ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
August 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from ____________ to ____________

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	95-4502084
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

385 East Colorado Boulevard, Suite 299, Pasadena, California 91101
(Address of principal executive offices) (Zip code)

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

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

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

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

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

Large accelerated filer	Accelerated filer

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

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

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

As of July 14, 2017, 93,626,150 shares of common stock, par value $0.01 per share, were outstanding.

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GLOSSARY

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

ASU	Accounting Standards Update
ATM	At the Market
CIP	Construction in Progress
EPS	Earnings per Share
FASB	Financial Accounting Standards Board
FFO	Funds from Operations
GAAP	U.S. Generally Accepted Accounting Principles
HVAC	Heating, Ventilation, and Air Conditioning
JV	Joint Venture
LEED®	Leadership in Energy and Environmental Design
LIBOR	London Interbank Offered Rate
NAREIT	National Association of Real Estate Investment Trusts
NAV	Net Asset Value
NYSE	New York Stock Exchange
REIT	Real Estate Investment Trust
RSF	Rentable Square Feet/Foot
SEC	Securities and Exchange Commission
SF	Square Feet/Foot
SoMa	South of Market (submarket of the San Francisco market)
U.S.	United States
VIE	Variable Interest Entity

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	June 30, 2017	December 31, 2016
Assets		
Investments in real estate	$9,819,413	$9,077,972
Investments in unconsolidated real estate joint ventures	58,083	50,221
Cash and cash equivalents	124,877	125,032
Restricted cash	20,002	16,334
Tenant receivables	8,393	9,744
Deferred rent	383,062	335,974
Deferred leasing costs	201,908	195,937
Investments	424,920	342,477
Other assets	205,009	201,197
Total assets	$11,245,667	$10,354,888
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$1,127,348	$1,011,292
Unsecured senior notes payable	2,800,398	2,378,262
Unsecured senior line of credit	300,000	28,000
Unsecured senior bank term loans	547,639	746,471
Accounts payable, accrued expenses, and tenant security deposits	734,189	731,671
Dividends payable	81,602	76,914
Total liabilities	5,591,176	4,972,610
Commitments and contingencies		
Redeemable noncontrolling interests	11,410	11,307
Alexandria Real Estate Equities, Inc.’s stockholders’ equity:		
7.00% Series D cumulative convertible preferred stock	74,386	86,914
6.45% Series E cumulative redeemable preferred stock	—	130,000
Common stock	921	877
Additional paid-in capital	5,059,180	4,672,650
Accumulated other comprehensive income	22,677	5,355
Alexandria Real Estate Equities, Inc.’s stockholders’ equity	5,157,164	4,895,796
Noncontrolling interests	485,917	475,175
Total equity	5,643,081	5,370,971
Total liabilities, noncontrolling interests, and equity	$11,245,667	$10,354,888

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental	$211,942	$161,638	$419,135	$319,914
Tenant recoveries	60,470	54,107	121,816	106,704
Other income	647	10,331	2,985	15,547
Total revenues	273,059	226,076	543,936	442,165
Expenses:				
Rental operations	76,980	67,325	154,067	133,162
General and administrative	19,234	15,384	38,463	30,572
Interest	31,748	25,025	61,532	49,880
Depreciation and amortization	104,098	70,169	201,281	141,035
Impairment of real estate	203	156,143	203	185,123
Loss on early extinguishment of debt	—	—	670	—
Total expenses	232,263	334,046	456,216	539,772
Equity in earnings (losses) of unconsolidated real estate joint ventures	589	(146)	950	(543)
Gain on sales of real estate – rental properties	—	—	270	—
Gain on sales of real estate – land parcels	111	—	111	—
Net income (loss)	41,496	(108,116)	89,051	(98,150)
Net income attributable to noncontrolling interests	(7,275)	(3,500)	(13,119)	(7,530)
Net income (loss) attributable to Alexandria Real Estate Equities, Inc.'s stockholders	34,221	(111,616)	75,932	(105,680)
Dividends on preferred stock	(1,278)	(5,474)	(5,062)	(11,381)
Preferred stock redemption charge	—	(9,473)	(11,279)	(12,519)
Net income attributable to unvested restricted stock awards	(1,313)	(1,085)	(2,300)	(1,886)
Net income (loss) attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$31,630	$(127,648)	$57,291	$(131,466)
Net income (loss) per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders – basic and diluted	$0.35	$(1.72)	$0.64	$(1.79)
Dividends declared per share of common stock	$0.86	$0.80	$1.69	$1.60

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$41,496	$(108,116)	$89,051	$(98,150)
Other comprehensive income (loss)				
Unrealized (losses) gains on available-for-sale equity securities:				
Unrealized holding (losses) gains arising during the period	(4,025)	15,989	6,396	(31,434)
Reclassification adjustments for losses (gains) included in net income (loss)	2,349	(3,061)	2,482	(10,087)
Unrealized (losses) gains on available-for-sale equity securities, net	(1,676)	12,928	8,878	(41,521)
Unrealized gains (losses) on interest rate hedge agreements:				
Unrealized interest rate hedge (losses) gains arising during the period	(550)	(3,676)	667	(10,637)
Reclassification adjustment for amortization to interest expense included in net income (loss)	707	1,865	1,612	2,023
Unrealized gains (losses) on interest rate hedge agreements, net	157	(1,811)	2,279	(8,614)
Unrealized gains on foreign currency translation:				
Unrealized foreign currency translation gains (losses) arising during the period	2,744	(1,364)	3,756	2,164
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	7,028	2,421	7,028
Unrealized gains on foreign currency translation, net	2,744	5,664	6,177	9,192
Total other comprehensive income (loss)	1,225	16,781	17,334	(40,943)
Comprehensive income (loss)	42,721	(91,335)	106,385	(139,093)
Less: comprehensive income attributable to noncontrolling interests	(7,283)	(3,476)	(13,131)	(7,506)
Comprehensive income (loss) attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$35,438	$(94,811)	$93,254	$(146,599)

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

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

	Alexandria Real Estate Equities, Inc.’s Stockholders’ Equity									
	7.00% Series D Cumulative Convertible Preferred Stock	6.45% Series E Cumulative Redeemable Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance as of December 31, 2016	$86,914	$130,000	87,665,880	$877	$4,672,650	$—	$5,355	$475,175	$5,370,971	$11,307
Net income	—	—	—	—	—	75,932	—	12,588	88,520	531
Total other comprehensive income	—	—	—	—	—	—	17,322	12	17,334	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(10,363)	(10,363)	(428)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	8,505	8,505	—
Issuances of common stock	—	—	4,165,783	42	459,565	—	—	—	459,607	—
Issuances pursuant to stock plan	—	—	266,836	2	17,959	—	—	—	17,961	—
Repurchase of 7.00% Series D preferred stock	(12,528)	—	—	—	391	(5,797)	—	—	(17,934)	—
Redemption of 6.45% Series E preferred stock	—	(130,000)	—	—	5,132	(5,482)	—	—	(130,350)	—
Dividends declared on common stock	—	—	—	—	—	(156,108)	—	—	(156,108)	—
Dividends declared on preferred stock	—	—	—	—	—	(5,062)	—	—	(5,062)	—
Distributions in excess of earnings	—	—	—	—	(96,517)	96,517	—	—	—	—
	$74,386	$—	92,098,499	$921	$5,059,180	$—	$22,677	$485,917	$5,643,081	$11,410

Balance as of
June 30, 2017

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

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

	Six Months Ended June 30,	
	2017	2016
Operating Activities		
Net income (loss)	$89,051	$(98,150)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	201,281	141,035
Loss on early extinguishment of debt	670	—
Gain on sales of real estate – rental properties	(270)	—
Impairment of real estate	203	185,123
Gain on sales of real estate – land parcels	(111)	—
Equity in (earnings) losses of unconsolidated real estate joint ventures	(950)	543
Distributions of earnings from unconsolidated real estate joint ventures	249	181
Amortization of loan fees	5,738	5,712
Amortization of debt premiums	(1,221)	(112)
Amortization of acquired below-market leases	(10,363)	(1,940)
Deferred rent	(53,497)	(14,568)
Stock compensation expense	10,756	11,556
Investment gains	(5,781)	(20,606)
Investment losses	328	6,821
Investment impairments	4,491	—
Changes in operating assets and liabilities:		
Restricted cash	(2,138)	232
Tenant receivables	1,354	1,277
Deferred leasing costs	(26,811)	(13,858)
Other assets	(4,654)	(5,931)
Accounts payable, accrued expenses, and tenant security deposits	13,283	(25,207)
Net cash provided by operating activities	221,608	172,108
Investing Activities		
Proceeds from sales of real estate	3,528	16,905
Additions to real estate	(436,377)	(363,061)
Purchases of real estate	(480,543)	—
Deposits for investing activities	450	(75)
Investments in unconsolidated real estate joint ventures	(163)	(5,946)
Additions to investments	(81,192)	(52,366)
Sales of investments	12,577	21,543
Repayment of notes receivable	—	9,036
Net cash used in investing activities	$(981,720)	$(373,964)

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

	Six Months Ended June 30,	
	2017	2016
Financing Activities		
Borrowings from secured notes payable	$117,666	$148,722
Repayments of borrowings from secured notes payable	(1,677)	(233,168)
Proceeds from issuance of unsecured senior notes payable	424,384	348,604
Borrowings from unsecured senior line of credit	2,069,000	1,486,000
Repayments of borrowings from unsecured senior line of credit	(1,797,000)	(1,565,000)
Repayments of borrowings from unsecured senior bank term loans	(200,000)	—
Change in restricted cash related to financing activities	(1,530)	10,582
Payment of loan fees	(4,344)	(7,927)
Repurchase of 7.00% Series D cumulative convertible preferred stock	(17,934)	(59,310)
Redemption of 6.45% Series E cumulative redeemable preferred stock	(130,350)	—
Proceeds from the issuance of common stock	459,607	367,802
Dividends on common stock	(149,296)	(115,589)
Dividends on preferred stock	(7,015)	(12,086)
Financing costs paid for sale of noncontrolling interests	—	(8,093)
Contributions from and sale of noncontrolling interests	8,505	31,020
Distributions to and purchase of noncontrolling interests	(10,791)	(57,998)
Net cash provided by financing activities	759,225	333,559
Effect of foreign exchange rate changes on cash and cash equivalents	732	(801)
Net (decrease) increase in cash and cash equivalents	(155)	130,902
Cash and cash equivalents as of the beginning of period	125,032	125,098
Cash and cash equivalents as of the end of period	$124,877	$256,000
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest, net of interest capitalized	$53,810	$37,656
Non-Cash Investing Activities:		
Change in accrued construction	$(25,138)	$59,871
Contribution of real estate to an unconsolidated real estate joint venture	$6,998	$—
Non-Cash Financing Activities:		
Redemption of redeemable noncontrolling interests	$—	$(5,000)

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

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

1. Organization and basis of presentation

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

We have prepared the accompanying interim consolidated financial statements in accordance with GAAP and in conformity with the rules and regulations of the SEC. In our opinion, the interim consolidated financial statements presented herein reflect all adjustments, of a normal recurring nature, that are necessary to fairly present the interim consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our annual report on Form 10 K for the year ended December 31, 2016.

