.5 million for 1999 compared to \$1.2 million for 1998. The increase resulted from an increase in storage and parking income at certain of our properties and from the increase in interest income from our secured note receivable, which was funded in March 1998.

Rental operating expenses increased by \$5.6 million, or 42%, to \$19.0 million for 1999 compared to \$13.4 million for 1998. The increase resulted primarily from the 1998 Properties being owned for a full period and the addition of the 1999 Properties. Operating expenses for the 1999 Same Properties increased by \$711,000, or 9.2%, primarily due to the increase in property taxes. The increase in property taxes, substantially all of which was recoverable from the tenants at the respective properties, was partially offset by lower premiums on our blanket property and liability insurance policies for all of our properties.

The following is a comparison of property operating data for the 1999 Same Properties computed under generally accepted accounting principles ("GAAP Basis") and under generally accepted accounting principles, adjusted to exclude the effect of straight line rent adjustments required by GAAP ("Cash Basis") (in thousands, except percentage data):

| | For the Year Ended December 31 | | Change |
|-----------------------------------|-----------------------------------|-----------|--------|
| | 1999 | 1998 | |
| GAAP BASIS: | | | |
| Revenue | \$ 37,109 | \$ 35,244 | 5.3% |
| Rental operating expenses | 8,435 | 7,724 | 9.2% |
| Net operating income | \$ 28,674 | \$ 27,520 | 4.2% |
| CASH BASIS ⁽¹⁾: | | | |
| Revenue | \$ 34,427 | \$ 31,839 | 8.1% |
| Rental operating expenses | 7,902 | 7,176 | 10.1% |
| Net operating income | \$ 26,525 | \$ 24,663 | 7.5% |

(1) The Cash Basis presentation excludes the results for 1431 Harbor Bay Parkway, Alameda, California. The lease for this property (which was in place when we acquired the property in 1996) contains significant step-down provisions that affected the cash rent paid by the tenant beginning in January 1999. As a result, cash rent paid was reduced from \$2,948,000 for 1998 to \$2,128,000 for 1999. The lease, which expires in January 2014, requires another step-down in rent beginning in January 2004 to \$750,000 per year. If this property was included in the Cash Basis presentation for 1999, revenue would have increased 5.0%, rental operating expenses would have increased 9.2% and net operating income would have increased 3.8%. On a GAAP Basis, rental income from this property throughout 1998 and 1999 was \$1,414,000.

General and administrative expenses increased by \$3.1 million, or 79%, to \$7.0 million for 1999 compared to \$3.9 million for 1998 due to the continued expansion in the scope of our operations.

Interest expense increased by \$5.7 million, or 40%, to \$19.7 million for 1999 compared to \$14.0 million for 1998. The increase resulted primarily from the indebtedness we incurred to acquire the 1998 Properties and the 1999 Properties.

Depreciation and amortization increased by \$8.2 million, or 80%, to \$18.5 million for 1999 compared to \$10.3 million for 1998. The increase resulted primarily from depreciation associated with the 1998 Properties being owned for a full period and the addition of the 1999 Properties.

As a result of the foregoing, net income was \$22.1 million for 1999 compared to \$19.4 million for 1998.

Comparison of the Year Ended December 31, 1998 to the Year Ended December 31, 1997

Rental revenue increased by \$22.9 million, or 89%, to \$48.5 million for 1998 compared to \$25.6 million for 1997. The increase resulted primarily from the 1997 Properties being owned for a full period and the addition of the 1998 Properties. A portion of the increase was due to \$277,000 in rental termination payments received in 1998 associated with leases at two of the properties. Rental revenue from the properties we acquired before January 1, 1997 (the "1998 Same Properties") increased by \$234,000, or 1.6%, due to increases in rental rates and occupancy.

Tenant recoveries increased by \$2.9 million, or 35%, to \$11.3 million for 1998 compared to \$8.4 million for 1997. The increase resulted primarily from the 1997 Properties being owned for a full period and the addition of the 1998 Properties. Tenant recoveries for the 1998 Same Properties increased by \$149,000, or 2.8%, generally due to the improved identification and recovery of costs at certain properties.

Interest and other income increased by \$398,000, or 48%, to \$1.2 million for 1998 compared to \$836,000 for 1997, resulting primarily from \$511,000 of interest income from a \$6.0 million secured loan made in connection with the acquisition of one of the 1998 Properties. This increase was partially offset by a decrease in interest income resulting from a lower level of cash equivalents in 1998 compared to 1997, because cash equivalents had been used to acquire properties.

Rental operating expenses increased by \$4.6 million, or 53%, to \$13.4 million for 1998 compared to \$8.8 million for 1997. The increase resulted almost entirely from the 1997 Properties being owned for a full period and the addition of the 1998 Properties. Operating expenses for the 1998 Same Properties decreased by \$145,000, or 2.5%, primarily due to lower premiums on our blanket property and liability insurance policies.

The following is a comparison of property operating data computed on a GAAP Basis and on a Cash Basis for the 1998 Same Properties (in thousands, except percentage data):

| | For the Year Ended December 31 | | Change |
|---------------------------|-----------------------------------|-----------|--------|
| | 1998 | 1997 | |
| GAAP BASIS: | | | |
| Revenue | \$ 20,878 | \$ 20,432 | 2.2% |
| Rental operating expenses | 5,616 | 5,761 | -2.5% |
| Net operating income | \$ 15,262 | \$ 14,671 | 4.0% |
| CASH BASIS: | | | |
| Revenue | \$ 22,401 | \$ 21,520 | 4.1% |
| Rental operating expenses | 5,616 | 5,761 | -2.5% |
| Net operating income | \$ 16,785 | \$ 15,759 | 6.5% |

General and administrative expenses increased by \$1.4 million, or 57%, to \$3.9 million for 1998 compared to \$2.5 million for 1997 due to owning a larger portfolio of properties in 1998 compared to 1997 and increased costs incurred as a result of being a public company for a full year.

Interest expense increased by \$7.0 million, or 100%, to \$14.0 million for 1998 compared to \$7.0 million for 1997. The increase resulted from indebtedness we incurred to acquire the 1997 Properties and the 1998 Properties, offset by a reduction in ongoing interest expense due to the payoff of \$72.7 million in secured notes payable in June 1997 with proceeds from the Offering.

We incurred \$12.2 million of non-recurring expenses in 1997 associated with the Offering.

Write-off of unamortized loan costs in 1997 represents the write-off of \$2.1 million in loan costs associated with \$72.7 million of secured notes we repaid with proceeds of the Offering and \$148,000 in loan costs associated with the payoff of debt in November 1997.

Depreciation and amortization increased by \$5.4 million, or 112%, to \$10.3 million for 1998 compared to \$4.9 million for 1997. The increase resulted primarily from depreciation associated with the 1997 Properties being owned for a full period and the addition of the 1998 Properties.

As a result of the foregoing, net income was \$19.4 million for 1998 compared to a net loss of \$2.8 million for 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities for 1999 increased by \$16.2 million to \$42.3 million compared to \$26.1 million for 1998. The increase resulted primarily from operating cash flows from the addition of the 1998 Properties and the 1999 Properties.

Net cash used in investing activities decreased by \$137.0 million to \$109.8 million for 1999 compared to \$246.8 million for 1998. The decrease was primarily due to a lower level of property acquisitions during 1999 compared to 1998.

Net cash provided by financing activities decreased by \$150.7 million to \$69.4 million for 1999 compared to \$220.1 million for 1998. Cash provided by financing activities for 1999 primarily consisted of net proceeds from the issuance/repurchase of our common stock, issuance of preferred stock and borrowings of secured debt, partially offset by principal reductions on our secured debt, principal reductions on our unsecured line of credit and distributions to stockholders. Cash provided by financing activities for 1998 primarily consisted of net proceeds from the issuance of our common stock, borrowings under our line of credit and secured debt, partially offset by principal reductions on our secured debt and distributions to stockholders.

Commitments

As of December 31, 1999, we were committed under the terms of certain leases to complete the construction of buildings and certain related improvements at a remaining aggregate cost of \$33.2 million.

As of December 31, 1999, we were also committed to fund approximately \$20.9 million for the construction of tenant improvements under the terms of various leases and for certain investments in limited partnerships.