2. Summary of significant accounting policies

Consolidation

On an ongoing basis, as circumstances indicate the need for reconsideration, we evaluate each legal entity that is not wholly owned by us under the consolidation guidance, first under the variable interest model and then under the voting model. Our evaluation considers all of our variable interests, including equity ownership, as well as fees paid to us for our involvement in the management of each partially owned entity. The variable interest model applies to entities that meet both of the following criteria:

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

If an entity meets both criteria above, we then evaluate such entity under the variable interest model. If an entity does not meet these criteria, we then evaluate such entity under the voting model or apply other GAAP, such as the cost or equity method of accounting.

Variable interest model

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

1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support;
2) The entity is established with non-substantive voting rights (i.e., where the entity deprives the majority economic interest holder(s) of voting rights); or
3) The equity holders, as a group, lack the characteristics of a controlling financial interest. Equity holders meet this criterion if they lack any of the following:

-

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

- Substantive participating rights in day-to-day management of the entity's activities; or
- Substantive kick-out rights over the party responsible for significant decisions;
- The obligation to absorb the entity's expected losses; or
- The right to receive the entity's expected residual returns.

2. Summary of significant accounting policies (continued)

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

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

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

If an entity is determined to be a VIE, we evaluate whether we are the primary beneficiary. The primary beneficiary analysis is a qualitative analysis based on power and benefits. We consolidate a VIE if we have both power and benefits – that is, (i) we have the power to direct the activities of a VIE that most significantly influence the VIE's economic performance (power), and (ii) we have the obligation to absorb losses of the VIE that could potentially be significant to the VIE, or the right to receive benefits from the VIE that potentially could be significant to the VIE (benefits). We consolidate VIEs whenever we determine that we are the primary beneficiary. Refer to Note 3 – "Investments in Real Estate" and Note 4 – "Investments in Unconsolidated Real Estate Joint Ventures" to these unaudited consolidated financial statements for information on specific joint ventures that qualify as VIEs. If we have a variable interest in a VIE but we are not the primary beneficiary, we account for our investment using the equity method of accounting.

Voting model

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

Use of estimates

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

Investments in real estate and properties classified as held for sale

In January 2017, the FASB issued an ASU that clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer real estate transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. We early adopted this accounting standard effective October 1, 2016, and since then have evaluated all of our acquisitions under the new framework.

2. Summary of significant accounting policies (continued)

Evaluation of business combination or asset acquisition

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

- Substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets; or
- The integrated set of assets and activities is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., revenue generated before and after the transaction).

An acquired process is considered substantive if:

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

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

Recognition of real estate acquired

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

Acquisitions of real estate and in-substance real estate that do not meet the definition of a business are accounted for as asset acquisitions. The accounting model for asset acquisitions is similar to the accounting model for business combinations except that the acquisition consideration (including acquisition costs) is allocated to the individual assets acquired and liabilities assumed on a relative fair value basis. As a result, asset acquisitions do not result in the recognition of goodwill or a bargain purchase gain. Additionally, because the accounting model for asset acquisitions is a cost accumulation model, preexisting interests in the acquired assets, if any, are not remeasured to fair value but continue to be accounted for at their historical cost.

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

If there is a bargain fixed-rate renewal option for the period beyond the non-cancelable lease term of an in-place lease, we evaluate factors, such as the business conditions in the industry in which the lessee operates, the economic conditions in the area in which the property is located, and the ability of the lessee to sublease its space during the renewal term, in order to determine the likelihood that the lessee will renew. When we determine there is reasonable assurance that such bargain renewal option will be exercised, we consider the option in determining the intangible value of such lease and its related amortization period. The value of tangible assets acquired is based upon our estimation of value on an “as if vacant” basis. The value of acquired in-place leases includes the estimated costs during the hypothetical lease-up period and other costs that would have been incurred in the execution of similar leases under the market conditions at the acquisition date of the acquired in-place lease. We assess the fair value of tangible and intangible assets based on numerous factors, including estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including the historical operating results, known trends, and market/economic conditions, that may affect the property.

2. Summary of significant accounting policies (continued)

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

Capitalized project costs

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

Real estate sales

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

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

Impairment of long-lived assets

On a quarterly basis, we review current activities and changes in the business conditions of all of our properties prior to and subsequent to the end of each quarter to determine the existence of any triggering events requiring an

impairment analysis. If triggering events are identified, we review an estimate of the future undiscounted cash flows for the properties, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration.

2. Summary of significant accounting policies (continued)

Long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators or triggering events for long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are assessed by project and include significant fluctuations in estimated net operating income, occupancy changes, significant near-term lease expirations, current and historical operating and/or cash flow losses, construction costs, estimated completion dates, rental rates, and other market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, current and historical operating results, known trends, current market/economic conditions that may affect the property, and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recognized to reduce the carrying amount to its estimated fair value. If an impairment loss is not required to be recognized, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives.

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

International operations

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

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

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

Investments

We hold equity investments in certain publicly traded companies and investments in certain privately held entities and limited partnerships primarily involved in the life science and technology industries. All of our equity investments in

actively traded public companies are considered available-for-sale and are reflected in the accompanying consolidated balance sheets at fair value. Fair value has been determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of other comprehensive income. The classification of each investment is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of each investment sold is determined by the specific identification method, with realized gains or losses classified in other income in the accompanying consolidated statements of income. Investments in privately held entities are generally accounted for under the cost method when our interest in the entity is so minor that we have virtually no influence over the entity's operating and financial policies. Certain investments in privately held entities require accounting under the equity method unless our interest in the entity is deemed to be so minor that we have virtually no influence over the entity's operating and financial policies. Under the equity method of accounting, we recognize our investment initially at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. Additionally, we generally limit our ownership percentage in the voting stock of each individual entity to less than 10%.

2. Summary of significant accounting policies (continued)

We periodically assess our investments in available-for-sale equity securities and privately held companies accounted for under the cost method for other-than-temporary impairment. We monitor each of our investments throughout the year for new developments, including operating results, results of clinical trials, capital-raising events, and merger and acquisition activities. Individual investments are evaluated for impairment when changes in conditions may indicate an impairment exists. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, available financing, prospects for favorable or unfavorable clinical trial results, new product initiatives, and new collaborative agreements. If an unrealized loss related to an available-for-sale equity security is determined to be other-than-temporary, such unrealized loss is reclassified from other comprehensive income into current earnings. For a cost-method investment, if a decline in the fair value of an investment below its carrying value is determined to be other-than-temporary, such investment is written down to its estimated fair value with a charge to current earnings. If there are no identified events or changes in circumstances that might have an adverse effect on our cost method investments, we do not estimate the investment's fair value. Refer to Note 5 – "Investments" to these unaudited consolidated financial statements for further information.

Recognition of rental income and tenant recoveries

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

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

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

Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes, and other expenses recoverable from tenants. Tenant receivables are expected to be collected within one year. We may maintain an allowance for estimated losses that may result from the inability of our tenants to make payments required under the terms of the lease and for tenant recoveries due. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of uncollectible tenant receivables and deferred rent arising from the straight-lining of rent. As of June 30, 2017, and December 31, 2016, no allowance for uncollectible tenant receivables and deferred rent was deemed necessary.

Monitoring tenant credit quality

During the term of each lease, we monitor the credit quality of our tenants by (i) monitoring the credit rating of tenants that are rated by a nationally recognized credit rating agency, (ii) reviewing financial statements of the tenants that are publicly available or that are required to be delivered to us pursuant to the applicable lease, (iii) monitoring news reports regarding our tenants and their respective businesses, and (iv) monitoring the timeliness of lease payments. We have a research team consisting of employees who, among them, have doctorate, graduate, and undergraduate degrees in biology, chemistry, industrial biotechnology, and engineering, and experience in the life science and technology industries, as well as in finance. Our research team is responsible for assessing and monitoring the credit quality of our tenants and any material changes in their credit quality.

2. Summary of significant accounting policies (continued)

Income taxes

We are organized and operate as a REIT pursuant to the Internal Revenue Code (the "Code"). Under the Code, a REIT that distributes at least 90% of its REIT taxable income to its shareholders annually (excluding net capital gains) and meets certain other conditions is not subject to federal income tax on its distributed taxable income, but could be subject to certain federal, foreign, state, and local taxes. We distribute 100% of our taxable income annually; therefore, a provision for federal income taxes is not required. In addition to our REIT returns, we file federal, foreign, state, and local tax returns for our subsidiaries. We file with jurisdictions located in the U.S., Canada, India, China, and other international locations. Our tax returns are subject to routine examination in various jurisdictions for the 2011–2016 calendar years.

Recent accounting pronouncements

Definition of a business

On October 1, 2016, we adopted an ASU issued by the FASB in January 2017, which clarified the definition of a business. Refer to "Investments in Real Estate and Properties Classified as Held for Sale" above for a discussion of this new accounting pronouncement.

Employee share-based payments

On January 1, 2017, we adopted an ASU issued by the FASB in March 2016, which simplifies several aspects of employee share-based payment accounting, including the accounting for forfeitures. The ASU allows an entity to make an accounting policy election either to continue to estimate the total number of awards that are expected to vest (current method) or to account for forfeitures when they occur. This entity-wide accounting policy election only applies to service conditions; for performance conditions, the entity continues to assess the probability that such conditions will be achieved. If an entity elects to account for forfeitures when they occur, all nonforfeitable dividends paid on share-based payment awards are initially charged to retained earnings and reclassified to compensation cost only when forfeitures of the underlying awards occur. We elected to account for forfeitures when they occur and applied this ASU on a modified retrospective basis resulting in a cumulative-effect adjustment aggregating approximately $368 thousand, which was recorded as a decrease to retained earnings and an increase to additional paid-in capital upon adoption of the ASU on January 1, 2017.

Revenue recognition

In May 2014, the FASB issued an ASU on recognition of revenue arising from contracts with customers, and has subsequently issued other ASUs that further clarified the ASU issued in 2014. The core principle underlying these ASUs is that an entity will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in such exchange. The revenue recognition standard has implications to all revenue, excluding those that are under the specific scope of other accounting standards.

Our revenue consists primarily of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Rental	$211,942	$161,638	$419,135	$319,914

Tenant recoveries	$60,470	$54,107	$121,816	$106,704
Other income:				
Management fee income	$672	$81	$985	$334
Interest and other income	500	574	1,038	1,428
Investment income	(525)	9,676	962	13,785
Other income	$647	$10,331	$2,985	$15,547
Gain on sales of real estate – rental properties	$—	$—	$270	$—
Gain on sales of real estate – land parcels	$111	$—	$111	$—

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2. Summary of significant accounting policies (continued)

Depending on the nature of the revenue, each of the revenue types listed above falls into one of three categories:

- revenue under the scope of the new revenue recognition ASU, effective upon adoption on January 1, 2018,
- revenue associated with leases, effective upon adoption of the new lease ASU no later than January 1, 2019, and
- revenue within the scope of literature other than revenue recognition or lease accounting.

Revenue under the scope of the new revenue recognition ASU, effective upon adoption on January 1, 2018

Management fee income

Management fee income currently consists of property and construction management fees generally recognized as a percentage of rental revenues or construction costs. The recognition of revenue related to consideration exchanged for property and construction management services is expected to occur over time when the services are transferred to our tenants under the new ASU.

Gain/loss on sales of real estate – rental properties and land parcels

For real estate sales, the gain or loss recognition may be significantly different under the new ASU. Under current accounting standards, sales of real estate are not fully recognized until the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property, the seller's receivable is not subject to future subordination, the seller has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the property, and the sale has been consummated. As a result, under the current standards, the seller may be required to apply the deposit method to the transaction or account for the transaction as a financing, leasing, or profit-sharing arrangement.

The current standards focus on whether the seller retains substantial risks or rewards of ownership as a result of its continuing involvement with the sold property. Under the new ASU, there are no rules specifically addressing sales of real estate. Instead, the new ASU establishes a derecognition model based on the transfer of control. Under the new ASU, if the arrangement includes ongoing involvement by the seller with the property, the seller must evaluate each promised good or service under the contract to determine whether it represents a separate performance obligation, constitutes a guarantee, or prevents the transfer of control. If a good or service is considered a separate performance obligation, an allocated portion of the transaction price should be recognized as revenue as the entity transfers the related good or service to the buyer.

Additionally, under the current standards, a partial sale of real estate in which the seller retains a noncontrolling interest results in the recognition of a gain or loss in proportion to the interest sold. Under the new standard, partial sales of real estate in which the seller retains a noncontrolling interest will result in the recognition of a full gain or loss. If a partial sale results in the seller retaining a controlling interest, an entity would continue to reflect the asset at its current book value, record a noncontrolling interest for the book value of the partial interest sold, and recognize additional-paid-in-capital for the difference between the consideration received and the partial interest at book value.

Entities may elect full retrospective adoption, applying this standard to each period presented, as if it had been in effect since the inception of all contracts. Entities may also elect the modified retrospective approach. Under the modified retrospective method, entities may elect to apply the standard to either (i) all contracts since the date of initial application, or (ii) only to contracts that are not completed as of the date of initial application. If the modified retrospective method is elected, an entity will recognize the cumulative effect of initially applying the standard as an

adjustment to the opening balance of retained earnings at the date of initial application (January 1, 2018).

Revenue associated with leases, effective upon adoption of the new lease ASU no later than January 1, 2019

Rental revenue

See below for a description of the new ASU for lease accounting effective for our interim and annual reporting periods no later than January 1, 2019.

2. Summary of significant accounting policies (continued)

Tenant recoveries

Tenant recoveries, including executory cost payments (payments for maintenance activities, including common area maintenance, such as cleaning services), are considered lease components and recognized as revenue under current lease accounting standards. Tenant recoveries are recognized as revenue during the period in an amount equal to the related operating expenses incurred that are recoverable under the terms of the applicable lease. Under the new ASU on lease accounting, lease-related executory costs within tenant recoveries are considered non-lease components and subject to the new standard on revenue recognition. Accordingly, lease payments received from tenants will be allocated between lease and non-lease components based on a ratio determined at the inception of each lease. Executory costs within tenant recoveries will be recognized in an amount that reflects the consideration to which we expect to be entitled to in such exchange of goods and services to our tenants at the time that we have satisfied the obligation to provide such goods and services. The application of this new accounting depends on the timing and method of adoption, as described below.

Entities may elect to apply the new guidance related to non-lease components under the lease accounting ASU upon adoption of the revenue recognition ASU on January 1, 2018, or no later than January 1, 2019, upon adoption of the lease accounting ASU. We expect to adopt the revenue recognition guidance related to non-lease components within leases, including lease-related executory costs within tenant recoveries, on January 1, 2019, upon our adoption of the lease accounting ASU.

The lease accounting ASU requires the use of the modified retrospective transition method and does not allow for a full retrospective approach. Under the modified retrospective method, entities may elect to apply the standard to either (i) all leases that exist as the beginning of the earliest comparative period presented in the financial statements, with a cumulative adjustment to the opening balance of retained earnings or (ii) only to leases that are not completed as of the date of initial application, with a cumulative adjustment to the opening balance of retained earnings for the effect of applying the standard at the date of initial application. In addition, entities may elect a practical expedient package further described below under the “Leases” recent accounting pronouncement section that allows for revisions to lease accounting (including accounting for executory costs as non-lease components) to apply only to leases entered into or modified subsequent to the date of initial application.

Revenue within the scope of literature other than revenue recognition or lease accounting

This category includes interest and investment income, both of which fall outside the scope of the new revenue recognition and lease accounting standards. Investment income is subject to a recently issued accounting pronouncement related to the accounting for equity investments described below under the heading “Financial Instruments.”

Financial Instruments

In January 2016, the FASB issued an ASU that amended the accounting for equity investments (except those accounted for under the equity method of accounting or that result in consolidation) and the presentation and disclosure requirements for financial instruments.

The ASU requires the following accounting:

- Equity investments that have readily determinable fair values, which are currently classified as available-for-sale securities, are required to be measured at fair value, with the changes in fair value recognized in earnings.

Available-for-sale equity securities under current GAAP require the recognition of unrealized gains and losses in other comprehensive income. This will no longer be permitted.

- Equity investments without readily determinable fair values, which are currently classified as cost method investments, will be measured at cost less impairments, adjusted for observable price changes. An “observable price” is a price observed in an orderly transaction for an identical or similar investment of the same issuer. Changes in the carrying value from this measurement will also be reported in current earnings. Cost method investments are currently accounted for at cost less impairments.

The ASU requires the following disclosures:

- Equity investments that have readily determinable fair values require disclosure of the unrealized gains and losses recognized in earnings during the period that relate to equity securities still held at the reporting date.

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2. Summary of significant accounting policies (continued)

- Equity investments without readily determinable fair values require disclosure of: (i) the carrying amount, (ii) the amount of impairments and downward adjustments, if any, (iii) the amount of upward adjustments, if any, and (iv) qualitative information to facilitate an understanding of the quantitative disclosures.

The ASU requires the use of the modified retrospective transition method, under which cumulative unrealized gains and losses reflected in accumulated other comprehensive income will be reclassified to retained earnings upon adoption of this guidance. The amendments related to equity investments without readily determinable fair values will be applied prospectively to all investments that exist as of the date of adoption. The ASU is effective for fiscal years beginning after December 15, 2017.

As of June 30, 2017, our consolidated balance sheet contained $79.4 million of available-for-sale equity securities in publicly traded companies, including $28.2 million of net unrealized gains classified in accumulated other comprehensive income. Additionally, as of June 30, 2017, our cost method investments aggregated $345.6 million.

Joint venture distributions

In August 2016, the FASB issued an ASU that provides guidance on the classification in the statement of cash flows of cash distributions received from equity method investments, including unconsolidated joint ventures. The ASU provides two approaches to determine the classification of cash distributions received from equity method investees: (i) the “cumulative earnings” approach, under which distributions up to the amount of cumulative equity in earnings recognized will be classified as cash inflows from operating activities, and those in excess of that amount will be classified as cash inflows from investing activities, and (ii) the “nature of the distribution” approach, under which distributions will be classified based on the nature of the underlying activity that generated cash distributions. Companies will elect either the “cumulative earnings” or the “nature of the distribution” approach. Entities that elect the “nature of the distribution” approach but lack the information to apply it will apply the “cumulative earnings” approach as an accounting change on a retrospective basis. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively (exceptions apply). During the six months ended June 30, 2017, distributions received from our equity method investees aggregated approximately $249 thousand. We will continue to assess the potential effect the adoption of this ASU will have on our consolidated financial statements.

Restricted cash

In November 2016, the FASB issued an ASU that will require companies to include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The ASU will require disclosure of a reconciliation between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. Entities with material restricted cash and restricted cash equivalents balances will be required to disclose the nature of the restrictions. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively to all periods presented. As of June 30, 2017 and December 31, 2016, we had $20.0 million and $16.3 million of restricted cash, respectively, in our consolidated balance sheets. Upon adoption of this ASU, restricted cash balances will be included with cash and cash equivalents balances as of the beginning and ending of each period presented in our consolidated statements of cash flows; separate line items reconciling changes in restricted cash balances to the changes in cash and cash equivalents will no longer be presented within the operating, investing, and financing sections of our consolidated statements of cash flows.

Leases

In February 2016, the FASB issued an ASU that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The ASU requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today.

2. Summary of significant accounting policies (continued)

The ASU is expected to result in the recognition of a right-to-use asset and a related liability to account for our future obligations under our ground lease arrangements for which we are the lessee. As of June 30, 2017, the remaining contractual payments under our ground lease agreements for which we are the lessee aggregated $582.2 million. Under the new ASU, entities may elect several practical expedients, including an entity need not reassess the lease classification for any expired or existing leases. In other words, leases previously classified as operating or direct financing leases can continue to be classified as such. All of our existing ground leases are currently classified as operating leases, and therefore, we will have the option to continue to classify these leases as operating leases.

Additionally, the new ASU will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Under this ASU, allocated payroll costs and other costs such as legal costs incurred as part of the leasing process will no longer be capitalized as initial direct costs and instead will be expensed as incurred. During the six months ended June 30, 2017, we capitalized $12.8 million of such costs. Lessors will continue to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases, as well as the accounting treatment for external costs directly associated with the execution of a lease.

The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted, and requires the use of the modified retrospective transition method and does not allow for a full retrospective approach. Under the modified retrospective method, entities may elect to apply the standard to either (i) all leases that exist as the beginning of the earliest comparative period presented in the financial statements, with a cumulative adjustment to the opening balance of retained earnings or (ii) only to leases that are not completed as of the date of initial application, with a cumulative adjustment to the opening balance of retained earnings for the effect of applying the standard at the date of initial application. In addition, entities may elect a practical expedient package that allows for the lease accounting to apply only to leases entered into or modified subsequent to the date of initial application. An entity may elect the following group of practical expedients, which may not be elected individually:

- An entity need not reassess whether any expired or existing contracts are or contain leases
- An entity need not reassess the lease classification for any expired or existing leases, and
- An entity need not reassess initial direct costs for any existing leases.

These three practical expedients are available as a single election that must be elected as a package and must be consistently applied to all existing leases at the date of adoption. We will continue to assess the potential effect the adoption of this ASU will have on our consolidated financial statements.

Allowance for credit losses

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

3. Investments in real estate

Our consolidated investments in real estate consisted of the following as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
North America:		
Land (related to rental properties)	$1,130,560	$1,131,416
Buildings and building improvements	8,204,014	7,810,269
Other improvements	655,377	584,565
Rental properties	9,989,951	9,526,250
Development and redevelopment of new Class A properties:		
Undergoing construction	813,176	809,254
Near-term projects undergoing marketing and pre-construction	102,330	—
Intermediate developments projects	287,072	—
Future development projects	284,630	253,551
Gross investments in real estate – North America	11,477,159	10,589,055
Less: accumulated depreciation	(1,694,254)	(1,546,798)
Net investments in real estate – North America	9,782,905	9,042,257
Net investments in real estate – Asia(1)	36,508	35,715
Investments in real estate	$9,819,413	$9,077,972

(1) Refer to "Assets classified as held for sale in Asia" in Note 14 – "Assets Classified as Held for Sale" to these unaudited consolidated financial statements for further information.