Restricted Cash

As of December 31, 1999, we had \$8.1 million in cash and cash equivalents, including \$4.7 million in restricted cash. Restricted cash consists of the following (in thousands):

| | Amount |
|------------------------------------------------------------------------------------------------------|-----------------|
| Funds held in trust as additional security required under the terms of certain secured notes payable | \$ 2,982 |
| Security deposit funds based on the terms of certain lease agreements | 1,699 |
| | <u>\$ 4,681</u> |

Secured Debt

Secured debt as of December 31, 1999 consists of the following (dollars in thousands):

| COLLATERAL | Balance at December 31, 1999 | Stated Interest Rate | Maturity Date |
|----------------------------------------------------------------------------------|------------------------------------|----------------------------|------------------|
| One Innovation Drive, Worcester, MA ⁽¹⁾ | \$ 11,720 | 8.75% | January 2006 |
| 100/800/801 Capitola Drive, Durham, NC | 12,435 | 8.68% | December 2006 |
| 620 Memorial Drive, Cambridge, MA ⁽²⁾ | 19,842 | 9.125% | October 2007 |
| 14225 Newbrook Drive, Chantilly, VA and 3000/3018 Western Avenue, Seattle, WA | 35,995 | 7.22% | May 2008 |
| 377 Plantation Street, Worcester, MA and 6166 Nancy Ridge Road, San Diego, CA | 18,900 | 8.71% | December 2009 |
| 1431 Harbor Bay Parkway, Alameda, CA | 7,146 | 7.165% | January 2014 |
| 3535/3565 General Atomics Court, San Diego, CA | 17,063 | 9.00% | December 2014 |
| 1102/1124 Columbia Street, Seattle, WA | 20,148 | 7.75% | May 2016 |
| 381 Plantation Street, (development project) Worcester, MA | 2,625 | 9.00% | October 2000 |
| 1201 Clopper Road, (development project) Gaithersburg, MD ⁽³⁾ | 12,638 | LIBOR+1.75% | October 2001 |
| | \$ 158,512 | | |

(1) The balance shown includes an unamortized premium of \$725,000; the effective rate of the loan is 7.25%.

(2) The balance shown includes an unamortized premium of \$2,062,000; the effective rate of the loan is 7.25%.

(3) The balance shown represents the amount drawn on the construction loan that provides for borrowings of up to \$19,000,000.

The following is a summary of the scheduled principal payments for our secured debt as of December 31, 1999 (in thousands):

| Year | Amount |
|---------------------|-------------------|
| 2000 | \$ 5,994 |
| 2001 | 16,292 |
| 2002 | 3,951 |
| 2003 | 4,272 |
| 2004 | 3,915 |
| Thereafter | 121,301 |
| Subtotal | 155,725 |
| Unamortized premium | 2,787 |
| | \$ 158,512 |

Unsecured Line of Credit

At December 31, 1999, we had an unsecured line of credit that provided for borrowings of up to \$250 million. On February 11, 2000, we amended our unsecured line of credit to provide for borrowings of up to \$325 million. Borrowings under the line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR based advance, we must elect to fix the rate for a period of one, two, three or six months.

The line of credit, as amended, contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio, and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. Borrowings under the line of credit, as amended, are limited to an amount based on a pool of unencumbered assets. Accordingly, as we acquire additional unencumbered properties, borrowings available under the line of credit, as amended, will increase. As of December 31, 1999, borrowings under the line of credit were limited to approximately \$226,000,000, and carried a weighted average interest rate of 7.33%. As of February 11, 2000, borrowings under the line of credit, as amended, were limited to approximately \$248,000,000.

The line of credit, as amended, expires February 2003 and provides for an annual extension (provided there is no default) for an additional one-year period upon notice by the company and consent of the participating banks.

In September 1998, we entered into an interest rate swap agreement with FleetBoston Financial (the "Bank") to hedge our exposure to variable interest rates associated with our line of credit. Interest paid is calculated at a fixed interest rate of 5.43% through May 31, 2000 on a notional amount of \$50 million, and interest received is calculated at one month LIBOR. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

In October 1999, we entered into an additional interest rate swap agreement with the Bank to further hedge our exposure to variable interest rates associated with our line of credit. Interest paid will be calculated at a fixed interest rate of 6.5% through May 31, 2001 on a notional amount of \$50 million and interest received will be calculated at one month LIBOR. This agreement has no effect on our September 1998 interest rate swap agreement.

In January 2000, we entered into a third interest rate swap agreement with the Bank to further hedge our exposure to variable interest rates associated with our line of credit. Interest paid is calculated at a fixed interest rate of 6.5% from February 1, 2000 to March 31, 2000, 6.75% from April 1, 2000 to July 31, 2000, 7.00% from August 1, 2000 to December 29, 2000 and 7.25% from December 30, 2000 to December 31, 2001 on a notional amount of \$50 million and interest received is calculated at one month LIBOR. This agreement has no effect on our September 1998 and October 1999 interest rate swap agreements.

With respect to our swap agreements, we are exposed to losses in the event the Bank is unable to perform under the agreements, or in the event one month LIBOR is less than the agreed-upon fixed interest rates. The fair value of the swap agreements outstanding as of December 31, 1999 and changes in their fair value as a result of changes in market interest rates are not recognized in the financial statements.

Other Resources and Liquidity Requirements

In February 1999, we completed a public offering of 1,150,000 shares of common stock (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of \$28.125 per share, resulting in aggregate proceeds of approximately \$29.8 million, net of underwriting discounts and commissions and other offering costs.

In June 1999, we completed a public offering of 1,543,500 shares of our Series A preferred stock (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of \$25.00 per share, resulting in aggregate proceeds of approximately \$36.9 million, net of underwriters' discounts and commissions and other offering costs. The dividends on our Series A preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of \$2.375 per share. Our Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to June 11, 2004, except in order to preserve our status as a real estate investment trust ("REIT"). On or after June 11, 2004, we may, at our option, redeem our Series A preferred stock, in whole or in part, at any time for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends.

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 make distributions necessary to enable us to continue qualifying as a REIT. We also believe that net cash provided by operations will be sufficient to fund our recurring non-revenue enhancing capital expenditures, tenant improvements and leasing commissions.

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

Exposure to Environmental Liabilities

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

Capital Expenditures, Tenant Improvements and Leasing Costs

The following table shows total and weighted average per square foot capital expenditures, tenant improvements and leasing costs (excluding capital expenditures and tenant improvements that are recoverable from tenants or are revenue-enhancing) for the years ended December 31, 1999, 1998, 1997, 1996 and 1995, attributable to leases that commenced at our properties after our acquisition.

| | Total/ Weighted Average | 1999 | 1998 | 1997 | 1996 | 1995 |
|-----------------------------------------------|-------------------------------|--------------|------------|------------|--------------|------------|
| CAPITAL EXPENDITURES: | | | | | | |
| Weighted average square feet in portfolio | 8,936,049 | 3,823,290 | 2,891,863 | 1,342,216 | 563,901 | 314,779 |
| Property related capital expenditures | \$ 1,564,000 | \$ 478,000 | \$ 341,000 | \$ 547,000 | \$ 181,000 | \$ 17,000 |
| Per weighted average square foot in portfolio | \$ 0.18 | \$ 0.13 | \$ 0.12 | \$ 0.41 | \$ 0.32 | \$ 0.05 |
| TENANT IMPROVEMENTS AND LEASING COSTS: | | | | | | |
| Retenanted space: | | | | | | |
| Retenanted square feet | 579,867 | 220,397 | 88,181 | 40,953 | 180,398 | 49,938 |
| Tenant improvements and leasing costs | \$ 3,892,000 | \$ 1,454,000 | \$ 478,000 | \$ 164,000 | \$ 1,220,000 | \$ 576,000 |
| Per square foot leased | \$ 6.71 | \$ 6.60 | \$ 5.42 | \$ 4.00 | \$ 6.76 | \$ 11.53 |
| Renewal space: | | | | | | |
| Renewal square feet | 213,084 | 93,667 | 77,038 | 1,232 | 25,063 | 16,084 |
| Tenant improvements and leasing costs | \$ 266,000 | \$ 149,000 | \$ 69,000 | \$ - | \$ - | \$ 48,000 |
| Per square foot leased | \$ 1.25 | \$ 1.59 | \$ 0.90 | \$ - | \$ - | \$ 2.98 |

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. We maintain an active preventative maintenance program at each of our properties to minimize capital expenditures required.

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

INFLATION

As of December 31, 1999, approximately 79% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses (including increases thereto). In addition, approximately 16% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 85% of our leases (on a square footage basis) contain effective annual rent escalations that are either fixed (ranging from 2.5% to 4.0%) 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 of inflation. An increase in inflation, however, could result in an increase in our variable rate borrowing cost, including borrowings under the unsecured line of credit.

IMPACT OF THE YEAR 2000

The year 2000 issue was the result of computer programs being written using two digits rather than four digits to define the applicable year. Any of our computer programs having time-sensitive software could have recognized a date using "00" as the year 1900 rather than the year 2000. This could have resulted in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send tenant invoices, provide building services or engage in similar normal business activities.

In October 1998, we formed an internal task force to identify, assess and evaluate our critical systems to determine which year 2000 related problems might cause system errors or failures. We identified three major areas as critical systems: (i) internal accounting systems, (ii) systems of significant tenants, vendors and financial institutions; and (iii) internal building systems at our properties. We engaged consulting professionals from a nationally recognized accounting firm to review our plans and assist us with our solutions.

Our year 2000 project was designed to ensure that all critical systems were evaluated and suitable for continued use into and beyond the year 2000. We completed our identification and initial evaluation of our critical systems in the first quarter of 1999, and implemented all of the necessary remedial actions.

We completed our review and testing of our internal accounting systems. All of these systems are year 2000 compliant.

We place a high degree of reliance on computer systems of third parties, such as tenants, vendors and financial institutions. Although we were assessing the readiness of these third parties, we could not guarantee that they would be year 2000 compliant in a timely manner. We surveyed significant third-party vendors and financial institutions, and all surveyed indicated that they had implemented year 2000 programs. In addition, we surveyed our significant tenants for their year 2000 readiness. We participated in surveys with new tenants, vendors and other third-party suppliers. If risk assessments of third-party suppliers or tenants indicated significant exposure to the year 2000 problem, the supplier or tenant was asked to demonstrate how the problems would be addressed.

The task force completed its evaluation of internal systems in our properties that may have had embedded microprocessors with potential year 2000 problems, mainly building systems, including heating, ventilation and air conditioning systems, elevators and security systems. Based on the results of our review, certain of our properties had critical systems that required upgrades for year 2000 readiness. Upgrades were completed at all of these properties in the second and third quarters of 1999. In some instances, we used the services of outside experts to test and review our findings and to confirm that our building systems are year 2000 compliant.

Our year 2000 project costs, including the costs of remedial activities and outside experts, were not material. The aggregate cost of purchasing conversion packages for the accounting systems and the cost to survey tenants, vendors and financial institutions were also not material. In addition, substantially all costs incurred to review the building systems and to replace or upgrade them constituted property maintenance costs, and were therefore generally recoverable from the tenants pursuant to the terms of their existing leases.

FUNDS FROM OPERATIONS

We believe that funds from operations ("FFO") is helpful to investors as a measure of the performance of an equity REIT, because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of our ability to incur and service debt, to make capital expenditures and to make distributions. We compute FFO in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in its October 1999 White Paper (the "White Paper"), which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for our discretionary use because a portion of FFO is needed for capital replacement or expansion, debt service obligations, or other commitments and uncertainties. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our 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 "Cash Flows" for information regarding these measures of cash flow).

The following table presents our FFO for the years ended December 31, 1999, 1998 and 1997 (in thousands):

| | YEAR ENDED DECEMBER 31 | | |
|-------------------------------|------------------------|-----------|---------------------|
| | 1999 | 1998 | 1997 ⁽¹⁾ |
| Net income (loss) | \$ 22,053 | \$ 19,403 | \$ (2,797) |
| Less: | | | |
| Preferred dividends | (2,036) | - | - |
| Add: | | | |
| Depreciation and amortization | 18,532 | 10,296 | 4,866 |
| Funds from Operations | \$ 38,549 | \$ 29,699 | \$ 2,069 |

(1) FFO for 1997 has been restated to conform to the White Paper as amended in October 1999. FFO for 1997 has been impacted by non-recurring expenses associated with the Offering of \$12,197,000, and the write-off of unamortized loan costs of \$2,295,000.

PROPERTY AND LEASE INFORMATION

The following table is a summary of our property portfolio as of December 31, 1999 (dollars in thousands):

| | Number of Properties | Rentable Square Feet | Annualized Base Rent | Occupancy Percentage |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| REGION: | | | | |
| Suburban Washington D.C. | 17 | 1,537,338 | \$ 21,378 | 96.1% ⁽¹⁾ |
| California – San Diego | 10 | 569,467 | 13,336 | 90.0% |
| California – San Francisco Bay | 8 | 489,870 | 10,406 | 94.2% ⁽¹⁾ |
| Southeast | 4 | 254,230 | 3,750 | 100.0% |
| New Jersey/Suburban Philadelphia | 5 | 268,418 | 4,118 | 98.6% |
| Eastern Massachusetts | 6 | 384,589 | 10,199 | 99.4% |
| Washington – Seattle | 3 | 328,221 | 8,957 | 96.0% |
| Subtotal | 53 | 3,832,133 | 72,144 | 95.7% |
| Renovation/Repositioning Properties | 5 | 213,993 | 1,740 | 15.2% |
| Total | 58 | 4,046,126 | \$ 73,884 | 91.5% |

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

The following table shows certain information with respect to the lease expirations of our properties as of December 31, 1999:

| Year of Lease Expiration | Number of Expiring Leases | Square Footage of Expiring Leases | Percentage of Aggregate Portfolio Lease Square Foot | Annualized Base Rent of Expiring Leases (per square foot) |
|--------------------------|---------------------------|-----------------------------------|-----------------------------------------------------|-----------------------------------------------------------|
| 2000 | 56 | 626,203 | 16.9% | \$ 22.97 |
| 2001 | 26 | 379,513 | 10.3% | \$ 19.45 |
| 2002 | 22 | 389,887 | 10.5% | \$ 17.06 |
| 2003 | 17 | 356,898 | 9.6% | \$ 15.64 |
| 2004 | 18 | 390,152 | 10.5% | \$ 19.48 |
| Thereafter | 30 | 1,557,898 | 42.2% | \$ 20.72 |

The following table is a summary of our lease activity for the year ended December 31, 1999 computed on a GAAP Basis and on a Cash Basis:

| | Number of Leases | Square Footage | Expiring Rate | New Rate | Rental Rate Increase | TI's/Lease Commissions per foot | Average Lease Term |
|----------------------------------------|------------------|----------------|---------------|----------|----------------------|---------------------------------|--------------------|
| Lease Activity – Expired Leases | | | | | | | |
| Lease Expirations | | | | | | | |
| Cash Rent | 52 | 444,688 | \$ 15.67 | – | – | – | – |
| GAAP Rent | 52 | 444,688 | \$16.08 | – | – | – | – |
| Renewed/Released Space | | | | | | | |
| Cash Rent | 26 | 314,064 | \$ 14.45 | \$ 17.86 | 23.6% | \$ 5.10 | 5.7 Years |
| GAAP Rent | 26 | 314,064 | \$ 15.09 | \$ 19.10 | 26.6% | \$ 5.10 | 5.7 Years |
| Month-to-Month Leases | | | | | | | |
| Cash Rent | 13 | 53,763 | \$ 10.61 | \$ 10.61 | 0.0% | – | – |
| GAAP Rent | 13 | 53,763 | \$10.46 | \$ 10.61 | 1.4% | – | – |
| Total Leasing | | | | | | | |
| Cash Rent | 39 | 367,827 | \$ 13.89 | \$ 16.80 | 21.0% | – | – |
| GAAP Rent | 39 | 367,827 | \$ 14.42 | \$ 17.86 | 23.9% | – | – |
| Vacant Space Leased | | | | | | | |
| Cash Rent | 15 | 103,087 | – | \$ 17.60 | – | \$ 5.85 | 3.8 Years |
| GAAP Rent | 15 | 103,087 | – | \$ 18.01 | – | \$ 5.85 | 3.8 Years |
| All Lease Activity | | | | | | | |
| Cash Rent | 54 | 470,914 | – | \$ 16.97 | – | – | – |
| GAAP Rent | 54 | 470,914 | – | \$ 17.89 | – | – | – |

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

In order to modify and manage the interest characteristics of our outstanding debt and limit the effects of interest rates 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 our exposure to changes in interest rates carries additional risks such as counter-party credit risk and legal enforceability of hedging contracts.

Our future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, due to the purchase of our interest rate swap agreements, the current effects of interest rate changes are reduced. Based on interest rates at, and our swap agreements in effect on, December 31, 1999, a 1% increase in interest rates on our line of credit would decrease annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$920,000. A 1% decrease in interest rates on our line of credit would increase annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$920,000. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their fair value by approximately \$7.8 million. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their fair value by approximately \$8.9 million. A 1% increase or decrease in interest rates on our secured note receivable would not have a material impact on its fair value.