Acquisitions

Our real estate asset acquisitions during the six months ended June 30, 2017, and subsequently, consisted of the following (dollars in thousands):

	Square Footage			
For the three months ended	Operating	Redevelopment	Future Development	Purchase Price
March 31, 2017	232,470	—	1,508,890	$218,500
June 30, 2017	272,634	175,000	1,030,000	244,009
Subsequent acquisitions	146,129	57,628	—	71,000
	651,233	232,628	2,538,890	$533,509

Cambridge/Greater Boston

303 Binney Street

In March 2017, we acquired land parcels at 303 Binney Street in our Cambridge submarket of Greater Boston for a purchase price of $80.3 million. The property is located adjacent to our Alexandria Center® at One Kendall Square campus and is currently entitled for the development of 163,339 RSF for office or office/laboratory use and 45,626 RSF for residential use. We may seek to increase the entitlements for office or office/laboratory use, which may result in additional purchase price consideration.

3. Investments in real estate (continued)

Route 128/Greater Boston

266 and 275 Second Avenue

In June 2017, we entered into a definitive purchase and sale agreement to acquire two properties aggregating 203,757 RSF at 266 and 275 Second Avenue in our Route 128 submarket of Greater Boston for a purchase price of $71.0 million. The properties are currently 71% occupied by multiple tenants. The properties have 57,628 RSF of vacant space that will undergo conversion from office to laboratory space through redevelopment. The property will provide an additional opportunity to increase stabilized cash yields through the redevelopment of the remaining 146,129 RSF and re-leasing of existing in-place leases with below-market rents. We completed the acquisition in July 2017.

Mission Bay/SoMa/San Francisco

1455 and 1515 Third Street

In November 2016, we acquired the remaining 49% interest in our unconsolidated real estate joint venture with Uber for $90.1 million, of which $56.8 million is payable in 2017 in three equal installments, upon Uber's completion of construction milestones. The first installment of $18.9 million was paid during the three months ended June 30, 2017.

88 Bluxome Street

In January 2017, we acquired land parcels aggregating 2.6 acres at 88 Bluxome Street in our Mission Bay/SoMa submarket of San Francisco for a purchase price of $130.0 million. The existing 232,470 RSF building is operating as a leading tennis and fitness facility. We are currently pursuing entitlements for the development of this site and anticipate an aggregate of 1,070,925 RSF to be available for construction of two buildings in separate phases.

Greater Stanford/San Francisco

960 Industrial Road

In May 2017, we acquired a future ground-up development site at 960 Industrial Road aggregating 11.0 acres in our Greater Stanford submarket of San Francisco for a purchase price of $65.0 million. We are currently pursuing entitlements of 500,000 RSF for a multi-building development. We have leased the existing property, aggregating 195,000 RSF, back to the seller on a short-term basis while we obtain entitlements.

825 and 835 Industrial Road

In June 2017, we acquired an 8-acre site located at 825 and 835 Industrial Road in our Greater Stanford submarket of San Francisco for a purchase price of $85.0 million. The property is currently entitled for the development of two buildings aggregating 530,000 RSF and a parking structure. When combined with our acquisition of the 960 Industrial Road land parcel, these sites will provide us the ability to develop 1.0 million SF of Class A properties clustered in an urban science and technology campus.

1450 Page Mill Road

In June 2017, we acquired a 77,634 RSF newly developed technology office building at 1450 Page Mill Road, subject to a ground lease, located in Stanford Research Park, a collaborative business community that supports innovative

companies in their R&D pursuits, in our Greater Stanford submarket of San Francisco for a purchase price of $85.3 million. The building is 100% leased to Infosys Limited for 12 years.

Torrey Pines/Sorrento Mesa/San Diego

3050 Callan Road and Vista Wateridge

In March 2017, we acquired land parcels aggregating 13.5 acres at 3050 Callan Road and Vista Wateridge in our Torrey Pines and Sorrento Mesa submarkets of San Diego, respectively, for an aggregate purchase price of $8.3 million. We are currently pursuing entitlements aggregating 229,000 RSF for a development on these land parcels.

3. Investments in real estate (continued)

Research Triangle Park

5 Laboratory Drive

In May 2017, we acquired a 175,000 RSF redevelopment property at 5 Laboratory Drive in our Research Triangle Park submarket for a purchase price of $8.8 million. 5 Laboratory Drive is currently vacant, and we plan to redevelop the property for office/laboratory use.

We evaluated the completed transactions above to determine whether an integrated set of assets and activities meets the definition of a business. Acquisitions that do not meet the definition of a business are accounted for as asset acquisitions. An integrated set of assets and activities does not qualify as a business if substantially all of the fair value of the gross assets is concentrated in either a single identifiable asset or a group of similar identifiable assets.

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

Investments in consolidated real estate joint ventures

In June 2016, we completed a sale of a 45% partial interest in 10290 Campus Point Drive to an institutional investor, TIAA Global Asset Management and affiliates (“TIAA”). 10290 Campus Point Drive is a 305,006 RSF office/laboratory building in our University Town Center submarket of San Diego, 100% leased to Eli Lilly and Company. Gross proceeds received from our partner related to this real estate joint venture through June 30, 2017 were $91.3 million, including $7.0 million received during the six months ended June 30, 2017. Remaining proceeds from our partner of $15.0 million are expected to be received primarily in the second half of 2017.

In December 2016, we completed a separate joint venture agreement with TIAA to sell a 45% partial interest in 10300 Campus Point Drive in our University Town Center submarket of San Diego, which is a 449,759 RSF building primarily leased to Celgene Corporation and The Regents of the University of California, for a sales price of $150.0 million. Gross proceeds received from our partner through June 30, 2017 were $137.3 million. Remaining proceeds of $12.7 million are expected to be received primarily in the second half of 2017.

We retained controlling interests in each of 10290 Campus Point Drive and 10300 Campus Point Drive following each sale above and, therefore, continue to consolidate both entities. As a result, we accounted for the proceeds from each transaction as equity financings. Each transaction did not qualify as a sale of real estate and did not result in purchase price adjustments to the carrying value of the net assets sold. Accordingly, the carrying amount of our partner’s share of assets and liabilities is reported at historical cost basis.

We own partial interests in the following Class A properties through our real estate joint ventures with TIAA: (i) 30% in 225 Binney Street in our Cambridge submarket, (ii) 50.1% in 1500 Owens Street in our Mission Bay/SoMa submarket, (iii) 60% in 409 and 499 Illinois Street in our Mission Bay/SoMa submarket, and (iv) 55% in 10290 and 10300 Campus Point Drive in our University Town Center submarket.

Under each of these real estate joint venture arrangements, we are the managing member and earn a fee for continuing to manage the day-to-day operations of each property and, in the case of 10290 Campus Point Drive, for managing the

redevelopment construction of the project.

3. Investments in real estate (continued)

For each of our joint ventures with TIAA, we evaluated the partially owned legal entity that owns the property under the variable interest model to determine whether each entity met any of the three characteristics of a VIE, which are as follows:

1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support.

- Each joint venture has significant equity at risk to fund its activities as the ventures are primarily capitalized by contributions from the members and could obtain, if necessary, non-recourse commercial financing arrangements on customary terms.

2) The entity is established with non-substantive voting rights.

- The voting rights of each joint venture require both members to approve major decisions, which results in voting rights that are disproportionate to the members' economic interest. However, the activities of each joint venture are conducted on behalf of both members, so the voting rights, while disproportionate, are substantive.

3) The equity holders, as a group, lack the characteristics of a controlling financial interest, as evidenced by lack of substantive kick-out rights or substantive participating rights.

- TIAA lacks substantive kick-out rights as it may not remove us as the managing member without cause.
- TIAA also lacks substantive participating rights as day-to-day control is vested in us as the managing member and the major decisions that require unanimous consent are primarily protective in nature.

Based on the analysis detailed in Note 2 – "Summary of Significant Accounting Policies" to our consolidated financial statements, TIAA, as the non-managing member of each joint venture, lacks the characteristics of a controlling financial interest in each joint venture because it does not have substantive kick-out rights or substantive participating rights. Therefore, each joint venture meets the criteria to be considered a VIE and, accordingly, is evaluated for consolidation under the variable interest model.

After determining that these joint ventures are VIEs, we determined that we are the primary beneficiary of each real estate joint venture as, in our capacity as managing member, we have the power to make decisions that most significantly influence operations and economic performance of the joint ventures. In addition, through our investment in each joint venture, we have the right to receive benefits and participate in losses that can be significant to the VIEs. Based on this evaluation, we concluded that we are the primary beneficiary of each joint venture, and therefore, we consolidate each entity.

The following table aggregates the balance sheet information of our consolidated VIEs as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Investments in real estate	$982,126	$ 993,710
Cash and cash equivalents	26,374	27,498
Other assets	62,229	57,166
Total assets	$1,070,729	$ 1,078,374
Secured notes payable	$—	$ —
Other liabilities	44,200	66,711
Total liabilities	44,200	66,711
Alexandria Real Estate Equities, Inc.'s share of equity	542,111	538,069
Noncontrolling interests' share of equity	484,418	473,594

Total liabilities and equity	$1,070,729	$ 1,078,374

In determining whether to aggregate the balance sheet information of our consolidated VIEs, we considered the similarity of each VIE, including the primary purpose of these entities to own, manage, operate, and lease real estate properties owned by the VIEs, and the similar nature of our involvement in each VIE as a managing member. Due to the similarity of the characteristics among these VIE's, we present the balance sheet information of these entities on an aggregated basis.

For each of our consolidated VIEs, none of its assets have restrictions that limit their use to settle specific obligations of the VIE. There are no creditors or other partners of our consolidated VIEs that have recourse to our general credit. Our maximum exposure to all our VIEs is limited to our variable interests in each VIE.

3. Investments in real estate (continued)

Sale of real estate assets and impairment charges

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

In June 2017, we recognized an additional impairment charge of $203 thousand on a 20,580 RSF property located in a non-cluster market. We had previously recognized an impairment of $1.6 million in December 2016 when management committed to the sale of the property and evaluated this asset under the held for sale impairment model. As of June 30, 2017, this asset was classified as held for sale. We completed the sale of this asset in July 2017 for a gross sale price of $800 thousand with no gain or loss. Refer to "Assets classified as held for sale in North America" in Note 14 – "Assets Classified as Held for Sale" to these unaudited consolidated financial statements for further information.

On March 31, 2016, we evaluated two separate potential transactions to sell land parcels in our India submarket aggregating 28 acres. We determined that these land parcels met the criteria for classification as held for sale as of March 31, 2016, including among others, the following: (i) management having the authority committed to sell the real estate, and (ii) the sale was probable within one year. Upon classification as held for sale, we recognized an impairment charge of $29.0 million to lower the carrying amount of the real estate to its estimated fair value less cost to sell of approximately $10.2 million. In determining the carrying amount for evaluating the real estate for impairment, we considered our net book value, cost to sell, and a $10.6 million unrealized cumulative foreign currency translation loss, which was reclassified to net income upon the disposition of the assets.

During the three months ended June 30, 2016, we sold one of these land parcels totaling five acres for a sales price of $7.5 million at no gain or loss. In order to calculate the gain or loss on the sale, we considered our net book value, cost of the sale and cumulative foreign currency translation loss of $6.9 million.