These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on December 31, 1999. 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.

If we were to include the impact of our new interest rate swap agreement effective February 2000 under the same conditions set above, a 1% increase in interest rates on our line of credit would decrease annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$420,000. A 1% decrease in interest rates on our line of credit would increase annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$420,000. A 1% increase in interest rates on our secured debt and our interest rate swap agreements would decrease their fair value by approximately \$7.4 million. A 1% decrease in interest rates on our secured debt and our interest rate swap agreements would increase their fair value by approximately \$8.4 million.

Consolidated Balance Sheets

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

| | December 31 | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| | 1999 | 1998 |
| <i>(Dollars in thousands, except per share amounts)</i> | | |
| Assets | | |
| Rental properties, net | \$ 554,706 | \$ 471,907 |
| Property under development | 44,121 | 21,839 |
| Cash and cash equivalents | 3,446 | 1,554 |
| Tenant security deposits and other restricted cash | 4,681 | 7,491 |
| Secured note receivable | 6,000 | 6,000 |
| Tenant receivables | 3,432 | 2,884 |
| Deferred rent | 9,014 | 5,595 |
| Other assets | 17,718 | 13,026 |
| Total assets | \$ 643,118 | \$ 530,296 |
| Liabilities and stockholders' equity | | |
| Secured notes payable (includes unamortized premium of \$2,787 and \$2,262 at December 31, 1999 and 1998, respectively) | \$ 158,512 | \$ 115,829 |
| Unsecured line of credit | 192,000 | 194,000 |
| Accounts payable, accrued expenses and tenant security deposits | 23,349 | 15,663 |
| Dividends payable | 6,674 | 5,035 |
| | 380,535 | 330,527 |
| Commitments and contingencies | - | - |
| Stockholders' equity: | | |
| 9.50% Series A cumulative redeemable preferred stock, \$0.01 par value per share, 1,610,000 shares authorized; 1,543,500 issued and outstanding at December 31, 1999, \$25.00 liquidation value | 38,588 | - |
| Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 13,745,622 and 12,586,263 shares issued and outstanding at December 31, 1999 and 1998, respectively | 137 | 126 |
| Additional paid-in capital | 225,180 | 199,643 |
| Deferred compensation | (1,494) | - |
| Retained earnings | - | - |
| Accumulated other comprehensive income | 172 | - |
| Total stockholders' equity | 262,583 | 199,769 |
| Total liabilities and stockholders' equity | \$ 643,118 | \$ 530,296 |

See accompanying notes.

Consolidated Statements of Operations

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share amounts)

| | Year Ended December 31 | | |
|---------------------------------------------------------------------------|------------------------|-------------------|-------------------|
| | 1999 | 1998 | 1997 |
| Revenues | | | |
| Rental | \$ 68,425 | \$ 48,469 | \$ 25,622 |
| Tenant recoveries | 16,305 | 11,313 | 8,388 |
| Interest and other income | 1,532 | 1,234 | 836 |
| | <u>86,262</u> | <u>61,016</u> | <u>34,846</u> |
| Expenses | | | |
| Rental operations | 19,003 | 13,390 | 8,766 |
| General and administrative | 6,977 | 3,894 | 2,476 |
| Interest | 19,697 | 14,033 | 7,043 |
| Non-recurring expenses associated with initial public offering | - | - | 12,197 |
| Write-off of unamortized loan costs | - | - | 2,295 |
| Depreciation and amortization | 18,532 | 10,296 | 4,866 |
| | <u>64,209</u> | <u>41,613</u> | <u>37,643</u> |
| Net income (loss) | \$ 22,053 | \$ 19,403 | \$ (2,797) |
| Preferred dividends | \$ 2,036 | \$ - | \$ 3,038 |
| | <u>\$ 20,017</u> | <u>\$ 19,403</u> | <u>\$ (5,835)</u> |
| Net income (loss) per share of common stock (pro forma for 1997): | | | |
| - Basic | \$ 1.48 | \$ 1.60 | \$ (0.35) |
| - Diluted | \$ 1.46 | \$ 1.58 | \$ (0.35) |
| Weighted average shares of common stock outstanding (pro forma for 1997): | | | |
| - Basic | 13,525,840 | 12,098,959 | 8,075,864 |
| - Diluted | <u>13,670,568</u> | <u>12,306,470</u> | <u>8,075,864</u> |

See accompanying notes.

Consolidated Statements of Cash Flows

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

Year Ended December 31

(Dollars in thousands)

Operating activities

| | 1999 | 1998 | 1997 |
|------------------------------------------------------------------------------------------|-----------|-----------|------------|
| Net income (loss) | \$ 22,053 | \$ 19,403 | \$ (2,797) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 18,532 | 10,296 | 4,866 |
| Amortization of loan cost and fees | 748 | 451 | 251 |
| Amortization of premiums on secured notes | (310) | (32) | - |
| Stock compensation expense | 1,658 | - | 4,161 |
| Changes in operating assets and liabilities: | | | |
| Tenant security deposits and other restricted cash | 2,810 | (692) | (1,214) |
| Tenant receivables | (548) | (1,752) | (703) |
| Deferred rent | (3,419) | (3,097) | (1,595) |
| Other assets | (6,915) | (7,971) | (1,594) |
| Accounts payable, accrued expenses and tenant security deposits | 7,686 | 9,505 | 2,508 |
| Net cash provided by operating activities | 42,295 | 26,111 | 3,883 |
| Investing activities | | | |
| Purchase of rental properties | (63,896) | (200,590) | (81,160) |
| Additions to rental properties | (16,807) | (21,218) | (3,566) |
| Additions to property under development | (29,130) | (18,945) | (2,894) |
| Issuance of note receivable | - | (6,000) | - |
| Net cash used in investing activities | (109,833) | (246,753) | (87,620) |
| Financing activities | | | |
| Proceeds from secured notes payable | 34,163 | 36,500 | 15,360 |
| Net proceeds from issuances of common stock | 29,829 | 32,713 | 138,919 |
| Net proceeds from issuance of preferred stock | 36,876 | - | - |
| Exercise of stock options | 874 | 386 | - |
| Net (principal reductions) borrowings from unsecured line of credit | (2,000) | 171,000 | 23,000 |
| Decrease in due to Health Science Properties Holding Corporation | - | - | (2,525) |
| Principal reductions on secured notes payable | (3,303) | (1,286) | (80,725) |
| Dividends paid on common stock | (22,278) | (19,177) | (8,800) |
| Dividends paid on preferred stock | (1,272) | - | (1,127) |
| Redemption of Series T preferred stock | - | - | (1) |
| Repurchase of common stock | (3,459) | - | - |
| Net cash provided by financing activities | 69,430 | 220,136 | 84,101 |
| Net increase (decrease) in cash and cash equivalents | 1,892 | (506) | 364 |
| Cash and cash equivalents at beginning of year | 1,554 | 2,060 | 1,696 |
| Cash and cash equivalents at end of year | \$ 3,446 | \$ 1,554 | \$ 2,060 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid during the year for interest and financing costs, net of interest capitalized | \$ 23,512 | \$ 12,778 | \$ 13,552 |

See accompanying notes.

Consolidated Statements of Stockholders' Equity

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

| <i>(Dollars in thousands)</i> | Series T Preferred Stock | Series U Preferred Stock | Series A Preferred Stock |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Balance at January 1, 1997 (restated) | \$ 1 | \$ 110 | \$ - |
| Accretion on Series V preferred stock | - | - | - |
| Cash dividends on Series T, U and V preferred stock | - | - | - |
| Exercise of compensatory stock options and issuance of stock grants (including compensation expense of \$4,161) | - | - | - |
| Issuance of common stock in connection with initial public offering, net of offering costs | - | - | - |
| Conversion of Series V and Series U preferred stock | - | (110) | - |
| Redemption of Series T preferred stock | (1) | - | - |
| Dividends declared on common stock | - | - | - |
| Net loss | - | - | - |
| Balance at December 31, 1997 | - | - | - |
| Issuance of common stock, net of offering costs | - | - | - |
| Exercise of stock options, net | - | - | - |
| Dividends declared on common stock | - | - | - |
| Net income | - | - | - |
| Balance at December 31, 1998 | - | - | - |
| Net income | - | - | - |
| Unrealized gain on marketable securities | - | - | - |
| Comprehensive income | - | - | - |
| Issuance of common stock, net of offering costs | - | - | - |
| Repurchase of common stock | - | - | - |
| Issuance of preferred stock, net of offering costs | - | - | 38,588 |
| Stock compensation expense | - | - | - |
| Amortization of stock compensation expense | - | - | - |
| Exercise of stock options | - | - | - |
| Dividends declared on preferred stock | - | - | - |
| Dividends declared on common stock | - | - | - |
| Balance at December 31, 1999 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,588</u> |

See accompanying notes.

| Number of Common Shares | Common Stock | Additional Paid-in Capital | Deferred Compensation | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|-------------------------------|-----------------|----------------------------------|--------------------------|----------------------|-------------------------------------------------|------------|
| 1,765,923 | \$ 18 | \$ 16,177 | \$ - | \$ (1,775) | \$ - | \$ 14,531 |
| - | - | (1,911) | - | - | - | (1,911) |
| - | - | - | - | (1,127) | - | (1,127) |
| 209,615 | 2 | 4,190 | - | - | - | 4,192 |
| 7,762,500 | 78 | 138,812 | - | - | - | 138,890 |
| 1,666,593 | 16 | 27,045 | - | - | - | 26,951 |
| - | - | - | - | - | - | (1) |
| - | - | (10,578) | - | (1,233) | - | (11,811) |
| - | - | - | - | (2,797) | - | (2,797) |
| 11,404,631 | 114 | 173,735 | - | (6,932) | - | 166,917 |
| 1,150,000 | 12 | 32,701 | - | - | - | 32,713 |
| 31,632 | - | 386 | - | - | - | 386 |
| - | - | (7,179) | - | (12,471) | - | (19,650) |
| - | - | - | - | 19,403 | - | 19,403 |
| 12,586,263 | 126 | 199,643 | - | - | - | 199,769 |
| - | - | - | - | 22,053 | - | 22,053 |
| - | - | - | - | - | 172 | 172 |
| - | - | - | - | - | - | 22,225 |
| 1,150,000 | 11 | 29,818 | - | - | - | 29,829 |
| (145,343) | (1) | (3,458) | - | - | - | (3,459) |
| - | - | (1,712) | - | - | - | 36,876 |
| 105,800 | 1 | 3,151 | (3,152) | - | - | - |
| - | - | - | 1,658 | - | - | 1,658 |
| 48,902 | - | 874 | - | - | - | 874 |
| - | - | - | - | (2,036) | - | (2,036) |
| - | - | (3,136) | - | (20,017) | - | (23,153) |
| 13,745,622 | \$ 137 | \$ 225,180 | \$ (1,494) | \$ - | \$ 172 | \$ 262,583 |

Notes to Consolidated Financial Statements

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

NOTE

1.0

BACKGROUND

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We completed our initial public offering (the "Offering") on June 2, 1997. We are engaged primarily in the ownership, operation, management, acquisition, conversion, retrofit, expansion, and selective development and redevelopment of properties containing a combination of office and laboratory space. We refer to these properties as "Life Science Facilities". Our Life Science Facilities are designed and improved for lease primarily to pharmaceutical, biotechnology, diagnostic, device, contract research and personal care products companies, major scientific research institutions, related government agencies and technology enterprises. As of December 31, 1999, our portfolio consisted of 58 properties in nine states with approximately 4,046,000 rentable square feet, compared to 51 properties in nine states with approximately 3,588,000 rentable square feet as of December 31, 1998.

NOTE

2.0

BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Alexandria and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

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

Cash Equivalents

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

Marketable Securities

All marketable securities are classified as available-for-sale securities under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and are included in other assets in our balance sheets. Available-for-sale securities are carried at fair value as determined by the most recently traded price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity.

Reclassifications

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

Rental Properties and Property Under Development

Rental properties and property under development are stated at the lower of cost or estimated fair value. Write-downs to estimated fair value would be recognized when impairment indicators are present and a property's estimated undiscounted future cash flows, before interest charges, are less than its book value. In that situation, we would recognize an impairment loss to the extent the carrying amount exceeds the fair value of the property. Based on our assessment, no write-downs to estimated fair value were necessary for the periods presented.

The cost of maintenance and repairs is expensed as incurred. Major replacements and betterments are capitalized and depreciated over their estimated useful lives.

Depreciation is provided using the straight-line method using estimated lives of 30 to 40 years for buildings and building improvements, 20 years for land improvements, and the term of the respective lease for tenant improvements.

Restricted Cash

Restricted cash consists of the following (in thousands):

| | DECEMBER 31 | |
|---------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| | 1999 | 1998 |
| Reserve for tenant improvements established pursuant to leases at two of our properties | \$ - | \$ 3,220 |
| Funds held in trust as additional security required under the terms of certain secured notes payable | 2,982 | 3,360 |
| Security deposit funds based on the terms of certain lease agreements | 1,699 | 911 |
| | <u>\$ 4,681</u> | <u>\$ 7,491</u> |

Loan Fees and Costs

Fees and costs incurred in obtaining long-term financing are amortized over the terms of the related loans and included in interest expense. Loan fees and costs, net of related amortization, totaled \$3,018,000 and \$3,424,000 as of December 31, 1999 and 1998, respectively, and are included in other assets in our balance sheets.

Rental Income

Rental income from leases with scheduled rent increases, free rent and other rent adjustments are recognized on a straight-line basis over the respective lease term. We include amounts currently recognized as income, and expected to be received in later years, in deferred rent on our balance sheets. Amounts received currently, but recognized as income in future years, are included in accrued expenses as unearned rent on our balance sheets.

Interest and Other Income

Interest and other income were generated through the operation of our properties. Interest income was \$1,013,000, \$978,000 and \$588,000 in 1999, 1998 and 1997, respectively.

Leasing Costs

Leasing costs are amortized on a straight-line basis over the term of the related lease. Leasing costs, net of related amortization, totaled \$7,159,000 and \$4,856,000 as of December 31, 1999 and 1998, respectively, and are included in other assets in our balance sheets.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value. The carrying amount of our secured note receivable approximates fair value because the applicable interest rate approximates the market rate for this loan.

The fair value of our secured notes payable was estimated using discounted cash flows analyses based on borrowing rates we believe we could obtain with similar terms and maturities. As of December 31, 1999 and 1998, the fair value of our secured notes payable was approximately \$149,329,000 and \$118,310,000, respectively.

Net Income (Loss) Per Share

Historical per share data has not been presented for 1997 because it is not meaningful due to the material changes in our capital structure as a result of the Offering. Instead, we have presented net loss per share for 1997 on a pro forma basis, giving effect to the Offering and related transactions.

Pro forma shares of common stock outstanding for the year ended December 31, 1997 include all shares outstanding after giving effect to the 1,765,923 to 1 stock split, the issuance of stock grants, the issuance and exercise of substitute stock options and the conversion of the Series U and Series V preferred stock. In addition, shares issued to the public in connection with the Offering have been weighted for the period of time they were outstanding.

We have adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share." Basic and diluted net income per share are the same for 1997 because the stock options outstanding as of December 31, 1997 were antidilutive.

The following table shows the computation of net income (loss) per share of common stock outstanding, as well as the dividends declared per share of common stock:

| | YEAR ENDED DECEMBER 31 | | |
|--------------------------------------------------------------------------------------|------------------------|------------|------------|
| | 1999 | 1998 | 1997 |
| <i>(Dollars in thousands, except per share amounts)</i> | | | |
| Net income (loss) available to common stockholders | \$ 20,017 | \$ 19,403 | \$ (2,797) |
| Weighted average shares of common stock outstanding— basic (pro forma for 1997) | 13,525,840 | 12,098,959 | 8,075,864 |
| Add: dilutive effect of stock options | 144,728 | 207,511 | — |
| Weighted average shares of common stock outstanding— diluted (pro forma for 1997) | 13,670,568 | 12,306,470 | 8,075,864 |
| Net income (loss) per common share — basic (pro forma for 1997) | \$ 1.48 | \$ 1.60 | \$ (0.35) |
| Net income (loss) per common share — diluted (pro forma for 1997) | \$ 1.46 | \$ 1.58 | \$ (0.35) |
| Common dividends declared per share (pro forma for 1997) | \$ 1.69 | \$ 1.60 | \$ 1.60 |

Operating Segments

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," which is effective for years beginning after December 15, 1997. Statement 131 establishes standards for the way that public business enterprises report information about operating segments. Statement 131 also establishes standards for related disclosure about products and services, geographic areas, and major customers. Since we operate as a single segment, the implementation of Statement 131 did not have an impact on how we report our results of operations.