On April 22, 2016, we decided to monetize our remaining real estate investments located in Asia in order to invest capital into our highly leased value-creation pipeline. We determined that these investments met the criteria for classification as held for sale when we achieved the following, among other criteria: (i) committed to sell all of our real estate investments in Asia, (ii) obtained approval from our Board of Directors, and (iii) determined that the sale of each property/land parcel was probable within one year. During the three months ended June 30, 2016, upon classification as held for sale, we recognized an impairment charge of $154.1 million related to our remaining real estate investments located in Asia, to lower the carrying costs of the real estate to its estimated fair value less cost to sell. In determining the carrying amount for evaluating the real estate for impairment, we considered our net book value, cost to sell, and a $40.2 million cumulative foreign currency translation loss, which was reclassified to net income upon the disposition of the assets. Impairment of real estate recognized during the three months ended June 30, 2016 of $156.1 million primarily relates to the impairment charge of $154.1 million as described above, as well as an impairment charge of $2.0 million related to projects in North America.

The fair value considered in our impairment of each investment was determined based on the following: (i) preliminary non-binding letters of intent, (ii) significant other observable inputs, including the consideration of certain local government land acquisition programs, and (iii) discounted cash flow analyses.

We evaluated whether our real estate investments in Asia met the criteria for classification as discontinued operations, including, among others, (i) if the properties meet the held for sale criteria, and (ii) if the sale of these assets represents a strategic shift that has or will have a major effect on our operations and financial results. In our assessment, we

considered, among other factors, that our total revenue from properties located in Asia was approximately 1.5% of our total consolidated revenues. At the time of evaluation, we also noted total assets related to our investment in Asia were approximately 2.5% of our total assets. Consequently, we concluded that the monetization of our real estate investments in Asia did not represent a strategic shift that will have a major effect in our operations and financial results and, therefore, did not meet the criteria for classification as discontinued operations.

Commitments to sell real estate

One of our tenants holds a fixed-price option to purchase from us the property that it currently leases. The purchase option is exercisable no later than December 29, 2017. The property subject to this purchase option is one of our older properties and has a net book value of $7.2 million as of June 30, 2017. The option is exercisable at a purchase price of $20.8 million, excluding any customary and ordinary closing costs. As of June 30, 2017, the purchase price option had not been exercised.

4. Investments in unconsolidated real estate joint ventures

360 Longwood Avenue

We have a 27.5% ownership interest in an unconsolidated real estate joint venture that, as of June 30, 2017, owned a building aggregating 413,799 RSF in our Longwood Medical Area submarket of Greater Boston. Our anchor tenant at the property exercised its option to purchase a condominium interest representing 203,090 RSF, or 49%, of the property, pursuant to a fixed-price purchase option in its original lease agreement executed in 2011. The unconsolidated real estate joint venture completed the sale of the condominium interest in July 2017, and repaid the existing secured construction loan discussed in the table below. Our share of the sales price was $65.7 million, excluding any customary and ordinary closing costs, and our share of the gain recognized was $14.1 million, which will be reflected in our equity in earnings of unconsolidated real estate joint ventures during the three months ended September 30, 2017. As of June 30, 2017, the unconsolidated real estate joint venture had a non-recourse, secured construction loan that included the following key terms (amounts represent 100% at the joint venture level, dollars in thousands):

Tranche	Stated Rate	Outstanding Balance	Remaining Commitments	Total
Fixed rate	5.25 %	$ 173,226	$ 2,015	$175,241
Floating rate	L+3.75%	13,075	24,884	37,959
		$ 186,301	$ 26,899	$213,200

We evaluated our ownership interests in the 360 Longwood Avenue joint venture using the consolidation guidance, as described in Note 2 – “Summary of Significant Accounting Policies” to these unaudited consolidated financial statements, to determine whether this entity meets any of the following characteristics of a VIE:

1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support.

- This entity has significant equity and non-recourse financing as of June 30, 2017, in place to support operations.

2) The entity is established with non-substantive voting rights.

- Our 27.5% ownership interest in 360 Longwood Avenue consists of an interest in a joint venture with a development partner. The joint venture with our development partner holds an interest in the property with an institutional investor. Our development partner was responsible for the day-to-day management of construction and development activities, and we are responsible for the day-to-day administrative operations of components of the property following development completion. At the property level, all major decisions (including the development plan, annual budget, leasing plan, and financing plan) require approval of all three investors. Although voting rights within the structure are disproportionate to the members’ economic interests, the activities of the ventures are conducted on behalf of all members, and therefore, the voting rights, while disproportionate, are substantive.

3) The equity holders, as a group, lack the characteristics of a controlling financial interest, as evidenced by lack of substantive kick-out rights or substantive participating rights.

- The non-managing members have significant participating rights including in the day-to-day management of development activities and the participation in decisions related to the operations of the property.

Since our 360 Longwood Avenue joint venture does not meet the VIE criteria, we determined that this joint venture does not qualify for evaluation under the variable interest model and, therefore, should be evaluated under the voting model. Under the voting model, we consolidate the entity if we determine that we, directly or indirectly, have greater than 50% of the voting shares and that noncontrolling equity holders do not have substantive participating rights. Our

interest in the 360 Longwood Avenue joint venture is limited to 27.5%, and since we do not have other contractual rights, we account for this joint venture under the equity method of accounting.

4. Investments in unconsolidated real estate joint ventures (continued)

1401/1413 Research Boulevard

In May 2017, we recognized a gain of $111 thousand upon the sale of a 35% interest in our land parcels at 1401/1413 Research Boulevard, located in the Rockville submarket of Maryland. The sale was executed with a distinguished retail real estate developer for the development of an approximately 90,000 SF retail shopping center. We contributed the land parcels at a fair value of $7.9 million into a new entity, our partner contributed $3.9 million, and we received a distribution of $0.7 million.

We evaluated our remaining 65% ownership interest using the consolidation guidance as described in Note 2 – "Summary of Significant Accounting Policies" to these unaudited consolidated financial statements and concluded that the new entity qualified as a VIE. Under the VIE model, we determined that our joint venture partner is the primary beneficiary of the new joint venture and thus, we deconsolidated the joint venture and recognized the gain noted above as a gain on sales of real estate – land parcels, in our consolidated statements of income.

In May 2017, the joint venture obtained a non-recourse secured construction loan with aggregate commitments of $25.0 million. This loan includes the following key terms (amounts represent 100% at the joint venture level, dollars in thousands):

Debt	Maturity Date	Stated Rate	Outstanding Balance	Remaining Commitments	Total
1401/1413 Research Boulevard	5/17/20 (1)	L+2.50% (2)	$ 1,042	$ 23,958	$25,000
Unamortized deferred financing costs			(128)		
			$ 914		

(1) The unconsolidated real estate joint venture has an option to extend the stated maturity date to July 1, 2020. In addition, there are two one-year options to convert the construction loan to a permanent loan and extend the stated maturity date to May 17, 2022.
(2) The borrowing bears interest at a floating rate with an interest rate floor equal to 3.15%.

5. Investments

We hold equity investments in certain publicly traded companies, privately held entities, and limited partnerships primarily involved in the life science and technology industries. All of our equity investments in actively traded public companies are considered available-for-sale and are reflected in the accompanying consolidated balance sheets at fair value. Our investments in privately held entities are primarily accounted for under the cost method.

Investments in available-for-sale equity securities with gross unrealized losses as of June 30, 2017 had been in a continuous unrealized loss position for less than 12 months. We have the ability and intent to hold these investments for a reasonable period of time sufficient for the recovery of our investment. We believe that these unrealized losses are temporary. Accordingly, there are no other-than-temporary impairments in accumulated other comprehensive income related to available-for-sale equity securities as of June 30, 2017, and December 31, 2016.

The following table summarizes our investments as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Available-for-sale equity securities, cost basis	$51,199	$41,392
Unrealized gains	32,577	25,076

Unrealized losses	(4,406)	(5,783)
Available-for-sale equity securities, at fair value	79,370	60,685
Investments accounted for under cost method	345,550	281,792
Total investments	$424,920	$342,477

5. Investments (continued)

During the three months ended June 30, 2017, we determined there was an other-than-temporary impairment on certain of our equity securities. Accordingly, we recorded an impairment charge of approximately $4.5 million. The table below outlines the components of our investment income classified within other income in the accompanying consolidated statements of income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Investment gains	$3,986	$14,715	$5,781	$20,606
Investment losses	(20)	(5,039)	(328)	(6,821)
Investment impairments	(4,491)	—	(4,491)	—
Investment (loss) income	$(525)	$9,676	$962	$13,785

6. Other assets

The following table summarizes the components of other assets as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Acquired below-market ground leases	$12,798	$12,913
Acquired in-place leases	61,957	63,408
Deferred compensation plan	14,108	11,632
Deferred financing costs – $1.65 billion unsecured senior line of credit	12,382	14,239
Deposits	7,867	3,302
Furniture, fixtures, and equipment	11,787	12,839
Interest rate hedge assets	3,782	4,115
Net investment in direct financing lease	37,867	37,297
Notes receivable	655	694
Prepaid expenses	7,030	9,724
Property, plant, and equipment	22,480	19,891
Other assets	12,296	11,143
Total	$205,009	$201,197

The components of our net investment in direct financing lease as of June 30, 2017, and December 31, 2016, are summarized in the table below (in thousands):

	June 30, 2017	December 31, 2016
Gross investment in direct financing lease	$264,371	$264,954
Less: unearned income	(226,504)	(227,657)
Net investment in direct financing lease	$37,867	$37,297

6. Other assets (continued)

Future minimum lease payments to be received under our direct financing lease as of June 30, 2017, were as follows (in thousands):

Year	Total
2017	$652
2018	1,607
2019	1,655
2020	1,705
2021	1,756
Thereafter	256,996
Total	$264,371

7. Fair value measurements

We provide fair value information about all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. We measure and disclose the estimated fair value of financial assets and liabilities utilizing a fair value hierarchy that distinguishes between data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. This hierarchy consists of three broad levels, as follows: (i) quoted prices in active markets for identical assets or liabilities, (ii) significant other observable inputs, and (iii) significant unobservable inputs. Significant other observable inputs can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Significant unobservable inputs are typically based on an entity's own assumptions, since there is little, if any, related market activity. In instances in which the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers between the levels in the fair value hierarchy during the six months ended June 30, 2017 and 2016.