Income Taxes

As a REIT, we are not subject to federal income taxation as long as we meet a number of organizational and operational requirements and distribute all of our taxable income to our stockholders. Since we believe we have met these requirements and our distributions exceeded taxable income, no federal income tax provision has been reflected in the accompanying consolidated financial statements for the years ended December 31, 1999, 1998 and 1997. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate tax rates. For the years ended December 31, 1999 and 1998, we reported that none of our distributions with respect to common stock represented a return of capital for federal income tax purposes. For the year ended December 31, 1997, we reported that 37.6% of our distributions with respect to common stock represented a return of capital.

RENTAL PROPERTIES

Rental properties consist of the following (in thousands):

| | DECEMBER 31 | |
|-------------------------------|-------------|------------|
| | 1999 | 1998 |
| Land | \$ 81,446 | \$ 76,254 |
| Building and improvements | 475,507 | 393,728 |
| Tenant and other improvements | 33,249 | 20,536 |
| | 590,202 | 490,518 |
| Less accumulated depreciation | (35,496) | (18,611) |
| | \$ 554,706 | \$ 471,907 |

Fourteen of our rental properties are encumbered by deeds of trust and assignments of rents and leases associated with the properties (see Note 6). The net book value of these properties as of December 31, 1999 is \$239,659,000.

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

As of December 31, 1999, approximately 79% of our leases (on a square footage basis) require that the lessee pay substantially all taxes, maintenance, insurance and certain other operating expenses applicable to the leased properties.

We capitalize interest to properties under development or renovation during the period the asset is undergoing activities to prepare it for its intended use. Total interest capitalized for the years ended December 31, 1999, 1998 and 1997 was \$3,784,000, \$2,199,000 and \$96,000, respectively. Total interest incurred for the years ended December 31, 1999, 1998 and 1997 was \$23,792,000, \$16,264,000 and \$7,139,000, respectively.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 1999, are as follows (in thousands):

| | |
|------------|------------|
| 2000 | \$ 61,282 |
| 2001 | 55,140 |
| 2002 | 48,354 |
| 2003 | 43,179 |
| 2004 | 36,314 |
| Thereafter | 177,328 |
| | \$ 421,597 |

SECURED NOTE RECEIVABLE

In connection with the acquisition of a Life Science Facility in San Diego, California in March 1998, we made a \$6,000,000 loan to the sole tenant of the property, fully secured by a first deed of trust on certain improvements at the property. The loan bears interest at a rate of 11% per year, payable monthly, and matures in March 2002. The loan is cross-defaulted to the lease with the sole tenant. Under certain circumstances, we may obtain title to the improvements that secure the loan, and, in such event, we may also require the sole tenant at the property to lease such improvements back from us for an additional rental amount.

UNSECURED LINE OF CREDIT

Alexandria has an unsecured line of credit that provides for borrowings of up to \$250 million. Borrowings under the line of credit bear interest at a floating rate based on our election of either a LIBOR based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR based advance, we must elect to fix the rate for a period of one, two, three or six months.

The line of credit contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio, and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. Borrowings under the line of credit are limited to an amount based on a pool of unencumbered assets. Accordingly, as we acquire additional unencumbered properties, borrowings available under the line of credit will increase, but may not exceed \$250 million. As of December 31, 1999, borrowings under the line of credit were limited to approximately \$226,000,000, and carried a weighted average interest rate of 7.33%.

The line of credit expires May 31, 2000 and provides for annual extensions (provided there is no default) for two additional one-year periods upon notice by the company and consent of the participating banks.

On February 11, 2000, we amended our unsecured line of credit to provide for borrowings of up to \$325 million. Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. Financial covenants for our unsecured line of credit, as amended, are substantially similar to those under the original line. The line, as amended, expires February 2003 and provides for an extension (provided there is no default) of an additional one-year period, upon notice by the company and consent of the participating banks.

We enter into interest rate swap agreements to modify the interest characteristics of our outstanding debt. These agreements involve an exchange of fixed and floating interest payments without the exchange of the underlying principal amount (the "notional amount").

In September 1998, we entered into an interest rate swap agreement with FleetBoston Financial (the "Bank") to hedge our exposure to variable interest rates associated with our line of credit. Interest paid is calculated at a fixed interest rate of 5.43% through May 31, 2000 on a notional amount of \$50 million and interest received is calculated at one month LIBOR. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

In October 1999, we entered into an additional interest rate swap agreement with the Bank to further hedge our exposure to variable interest rates associated with our line of credit. Interest paid is calculated at a fixed interest rate of 6.5% through May 31, 2001 on a notional amount of \$50 million and interest received is calculated at one month LIBOR. This agreement has no effect on our September 1998 interest rate swap agreement.

In January 2000, we entered into a third interest rate swap agreement with the Bank to further hedge our exposure to variable interest rates associated with our line of credit. Interest paid is calculated at a fixed interest rate of 6.5% from February 1, 2000 to March 31, 2000, 6.75% from April 1, 2000 to July 31, 2000, 7.00% from August 1, 2000 to December 29, 2000 and 7.25% from December 30, 2000 to December 31, 2001 on a notional amount of \$50 million and interest received is calculated at one month LIBOR. This agreement has no effect on our September 1998 and October 1999 interest rate swap agreements.

With respect to our swap agreements, we are exposed to losses in the event the Bank is unable to perform under the agreements, or in the event one month LIBOR is less than the agreed-upon fixed interest rates. The fair value of the swap agreements outstanding as of December 31, 1999 and changes in their fair value as a result of changes in market interest rates are not recognized in the financial statements. The fair value of our swap agreements outstanding as of December 31, 1999 was approximately \$160,000.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in fiscal years beginning after June 15, 2000. When adopted, Statement 133 will require us to recognize all derivatives on the balance sheet at fair value. Based on the definitions provided in Statement 133, our interest rate swap agreements will be classified as cash flow hedges, with changes in their fair value recorded as an adjustment to comprehensive income, a separate component of shareholders' equity. We believe the implementation of Statement 133 will not have a significant impact on how we report our results of operations.

SECURED NOTES PAYABLE

Secured notes payable consists of the following (in thousands):

| | DECEMBER 31 | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| | 1999 | 1998 |
| 8.75% note, due January 2006, with an effective interest rate of 7.25% (includes unamortized premium of \$725), secured by One Innovation Drive, Worcester, MA | \$ 11,720 | \$ - |
| 8.68% note, due December 2006, secured by 100/800/801 Capitola Drive, Durham, NC | 12,435 | 12,547 |
| 9.125% note, due October 2007, with an effective interest rate of 7.25% (includes unamortized premium of \$2,062 and \$2,262 at December 31, 1999 and 1998, respectively), secured by 620 Memorial Drive, Cambridge, MA | 19,842 | 20,149 |
| 7.22% note, due May 2008, secured by 14225 Newbrook Avenue, Chantilly, VA and 3000/3018 Western Avenue, Seattle, WA | 35,995 | 36,326 |
| 8.71% note, due December 2009, secured by 377 Plantation Street, Worcester, MA and 6166 Nancy Ridge, San Diego, CA | 18,900 | - |
| 7.165% note, due January 2014, secured by 1431 Harbor Bay Parkway, Alameda, CA | 7,146 | 8,500 |
| 9.00% note, due December 2014, secured by 3535/3565 General Atomics Court, San Diego, CA | 17,063 | 17,578 |
| 7.75% note, due May 2016, secured by 1102/1124 Columbia Street, Seattle, WA | 20,148 | 20,729 |
| 9.00% note, due October 2000, secured by 381 Plantation Street, Worcester, MA (development project) | 2,625 | - |
| Construction loan at LIBOR plus 1.75%, due October 2001, providing for borrowings of up to \$19,000,000, secured by 1201 Clopper Road, Gaithersburg, MD (development project) | 12,638 | - |
| | <u>\$ 158,512</u> | <u>\$ 115,829</u> |

NOTE

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P.42

All of our secured notes payable, except for the notes secured by 1431 Harbor Bay Parkway, 381 Plantation Street and 1201 Clopper Road, require monthly payments of principal and interest. The note secured by 1431 Harbor Bay Parkway requires monthly payments of interest and semi-annual payments of principal. The notes secured by 381 Plantation Street and 1201 Clopper Road require monthly payments of interest only.