The following tables set forth the assets and liabilities that we measure at fair value on a recurring basis by level within the fair value hierarchy as of June 30, 2017, and December 31, 2016 (in thousands):

		June 30, 2017		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Available-for-sale equity securities	$79,370	$79,370	$ —	$ —
Interest rate hedge agreements	$3,782	$—	$ 3,782	$ —
Liabilities:				
Interest rate hedge agreements	$975	$—	$ 975	$ —

		December 31, 2016		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

Assets:				
Available-for-sale equity securities	$60,685	$60,685	$ —	$ —
Interest rate hedge agreements	$4,115	$—	$ 4,115	$ —
Liabilities:				
Interest rate hedge agreements	$3,587	$—	$ 3,587	$ —

7. Fair value measurements (continued)

The carrying values of cash and cash equivalents, restricted cash, tenant receivables, other assets, accounts payable, accrued expenses, and tenant security deposits approximate fair value. Our available-for-sale equity securities and our interest rate hedge agreements have been recognized at fair value. Refer to Note 5 – "Investments" and Note 9 – "Interest Rate Hedge Agreements" to these unaudited consolidated financial statements for further details. The fair values of our secured notes payable, unsecured senior notes payable, $1.65 billion unsecured senior line of credit, and unsecured senior bank term loans were estimated using widely accepted valuation techniques, including discounted cash flow analyses using significant other observable inputs such as available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Because the valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate. Additionally, the use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

As of June 30, 2017, and December 31, 2016, the book and estimated fair values of our available-for-sale equity securities, interest rate hedge agreements, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	June 30, 2017		December 31, 2016	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
Available-for-sale equity securities	$79,370	$79,370	$60,685	$60,685
Interest rate hedge agreements	$3,782	$3,782	$4,115	$4,115
Liabilities:				
Interest rate hedge agreements	$975	$975	$3,587	$3,587
Secured notes payable	$1,127,348	$1,129,482	$1,011,292	$1,016,782
Unsecured senior notes payable	$2,800,398	$2,955,735	$2,378,262	$2,431,470
Unsecured senior line of credit	$300,000	$299,966	$28,000	$27,998
Unsecured senior bank term loans	$547,639	$547,215	$746,471	$750,422

Nonrecurring fair value measurements

Refer to "Sale of Real Estate Assets and Impairment Charges" in Note 3 – "Investments in Real Estate," Note 5 – "Investments," and Note 14 – "Assets Classified as Held for Sale" to these unaudited consolidated financial statements for further discussion.

8. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt as of June 30, 2017 (dollars in thousands):

	Fixed-Rate/Hedged Variable-Rate	Unhedged Variable-Rate	Total	Percentage	Weighted-Average Interest Rate (1)	Weighted-Average Remaining Term (in years)
Secured notes payable	$ 886,922	$ 240,426	$1,127,348	23.6 %	3.62%	3.1
Unsecured senior notes payable	2,800,398	—	2,800,398	58.6	4.16	7.3
$1.65 billion unsecured senior line of credit	—	300,000	300,000	6.3	2.22	4.3
2019 Unsecured Senior Bank Term Loan	199,452	—	199,452	4.2	3.08	1.5

2021 Unsecured Senior Bank Term Loan	348,187	—	348,187	7.3	2.53	3.5
Total/weighted average	$ 4,234,959	$ 540,426	$4,775,385	100.0 %	3.75%	5.6
Percentage of total debt	89%	11%	100%			

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

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8. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding indebtedness and respective principal payments as of June 30, 2017 (dollars in thousands):

Debt	Stated Rate	Weighted-Average Interest Rate [1]	Maturity Date [2]	Principal	Unamortized (Deferred Financing Cost), (Discount)/Premium	Total
Secured notes payable						
Greater Boston	L+1.35%	2.96 %	8/23/18	$212,289	$ (840)	$211,449
Greater Boston	L+1.50%	2.79	1/28/19 [3]	311,556	(1,893)	309,663
Greater Boston	L+2.00%	3.27	4/20/19 [3]	158,581	(2,433)	156,148
Greater Boston, Seattle, and Maryland	7.75 %	8.16	4/1/20	109,403	(919)	108,484
San Diego	4.66 %	4.98	1/1/23	35,755	(362)	35,393
Greater Boston	3.93 %	3.19	3/10/23	82,000	3,085	85,085
Greater Boston	4.82 %	3.39	2/6/24	203,000	17,343	220,343
San Francisco	6.50 %	6.74	7/1/36	783	—	783
Secured debt weighted-average interest rate/subtotal	3.81 %	3.62		1,113,367	13,981	1,127,348
2019 Unsecured Senior Bank Term Loan	L+1.20 %	3.08	1/3/19	200,000	(548)	199,452
2021 Unsecured Senior Bank Term Loan	L+1.10 %	2.53	1/15/21	350,000	(1,813)	348,187
$1.65 billion unsecured senior line of credit	L+1.00 % [4]	2.22	10/29/21	300,000	—	300,000
Unsecured senior notes payable	2.75 %	2.96	1/15/20	400,000	(2,017)	397,983
Unsecured senior notes payable	4.60 %	4.74	4/1/22	550,000	(3,083)	546,917
Unsecured senior notes payable	3.90 %	4.04	6/15/23	500,000	(3,526)	496,474
Unsecured senior notes payable	4.30 %	4.52	1/15/26	300,000	(4,114)	295,886
Unsecured senior notes payable	3.95 %	4.14	1/15/27	350,000	(4,757)	345,243
Unsecured senior notes payable	3.95 %	4.09	1/15/28	425,000	(4,436)	420,564
Unsecured senior notes payable	4.50 %	4.62	7/30/29	300,000	(2,669)	297,331
Unsecured debt weighted average/subtotal		3.78		3,675,000	(26,963)	3,648,037
Weighted-average interest rate/total		3.75 %		$4,788,367	$ (12,982)	$4,775,385

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

(2) Reflects any extension options that we control.

(3) Refer to “Secured Construction Loans” in Note 8 – “Secured and Unsecured Senior Debt” for options to extend maturity dates.

(4) Our $1.65 billion unsecured senior line of credit contains a feature that allows lenders to competitively bid on the interest rate for borrowings under the facility. This may result in an interest rate that is below the stated rate. In addition to the cost of borrowing, the facility is subject to an annual facility fee of 0.20%, based on the aggregate

commitments. Unamortized deferred financing costs related to our $1.65 billion unsecured senior line of credit are classified in other assets and are excluded from the calculation of the weighted-average interest rate.

3.95% Unsecured senior notes payable due in 2028

In March 2017, we completed a $425.0 million public offering of our unsecured senior notes payable due on January 15, 2028, at a stated interest rate of 3.95%. The unsecured senior notes payable were priced at 99.855% of the principal amount with a yield to maturity of 3.967%. The unsecured senior notes payable are unsecured obligations of the Company and are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P., a 100% owned subsidiary of the Company. The unsecured senior notes payable rank equally in right of payment with all other unsecured senior indebtedness. However, the unsecured senior notes payable are subordinate to existing and future mortgages and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness) and to all existing and future preferred equity and liabilities, whether secured or unsecured, of the Company's subsidiaries, other than Alexandria Real Estate Equities, L.P. We used the net proceeds, after discounts and issuance costs, of $420.5 million to repay outstanding borrowings under our $1.65 billion unsecured senior line of credit.

Repayment of unsecured senior bank term loans

During the six months ended June 30, 2017, we completed a partial principal repayment of $200 million of our 2019 Unsecured Senior Bank Term Loan, reducing the total outstanding balance from $400 million to $200 million, and recognized a loss of $670 thousand related to the write-off of unamortized loan fees.

8. Secured and unsecured senior debt (continued)

Secured construction loans

The following table summarizes our secured construction loans as of June 30, 2017 (dollars in thousands):

Property/Market	Stated Rate	Maturity Date	Outstanding Principal Balance	Remaining Commitments	Aggregate Commitments
75/125 Binney Street/Greater Boston	L+1.35%	8/23/18	$ 212,289	$ —	$ 212,289
50 and 60 Binney Street/Greater Boston	L+1.50%	1/28/19 (1)	311,556	38,444	350,000
100 Binney Street/Greater Boston	L+2.00%	4/20/19 (2)	158,581	145,700	304,281
			$ 682,426	$ 184,144	$ 866,570

(1) We have two one-year options to extend the stated maturity date to January 28, 2021, subject to certain conditions.
(2) We have two one-year options to extend the stated maturity date to April 20, 2021, subject to certain conditions.

Interest expense

The following table summarizes interest expense for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gross interest	$46,817	$38,813	$89,765	$75,767
Capitalized interest	(15,069)	(13,788)	(28,233)	(25,887)
Interest expense	$31,748	$25,025	$61,532	$49,880

9. Interest rate hedge agreements

We use interest rate derivatives to hedge the variable cash flows associated with certain of our existing LIBOR-based variable-rate debt, including our $1.65 billion unsecured senior line of credit, unsecured senior bank term loans, and secured notes payable, and to manage our exposure to interest rate volatility. Our derivative instruments include interest rate swaps and interest rate caps.

In our interest rate hedge agreements, the ineffective portion of the change in fair value is required to be recognized directly in earnings. During the six months ended June 30, 2017 and 2016, our interest rate hedge agreements were 100% effective; as a result, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate hedge agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. During the next 12 months, we expect to reclassify approximately $566 thousand in accumulated other comprehensive income to earnings as a decrease of interest expense. As of June 30, 2017, and December 31, 2016, the fair values of our interest rate swap and cap agreements aggregating an asset balance were classified in other assets, and the fair value of our interest rate swap agreements aggregating a liability balance were classified in accounts payable, accrued expenses, and tenant security deposits, based upon their respective fair values, without any offsetting pursuant to master netting agreements. Refer to Note 7 – "Fair Value Measurements" to these unaudited consolidated financial statements for further details. Under our interest rate hedge agreements, we have no collateral posting requirements.

We have agreements with certain of our derivative counterparties that contain a provision wherein we could be declared in default on our derivative obligations (i) if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness or (ii) if we default on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender. If we had breached any of these provisions as of June 30, 2017, we could have been required to settle our obligations under the agreements at their termination value of $627 thousand.

9. Interest rate hedge agreements (continued)

During April 2017, we executed three interest rate swap agreements with notional amounts aggregating $250 million at a weighted-average fixed pay rate of 1.71%. Two of these agreements had an aggregate notional amount of $150 million at a weighted-average fixed pay rate of 1.60%, effective March 29, 2018. One interest rate swap agreement was executed with a notional amount of $100 million at a fixed pay rate of 1.89%, effective March 29, 2019.

We had the following outstanding interest rate hedge agreements that were designated as cash flow hedges of interest rate risk as of June 30, 2017 (dollars in thousands):

Interest Rate Hedge Type	Effective Date	Maturity Date	Number of Contracts	Weighted-Average Interest Pay/ Cap Rate(1)	Fair Value as of 6/30/17	Notional Amount in Effect as of			
						6/30/17	12/31/17	12/31/18	12/31/19
Swap	March 31, 2017	March 31, 2018	4	0.78%	$ 1,006	$250,000	$250,000	$—	$—
Swap	March 31, 2017	March 31, 2018	11	1.51%	(948)	650,000	650,000	—	—
Cap	July 29, 2016	April 20, 2019	2	2.00%	94	92,000	126,000	150,000	—
Swap	March 29, 2018	March 31, 2019	8	1.16%	2,682	—	—	600,000	—
Swap	March 29, 2019	March 31, 2020	1	1.89%	(27)	—	—	—	100,000
Total					$ 2,807	$992,000	$1,026,000	$750,000	$100,000

(1) In addition to the interest pay rate for each swap agreement, interest is payable at an applicable margin over LIBOR for borrowings outstanding as of June 30, 2017, as listed under the column heading “Stated Rate” in our summary table of outstanding indebtedness and respective principal payments under Note 8 – “Secured and Unsecured Senior Debt” to these unaudited consolidated financial statements.