Future principal payments due on secured notes payable as of December 31, 1999, are as follows (in thousands):

| | |
|---------------------|------------|
| 2000 | \$ 5,994 |
| 2001 | 16,292 |
| 2002 | 3,951 |
| 2003 | 4,272 |
| 2004 | 3,915 |
| Thereafter | 121,301 |
| Subtotal | 155,725 |
| Unamortized premium | 2,787 |
| | \$ 158,512 |

As of December 31, 1999, the weighted average interest rate of our short-term debt, including our unsecured line of credit, was 7.37%.

ISSUANCE OF COMMON STOCK

In February 1999, we completed a public offering of 1,150,000 shares of common stock (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of \$28.125 per share, resulting in aggregate proceeds of approximately \$29.8 million, net of underwriting discounts and commissions and other offering costs.

In March 1999, we completed a transaction with Health Science Properties Holding Corporation ("Holdings"), a significant stockholder. In connection with the transaction, Holdings delivered to us all of the 1,765,923 restricted shares of our common stock it owned in exchange for (i) the assumption by us of a \$3,136,000 obligation of Holdings and (ii) the issuance by us to Holdings of 1,620,580 new shares of our common stock. The new shares issued were not registered under the Securities Act of 1933, as amended; however, we have granted registration rights to the holders of new shares. In connection with the issuance of the new shares, stockholders of Holdings have agreed to certain limitations on transfer of any of the shares of our common stock received by them upon the redemption or liquidation of Holdings, which occurred in March 1999.

NOTE

7.0

NON-CASH TRANSACTIONS

As described in Note 7, in March 1999, we repurchased common stock in part in exchange for the assumption of a \$3,136,000 obligation. We repaid this obligation with funds borrowed under our line of credit.

In connection with the acquisition of One Innovation Drive in 1999 and 100/800/801 Capitola Drive and 620 Memorial Drive in 1998, we assumed secured notes payable. The following table summarizes these transactions (in thousands):

| | 1999 | 1998 |
|--------------------------------------------------------------------|-----------|-----------|
| Aggregate purchase price (including closing and transaction costs) | \$ 17,294 | \$ 58,581 |
| Cash paid for the properties | 5,997 | 25,751 |
| Secured notes payable assumed | \$ 11,297 | \$ 32,830 |

In 1999 and 1997, we incurred \$1,658,000 and \$4,161,000, respectively, in non-cash stock compensation expense. The stock compensation expense recorded in 1997 was associated with stock grants and stock options issued to our officers, directors and certain employees in connection with the Offering (see Note 11).

In connection with the Offering in 1997, all previously outstanding shares of Series U preferred stock and Series V preferred stock were converted into shares of common stock. The common stock issued was recorded at the book value of the Series U preferred stock and the Series V preferred stock (an aggregate of \$27,061,000).

PREFERRED STOCK AND EXCESS STOCK**Series A Cumulative Redeemable Preferred Stock**

In June 1999, we completed a public offering of 1,543,500 shares of our 9.50% Series A cumulative redeemable preferred stock (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of \$25.00 per share, resulting in aggregate proceeds of approximately \$36.9 million, net of underwriters' discounts and commissions and other offering costs. The dividends on our Series A preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of \$2.375 per share. Our Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to June 11, 2004, except in order to preserve our status as a REIT. Investors in our Series A preferred stock generally have no voting rights. On or after June 11, 2004, we may, at our option, redeem our Series A preferred stock, in whole or in part, at any time for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends.

Preferred Stock and Excess Stock Authorizations

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock, of which 1,543,500 shares were issued and outstanding as of December 31, 1999. In addition, 200,000,000 shares of "excess stock" (as defined) are authorized, none of which was issued and outstanding at December 31, 1999.

COMMITMENTS AND CONTINGENCIES**Post-Retirement Benefit**

In 1997, in connection with the Offering, an officer of Alexandria retired. In connection with the officer's retirement, we agreed to pay a post-retirement benefit equal to \$150,000 for each of the first three years following the Offering, and \$90,000 per year (plus an annual increase of 2% per year) thereafter for the remainder of the longer of the executive's life and the life of the executive's spouse as of the date of the agreement. In 1997, a post-retirement expense associated with this agreement was recorded for past services equal to \$632,000. As of December 31, 1999 and 1998, the accrued liability for post-retirement benefit was \$1,184,000 and \$1,110,000, respectively. For the years ended December 31, 1999 and 1998, we paid \$150,000 in each year under the retirement agreement, of which \$58,000 and \$77,000, respectively, represented interest.

Employee Retirement Savings Plan

Effective January 1, 1997, we adopted a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code ("Code") whereby our employees may contribute a portion of their compensation to their respective retirement accounts, in an amount not to exceed the maximum allowed under the Code. The plan provides that we contribute a certain percentage of our employees' salary, which amounted to \$185,000, \$89,000 and \$36,000, respectively, for the years ended December 31, 1999, 1998 and 1997. Employees who participate in the plan are immediately vested in their contributions and in the contributions of the company.

Concentration of Credit Risk

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

We are dependent on rental income from relatively few tenants in the life science industry. The inability of any single tenant to make its lease payments could adversely affect our operations. As of December 31, 1999, we had 169 leases with a total of 160 tenants, and 27 of our 58 properties were each leased to a single tenant. At December 31, 1999, our three largest tenants accounted for approximately 14.8% of our aggregate annualized base rent.

We generally do not require collateral or other security from our tenants, other than security deposits. As of December 31, 1999, we have \$6.2 million in irrevocable letters of credit available from certain tenants as security deposits for 16 leases.

Commitments

As of December 31, 1999, we were committed under the terms of certain leases to complete the construction of buildings and certain related improvements at a remaining aggregate cost of \$33.2 million.

As of December 31, 1999, we were also committed to fund approximately \$20.9 million for the construction of tenant improvements under the terms of various leases and for certain investments in limited partnerships.

STOCK OPTION PLANS AND STOCK GRANTS

1997 Stock Plan

In connection with the Offering, we adopted a stock option and incentive plan (the "1997 Stock Plan") for the purpose of attracting and retaining the highest quality personnel, providing for additional incentives, and promoting the success of the company by providing employees the opportunity to acquire common stock pursuant to (i) options to purchase common stock; and (ii) share awards. As of December 31, 1999, a total of 352,829 shares were reserved for the granting of future options and share awards under the 1997 Stock Plan.

Options under our plan have been granted at prices that are equal to the market value of the stock on the date of grant and expire ten years after the date of grant. Employee options vest ratably in three annual installments from the date of grant. Non-employee director options are exercisable immediately upon the date of grant. The options outstanding under the 1997 Stock Plan expire at various dates through October 2009.

In addition, the 1997 Stock Plan permits us to issue share awards to our employees and non-employee directors. A share award is an award of common stock which (i) may be fully vested upon issuance or (ii) may be subject to the risk of forfeiture under Section 83 of the Internal Revenue Code. For employees, these shares generally vest over a one-year period and the sale of the shares is restricted prior to the date of vesting. For non-employee directors, these shares are fully vested upon issuance and the sale of the shares is not restricted. During 1999, we awarded 105,800 shares of common stock. These shares were recorded at fair value with a corresponding charge to stockholders' equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the vesting period.

We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for our employee and non-employee director stock options, stock grants and stock appreciation rights. Under APB 25, because the exercise price of the options we granted equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized. Although we have elected to follow APB 25, pro forma information regarding net income and net income (loss) per share is required by Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation." This information has been determined as if we had accounted for our stock options under the fair value method under Statement 123. The fair value of the options issued under the 1997 Stock Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999 and 1998:

| | 1999 | 1998 |
|------------------------------------------------|-----------|-----------|
| Risk-free interest rate | 6.48% | 4.66% |
| Dividend yield | 5.66% | 5.20% |
| Volatility factor of the expected market price | 24.6% | 24.5% |
| Weighted average expected life of the options | 5.8 years | 5.0 years |

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

| | For the Year Ended December 31 | |
|-------------------------------------------------------|--------------------------------|-----------|
| | 1999 | 1998 |
| Pro forma net income available to common stockholders | \$ 19,083 | \$ 18,299 |
| Pro forma net income per common share: | | |
| - Basic | \$ 1.41 | \$ 1.51 |
| - Diluted | \$ 1.40 | \$ 1.49 |

A summary of the stock option activity under our 1997 Stock Plan, and related information for the years ended December 31, 1999 and December 31, 1998 follows:

| | 1999 | | 1998 | |
|------------------------------------------------|---------------|---------------------------------|---------------|---------------------------------|
| | Stock Options | Weighted Average Exercise Price | Stock Options | Weighted Average Exercise Price |
| Outstanding-beginning of year | 821,500 | \$ 24.49 | 701,000 | \$ 20.80 |
| Granted | 70,500 | 29.56 | 290,500 | 31.00 |
| Exercised | (75,000) | 20.11 | (57,333) | 20.00 |
| Forfeited | (32,000) | 23.98 | (112,667) | 20.64 |
| Outstanding-end of year | 785,000 | \$ 25.37 | 821,500 | \$ 24.49 |
| Exercisable at end of year | 426,003 | \$ 24.36 | 252,834 | \$ 23.33 |
| Weighted-average fair value of options granted | | \$ 5.28 | | \$ 4.88 |

Exercise prices for options outstanding as of December 31, 1999 range from \$20.00 to \$32.94. The weighted average contractual life of options outstanding is 8 years.

Prior Stock Option Plan

Prior to the Offering, we had a ten-year incentive and nonqualified stock option plan for certain of our employees and non-employee directors.

Under this prior plan, holders of options to purchase common stock of Holdings granted under stock option plans of Holdings ("Holdings Stock Options") were eligible, under certain circumstances (including the Offering), to receive substitute stock options of Alexandria in substitution for previously granted Holdings Stock Options. As such, in connection with the Offering, our officers, directors and certain employees received substitute stock options to purchase 57,000 shares of our common stock under the prior plan. These substitute stock options were exercised in connection with the Offering at a nominal exercise price. No further stock options were issued under the prior plan. In connection with the issuance of the substitute stock options, we recognized \$1,187,000 of stock compensation expense in 1997.

Stock Grants

In connection with the Offering, we granted our officers, directors and certain employees an aggregate of 152,615 shares of common stock. As a result of the grants, we recorded stock compensation expense of \$3,052,000 in 1997.

PURCHASE OF ACQUISITION LLC

During January 1997, we assigned our right to purchase three Life Science Facilities to an entity (the "Acquisition LLC") owned by affiliates of PaineWebber Incorporated ("PaineWebber"), the lead managing underwriter of the Offering. In January 1997, the Acquisition LLC acquired the three Life Science Facilities for \$51,871,000 from unaffiliated sellers. In connection with the Offering, we acquired 100% of the membership interests in the Acquisition LLC from the PaineWebber affiliates.

The purchase price we paid for the membership interests (\$58,844,000) exceeded the cost incurred by the Acquisition LLC to acquire the properties (\$51,871,000). The excess of this purchase price over the cost of the Acquisition LLC to acquire the properties (\$6,973,000) is included in non-recurring expenses associated with the Offering in 1997.

RELATED PARTY TRANSACTIONS

During 1999, 1998 and 1997, we were reimbursed \$166,000, \$270,000 and \$21,000, respectively, for payroll, accounting and office space incurred on behalf of Holdings.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Following is a summary of consolidated financial information on a quarterly basis for 1999 and 1998:

(In thousands, except per share amounts)

| | Quarter | | | |
|---------------------------------------------|-----------|-----------|-----------|-----------|
| | First | Second | Third | Fourth |
| 1999 | | | | |
| Revenues | \$ 19,539 | \$ 21,094 | \$ 22,395 | \$ 23,234 |
| Net income available to common stockholders | \$ 5,298 | \$ 5,613 | \$ 4,933 | \$ 4,173 |
| Net income per common share: | | | | |
| – Basic | \$ 0.41 | \$ 0.41 | \$ 0.36 | \$ 0.30 |
| – Diluted | \$ 0.40 | \$ 0.41 | \$ 0.36 | \$ 0.30 |
| 1998 | | | | |
| Revenues | \$ 11,696 | \$ 15,160 | \$ 15,811 | \$ 18,349 |
| Net income | \$ 4,635 | \$ 4,724 | \$ 5,117 | \$ 4,927 |
| Net income per share: | | | | |
| – Basic | \$ 0.41 | \$ 0.40 | \$ 0.41 | \$ 0.39 |
| – Diluted | \$ 0.40 | \$ 0.39 | \$ 0.40 | \$ 0.39 |

NON-RECURRING EXPENSES ASSOCIATED WITH INITIAL PUBLIC OFFERING

In June 1997, we incurred the following non-recurring expenses associated with the Offering (in thousands):

| | |
|-----------------------------------------------|------------------|
| Stock compensation expense (see note 11) | \$ 4,239 |
| Post-retirement benefit (see note 10) | 632 |
| Special bonus | 353 |
| Acquisition LLC financing costs (see note 12) | 6,973 |
| | <u>\$ 12,197</u> |

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements made in this Annual Report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other facts that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Given these uncertainties, prospective and current investors are cautioned not to place undue reliance on such forward-looking statements. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained in this or any other document. Readers of this Annual Report should also read our other publicly filed documents for further discussion.

Report of Independent Auditors

ALEXANDRIA REAL ESTATE EQUITIES, INC.

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

We have audited the accompanying consolidated balance sheets of Alexandria Real Estate Equities, Inc. and subsidiaries (the "Company") as of December 31, 1999, and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alexandria Real Estate Equities, Inc. and subsidiaries at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Los Angeles, California
January 24, 2000, except for Note 5,
as to which the date is February 11, 2000

Directors and Officers

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

BOARD OF DIRECTORS

Jerry M. Sudarsky

Chairman of the Board of Directors,
Alexandria Real Estate Equities, Inc.

Joel S. Marcus

Chief Executive Officer,
Alexandria Real Estate Equities, Inc.

James H. Richardson

President,
Alexandria Real Estate Equities, Inc.

Joseph Elmaleh

Chemical Engineer and International
Financier

Richard B. Jennings

President,
Realty Capital International, Inc.

Viren Mehta

President, Mehta Partners

David M. Petrone

Chairman of the Board,
Housing Capital Corporation

Anthony M. Solomon

Chairman, The Blackstone Alternate Asset
Management Advisory Board

Dr. Alan G. Walton

General Partner, Oxford BioScience
Partners

OFFICERS

Jerry M. Sudarsky

Chairman of the Board

Joel S. Marcus

Chief Executive Officer

James H. Richardson

President

Peter J. Nelson

Chief Financial Officer,
Senior Vice President,
Administration and Treasurer

Laurie A. Allen

Senior Vice President,
Business Development and Legal Affairs
and Corporate Secretary

Vincent R. Ciruzzi

Vice President – Construction and
Development

Lynn Anne Shapiro

General Counsel

Thomas J. Andrews

Vice President – Regional Market Director,
Massachusetts

Lawrence J. Diamond

Vice President – Asset Services,
Mid-Atlantic Region

Peter M. Moglia

Vice President – Real Estate and Finance

Corporate Information

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

COMMON STOCK

Listed on The New York Stock Exchange
Symbol ARE

CORPORATE OFFICE

135 North Los Robles Avenue
Suite 250
Pasadena, CA 91101
(626) 578-0777

TRANSFER AGENT

American Stock Transfer
and Trust Company
40 Wall Street
New York, NY 10005
(212) 936-5100

LEGAL COUNSEL

Skadden, Arps, Slate, Meagher & Flom LLP
Los Angeles, California

COMMON STOCK DATA

The common stock of Alexandria Real Estate Equities, Inc. began trading on the New York Stock Exchange ("NYSE") on May 28, 1997 under the symbol "ARE." As of December 31, 1999, there were approximately 228 holders of record of the Company's 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 common stock reported on the NYSE and the distributions paid by the Company for the year ended December 31, 1999.

Period

| | High | Low | Per Share Distribution |
|--------------------------------------|---------|--------|---------------------------|
| January 1, 1999 to March 31, 1999 | 31 9/16 | 25 1/8 | \$ 0.40 |
| April 1, 1999 to June 30, 1999 | 33 | 24 7/8 | \$ 0.43 |
| July 1, 1999 to September 30, 1999 | 31 7/16 | 28 7/8 | \$ 0.43 |
| October 1, 1999 to December 31, 1999 | 32 | 27 3/4 | \$ 0.43 |

AUDITORS

Ernst & Young LLP
Los Angeles, California

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 11:00am,
April 28, 2000 at the Doubletree Hotel,
Pasadena, California

SEC FORM 10-K

A copy of the Company's annual report to the Securities and
Exchange Commission on Form 10-K is available without charge,
upon written request to:

Investor Relations
Alexandria Real Estate Equities, Inc.
135 North Los Robles Avenue
Suite 250
Pasadena, CA 91101



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