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

The following table summarizes the components of accounts payable, accrued expenses, and tenant security deposits as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Accounts payable and accrued expenses	$327,363	$366,174
Acquired below-market leases	90,469	59,509
Conditional asset retirement obligations	7,961	3,095
Deferred rent liabilities	29,033	34,426
Interest rate hedge liabilities	975	3,587
Unearned rent and tenant security deposits	241,544	231,416
Other liabilities	36,844	33,464
Total	$734,189	$731,671

Some of our properties may contain asbestos, which, under certain conditions, requires remediation. Although we believe that the asbestos is appropriately contained in accordance with environmental regulations, our practice is to remediate the asbestos upon the development or redevelopment of the affected property. We recognize a liability for

the fair value of a conditional asset retirement obligation (including asbestos) when the fair value of the liability can be reasonably estimated. For certain properties we do not recognize an asset retirement obligation when there is an indeterminate settlement date for the obligation because the period in which we may remediate the obligation may not be estimated with any level of precision to provide for a meaningful estimate of the retirement obligation. These conditional asset retirement obligations are included in the table above.

11. Earnings per share

In March 2017, we entered into agreements to sell an aggregate of 6.9 million shares of our common stock, which consist of an initial issuance of 2.1 million shares and the remaining 4.8 million shares subject to forward equity sales agreements, at a public offering price of $108.55 per share, less issuance costs and underwriters' discount. We issued the initial 2.1 million shares at closing in March 2017 for net proceeds, after underwriters' discount and issuance costs, of $217.8 million and expect to settle the forward equity sales agreements on the remaining 4.8 million shares of common stock no later than March 2018, for net proceeds of $495.5 million, after underwriters' discount and issuance costs, with further adjustments as provided for in the sales agreements.

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

We also considered the potential dilution resulting from the forward equity sales agreements on the EPS calculations. We use the treasury method to determine the dilution resulting from the forward equity sales agreements during the period of time prior to settlement. The number of weighted-average shares outstanding – diluted used in the computation of EPS for the three and six months ended June 30, 2017, includes the effect from the assumed issuance of 4.8 million shares pursuant to the settlement of the forward equity sales agreements at the contractual price, less the assumed repurchase of common shares at the average market price using the net proceeds of $495.5 million, adjusted as provided for in the forward equity sales agreements. The impact to our weighted-average shares – diluted for the three and six months ended June 30, 2017 was 530 thousand and 293 thousand, respectively, weighted-average incremental shares.

For purposes of calculating diluted EPS, we did not assume conversion of our 7.00% Series D cumulative convertible preferred stock ("Series D Convertible Preferred Stock") for the three and six months ended June 30, 2017 and 2016, since the result was antidilutive to EPS attributable to Alexandria Real Estate Equities, Inc.'s common stockholders from continuing operations during those periods. Refer to "7.00% Series D Cumulative Convertible Preferred Stock Repurchases" in Note 12 – "Stockholders' Equity" to these unaudited consolidated financial statements for further discussion of the partial repurchases of our Series D Convertible Preferred Stock.

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

11. Earnings per share (continued)

The table below is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three and six months ended June 30, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$41,496	$(108,116)	$89,051	$(98,150)
Net income attributable to noncontrolling interests	(7,275)	(3,500)	(13,119)	(7,530)
Dividends on preferred stock	(1,278)	(5,474)	(5,062)	(11,381)
Preferred stock redemption charge	—	(9,473)	(11,279)	(12,519)
Net income attributable to unvested restricted stock awards	(1,313)	(1,085)	(2,300)	(1,886)
Numerator for basic and diluted EPS – net income (loss) attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$31,630	$(127,648)	$57,291	$(131,466)
Denominator for basic EPS – weighted-average shares of common stock outstanding	90,215	74,319	89,186	73,452
Dilutive effect of forward equity sales agreements	530	—	293	—
Denominator for diluted EPS – adjusted – weighted-average shares of common stock outstanding	90,745	74,319	89,479	73,452
Net income (loss) per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders – basic and diluted	$0.35	$(1.72)	$0.64	$(1.79)

12. Stockholders' equity

ATM common stock offering program

In October 2016, we established an ATM common stock offering program, which allows us to sell up to an aggregate of $600.0 million of our common stock. During the six months ended June 30, 2017, we completed our ATM program with the sale of 2.1 million shares of common stock for gross proceeds of $245.8 million, or $118.97 per share, and net proceeds of approximately $241.8 million. As of June 30, 2017, there is no remaining availability on our ATM program.

Forward equity sales agreements

Refer to Note 11 – "Earnings per Share" to these unaudited consolidated financial statements for a discussion related to our forward equity sales agreements executed in March 2017.

7.00% Series D cumulative convertible preferred stock repurchases

During the three months ended March 31, 2017, we repurchased, in privately negotiated transactions, 501,115 outstanding shares of our Series D Convertible Preferred Stock at an aggregate price of $17.9 million, or $35.79 per share. We recognized a preferred stock redemption charge of $5.8 million during the three months ended March 31, 2017, including the write-off of original issuance costs of approximately $391 thousand. We did not repurchase any shares of our Series D Convertible Preferred Stock during the three months ended June 30, 2017.

6.45% Series E cumulative redeemable preferred stock redemption

In March 2017, we announced the redemption of our cumulative redeemable preferred stock ("Series E Redeemable Preferred Stock") and recognized a preferred stock redemption charge of $5.5 million related to the write-off of original issuance costs. On April 14, 2017, we completed the redemption of all 5.2 million outstanding shares of our Series E Redeemable Preferred Stock at a redemption price of $25.00 per share, or an aggregate of $130.0 million, plus accrued dividends using funds primarily from the proceeds of our March 2017 common stock offering discussed in Note 11 – "Earnings per Share" to these unaudited consolidated financial statements.

12. Stockholders' equity (continued)

Dividends

In June 2017, we declared cash dividends on our common stock for the three months ended June 30, 2017, aggregating $80.5 million, or $0.86 per share. Also in June 2017, we declared cash dividends on our Series D Convertible Preferred Stock for the three months ended June 30, 2017, aggregating approximately $1.3 million, or $0.4375 per share. In July 2017, we paid the cash dividends on our common stock and Series D Convertible Preferred Stock declared for the three months ended June 30, 2017. We paid the final dividends declared of $2.1 million on our Series E Redeemable Preferred Stock in April 2017.

Accumulated other comprehensive income

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

	Net Unrealized Gain (Loss) on:			
	Available-for-Sale Equity Securities	Interest Rate Hedge Agreements	Foreign Currency Translation	Total
Balance as of December 31, 2016	$19,293	$ 405	$ (14,343)	$5,355
Other comprehensive income before reclassifications	6,396	667	3,756	10,819
Amounts reclassified from other comprehensive income	2,482	1,612	2,421	6,515
	8,878	2,279	6,177	17,334
Amounts attributable to noncontrolling interests	—	—	(12)	(12)
Net other comprehensive income	8,878	2,279	6,165	17,322
Balance as of June 30, 2017	$28,171	$ 2,684	$ (8,178)	$22,677

Common stock, preferred stock, and excess stock authorizations

In May 2017, our stockholders approved an amendment to our charter to increase the authorized shares of common stock from 100.0 million to 200.0 million shares, of which 92.1 million shares were issued and outstanding as of June 30, 2017. Our charter also authorizes the issuance of up to 100.0 million shares of preferred stock, of which 3.0 million shares were issued and outstanding as of June 30, 2017. In addition, 200.0 million shares of "excess stock" (as defined in our charter) are authorized, none of which were issued and outstanding as of June 30, 2017.

13. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities owned nine projects as of June 30, 2017, and are included in our consolidated financial statements. Noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements.

In 2016, we sold partial interests in 10290 Campus Point Drive and 10300 Campus Point Drive. As described in Note 3 – "Investments in Real Estate" to these unaudited consolidated financial statements, since we retained controlling interests in both joint ventures following the sales and continued to consolidate these entities, we accounted for the proceeds received as equity financing transactions. These transactions did not qualify as sales of real estate and did not result in purchase accounting adjustments to the carrying value. Accordingly, the carrying amounts of our partner's share of assets and liabilities are reported at historical cost basis.

13. Noncontrolling interests (continued)

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

14. Assets classified as held for sale

As of June 30, 2017, one building aggregating 20,580 RSF in a non-cluster market and two operating properties aggregating 634,328 RSF located in China were classified as held for sale, none of which met the criteria for classification as discontinued operations in our consolidated financial statements. The building in the non-cluster market was sold in July 2017. For additional information, refer to Note 3 – “Investments in Real Estate” to these unaudited consolidated financial statements.

Assets classified as held for sale in North America

The following is a summary of net assets as of June 30, 2017, and December 31, 2016, for our real estate investments in North America that were classified as held for sale (in thousands):

	June 30, 2017	December 31, 2016
Total assets	$ 717	$ 3,375
Total liabilities	—	—
Net assets classified as held for sale – North America	$ 717	$ 3,375

Assets classified as held for sale in Asia

The following is a summary of net assets as of June 30, 2017, and December 31, 2016, for our real estate investments in Asia that were classified as held for sale (in thousands):

	June 30, 2017	December 31, 2016
Total assets	$40,561	$ 39,643
Total liabilities	(2,216)	(2,342)
Total accumulated other comprehensive (income) loss	(147)	828
Net assets classified as held for sale – Asia	$38,198	$ 38,129

15. Subsequent events

In July 2017, we completed the sale of a condominium interest in our unconsolidated real estate joint venture property at 360 Longwood Avenue in our Longwood Medical Area submarket. Refer to Note 4 – “Investments in Unconsolidated Real Estate Joint Ventures” to these unaudited consolidated financial statements for further discussion.

In July 2017, we acquired two properties at 266 and 275 Second Avenue in our Route 128 submarket of Greater Boston. Refer to “Acquisitions” in Note 3 – “Investment in Real Estate” to these unaudited consolidated financial statements for further discussion.

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16. Condensed consolidating financial information

Alexandria Real Estate Equities, Inc. (the "Issuer") has sold certain debt securities registered under the Securities Act of 1933, as amended, that are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P. (the "LP" or the "Guarantor Subsidiary"), an indirectly 100% owned subsidiary of the Issuer. The Company's other subsidiaries, including, but not limited to, the subsidiaries that own substantially all of its real estate (collectively, the "Combined Non-Guarantor Subsidiaries"), will not provide a guarantee of such securities, including the subsidiaries that are partially or 100% owned by the LP. The following condensed consolidating financial information presents the condensed consolidating balance sheets as of June 30, 2017, and December 31, 2016, the condensed consolidating statements of income and comprehensive income for the three and six months ended June 30, 2017 and 2016, and the condensed consolidating statements of cash flows for the six months ended June 30, 2017 and 2016, for the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries, as well as the eliminations necessary to arrive at the information on a consolidated basis. In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Issuer's interests in the Guarantor Subsidiary and the Combined Non-Guarantor Subsidiaries, (ii) the Guarantor Subsidiary's interests in the Combined Non-Guarantor Subsidiaries, and (iii) the Combined Non-Guarantor Subsidiaries' interests in the Guarantor Subsidiary, where applicable, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries have been eliminated, as shown in the column "Eliminations." All assets and liabilities have been allocated to the Issuer, the Guarantor Subsidiary, and the Combined Non-Guarantor Subsidiaries generally based on legal entity ownership.

16. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of June 30, 2017
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate	$—	$—	$9,819,413	$—	$9,819,413
Investments in unconsolidated real estate JVs	—	—	58,083	—	58,083
Cash and cash equivalents	45,938	—	78,939	—	124,877
Restricted cash	115	—	19,887	—	20,002
Tenant receivables	—	—	8,393	—	8,393
Deferred rent	—	—	383,062	—	383,062
Deferred leasing costs	—	—	201,908	—	201,908
Investments	—	4,213	420,707	—	424,920
Investments in and advances to affiliates	8,885,847	8,062,388	164,151	(17,112,386)	—
Other assets	49,192	—	155,817	—	205,009
Total assets	$8,981,092	$8,066,601	$11,310,360	$(17,112,386)	$11,245,667
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$—	$—	$1,127,348	$—	$1,127,348
Unsecured senior notes payable	2,800,398	—	—	—	2,800,398
Unsecured senior line of credit	300,000	—	—	—	300,000
Unsecured senior bank term loans	547,639	—	—	—	547,639
Accounts payable, accrued expenses, and tenant security deposits	94,289	—	639,900	—	734,189
Dividends payable	81,602	—	—	—	81,602
Total liabilities	3,823,928	—	1,767,248	—	5,591,176
Redeemable noncontrolling interests	—	—	11,410	—	11,410
Alexandria Real Estate Equities, Inc.'s stockholders' equity	5,157,164	8,066,601	9,045,785	(17,112,386)	5,157,164
Noncontrolling interests	—	—	485,917	—	485,917
Total equity	5,157,164	8,066,601	9,531,702	(17,112,386)	5,643,081
Total liabilities, noncontrolling interests, and equity	$8,981,092	$8,066,601	$11,310,360	$(17,112,386)	$11,245,667

16. Condensed consolidating financial information (continued)

Condensed Consolidating Balance Sheet
as of December 31, 2016
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate	$ —	$ —	$ 9,077,972	$ —	$ 9,077,972
Investments in unconsolidated real estate JVs	—	—	50,221	—	50,221
Cash and cash equivalents	30,603	—	94,429	—	125,032
Restricted cash	102	—	16,232	—	16,334
Tenant receivables	—	—	9,744	—	9,744
Deferred rent	—	—	335,974	—	335,974
Deferred leasing costs	—	—	195,937	—	195,937
Investments	—	4,440	338,037	—	342,477
Investments in and advances to affiliates	8,152,965	7,444,919	151,594	(15,749,478)	—
Other assets	45,646	—	155,551	—	201,197
Total assets	$ 8,229,316	$ 7,449,359	$ 10,425,691	$ (15,749,478)	$ 10,354,888
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	$ —	$ —	$ 1,011,292	$ —	$ 1,011,292
Unsecured senior notes payable	2,378,262	—	—	—	2,378,262
Unsecured senior line of credit	28,000	—	—	—	28,000
Unsecured senior bank term loans	746,471	—	—	—	746,471
Accounts payable, accrued expenses, and tenant security deposits	104,044	—	627,627	—	731,671
Dividends payable	76,743	—	171	—	76,914
Total liabilities	3,333,520	—	1,639,090	—	4,972,610
Redeemable noncontrolling interests	—	—	11,307	—	11,307
Alexandria Real Estate Equities, Inc.'s stockholders' equity	4,895,796	7,449,359	8,300,119	(15,749,478)	4,895,796
Noncontrolling interests	—	—	475,175	—	475,175
Total equity	4,895,796	7,449,359	8,775,294	(15,749,478)	5,370,971
Total liabilities, noncontrolling interests, and equity	$ 8,229,316	$ 7,449,359	$ 10,425,691	$ (15,749,478)	$ 10,354,888

16. Condensed consolidating financial information (continued)

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

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	$ —	$ —	$ 211,942	$ —	$ 211,942
Tenant recoveries	—	—	60,470	—	60,470
Other income	4,124	1	1,482	(4,960)	647
Total revenues	4,124	1	273,894	(4,960)	273,059
Expenses:					
Rental operations	—	—	76,980	—	76,980
General and administrative	19,428	—	4,766	(4,960)	19,234
Interest	21,831	—	9,917	—	31,748
Depreciation and amortization	1,721	—	102,377	—	104,098
Impairment of real estate	—	—	203	—	203
Total expenses	42,980	—	194,243	(4,960)	232,263
Equity in earnings of unconsolidated real estate JVs	—	—	589	—	589
Equity in earnings of affiliates	73,077	70,597	1,360	(145,034)	—
Gain on sales of real estate – land parcels	—	—	111	—	111
Net income	34,221	70,598	81,711	(145,034)	41,496
Net income attributable to noncontrolling interests	—	—	(7,275)	—	(7,275)
Net income attributable to Alexandria Real Estate Equities, Inc.’s stockholders	34,221	70,598	74,436	(145,034)	34,221
Dividends on preferred stock	(1,278)	—	—	—	(1,278)
Net income attributable to unvested restricted stock awards	(1,313)	—	—	—	(1,313)
Net income attributable to Alexandria Real Estate Equities, Inc.’s common stockholders	$ 31,630	$ 70,598	$ 74,436	$ (145,034)	$ 31,630

16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Three Months Ended June 30, 2016
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	$ —	$ —	$ 161,638	$ —	$ 161,638
Tenant recoveries	—	—	54,107	—	54,107
Other income	2,934	28	10,498	(3,129)	10,331
Total revenues	2,934	28	226,243	(3,129)	226,076
Expenses:					
Rental operations	—	—	67,325	—	67,325
General and administrative	15,338	—	3,175	(3,129)	15,384
Interest	20,189	—	4,836	—	25,025
Depreciation and amortization	1,661	—	68,508	—	70,169
Impairment of real estate	—	—	156,143	—	156,143
Total expenses	37,188	—	299,987	(3,129)	334,046
Equity in losses of unconsolidated real estate JVs	—	—	(146)	—	(146)
Equity in earnings of affiliates	(77,362)	(92,493)	(1,837)	171,692	—
Net loss	(111,616)	(92,465)	(75,727)	171,692	(108,116)
Net income attributable to noncontrolling interests	—	—	(3,500)	—	(3,500)
Net loss attributable to Alexandria Real Estate Equities, Inc.'s stockholders	(111,616)	(92,465)	(79,227)	171,692	(111,616)
Dividends on preferred stock	(5,474)	—	—	—	(5,474)
Preferred stock redemption charge	(9,473)	—	—	—	(9,473)
Net income attributable to unvested restricted stock awards	(1,085)	—	—	—	(1,085)
Net loss attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$ (127,648)	$ (92,465)	$ (79,227)	$ 171,692	$ (127,648)

16. Condensed consolidating financial information (continued)

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

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	$ —	$ —	$ 419,135	$ —	$ 419,135
Tenant recoveries	—	—	121,816	—	121,816
Other income	8,107	12	4,463	(9,597)	2,985
Total revenues	8,107	12	545,414	(9,597)	543,936
Expenses:					
Rental operations	—	—	154,067	—	154,067
General and administrative	38,674	—	9,386	(9,597)	38,463
Interest	48,949	—	12,583	—	61,532
Depreciation and amortization	3,430	—	197,851	—	201,281
Impairment of real estate	—	—	203	—	203
Loss on early extinguishment of debt	670	—	—	—	670
Total expenses	91,723	—	374,090	(9,597)	456,216
Equity in earnings of unconsolidated real estate JVs	—	—	950	—	950
Equity in earnings of affiliates	159,548	153,445	2,992	(315,985)	—
Gain on sales of real estate – rental properties	—	—	270	—	270
Gain on sales of real estate – land parcels	—	—	111	—	111
Net income	75,932	153,457	175,647	(315,985)	89,051
Net income attributable to noncontrolling interests	—	—	(13,119)	—	(13,119)
Net income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	75,932	153,457	162,528	(315,985)	75,932
Dividends on preferred stock	(5,062)	—	—	—	(5,062)
Preferred stock redemption charge	(11,279)	—	—	—	(11,279)
Net income attributable to unvested restricted stock awards	(2,300)	—	—	—	(2,300)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$ 57,291	$ 153,457	$ 162,528	$ (315,985)	$ 57,291

16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Income
for the Six Months Ended June 30, 2016
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	$ —	$ —	$ 319,914	$ —	$ 319,914
Tenant recoveries	—	—	106,704	—	106,704
Other income	6,009	24	16,239	(6,725)	15,547
Total revenues	6,009	24	442,857	(6,725)	442,165
Expenses:					
Rental operations	—	—	133,162	—	133,162
General and administrative	29,656	—	7,641	(6,725)	30,572
Interest	39,411	—	10,469	—	49,880
Depreciation and amortization	3,275	—	137,760	—	141,035
Impairment of real estate	—	—	185,123	—	185,123
Total expenses	72,342	—	474,155	(6,725)	539,772
Equity in losses of unconsolidated real estate JVs	—	—	(543)	—	(543)
Equity in earnings of affiliates	(39,347)	(61,814)	(1,198)	102,359	—
Net loss	(105,680)	(61,790)	(33,039)	102,359	(98,150)
Net income attributable to noncontrolling interests	—	—	(7,530)	—	(7,530)
Net loss attributable to Alexandria Real Estate Equities, Inc.'s stockholders	(105,680)	(61,790)	(40,569)	102,359	(105,680)
Dividends on preferred stock	(11,381)	—	—	—	(11,381)
Preferred stock redemption charge	(12,519)	—	—	—	(12,519)
Net income attributable to unvested restricted stock awards	(1,886)	—	—	—	(1,886)
Net loss attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$ (131,466)	$ (61,790)	$ (40,569)	$ 102,359	$ (131,466)

16. Condensed consolidating financial information (continued)

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

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 34,221	$ 70,598	$ 81,711	$ (145,034)	$ 41,496
Other comprehensive income					
Unrealized losses on available-for-sale equity securities:					
Unrealized holding losses arising during the period	—	(1)	(4,024)	—	(4,025)
Reclassification adjustments for losses included in net income	—	1	2,348	—	2,349
Unrealized losses on available-for-sale equity securities, net	—	—	(1,676)	—	(1,676)
Unrealized gains (losses) on interest rate hedge agreements:					
Unrealized interest rate hedge losses arising during the period	(411)	—	(139)	—	(550)
Reclassification adjustment for amortization of interest expense included in net income	705	—	2	—	707
Unrealized gains (losses) on interest rate hedge agreements, net	294	—	(137)	—	157
Unrealized gains on foreign currency translation:					
Unrealized foreign currency translation gains arising during the period	—	—	2,744	—	2,744
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	—	—	—	—
Unrealized gains on foreign currency translation, net	—	—	2,744	—	2,744
Total other comprehensive income	294	—	931	—	1,225
Comprehensive income	34,515	70,598	82,642	(145,034)	42,721
Less: comprehensive income attributable to noncontrolling interests	—	—	(7,283)	—	(7,283)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$ 34,515	$ 70,598	$ 75,359	$ (145,034)	$ 35,438

16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Three Months Ended June 30, 2016
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net loss	$ (111,616)	$ (92,465)	$ (75,727)	$ 171,692	$ (108,116)
Other comprehensive loss					
Unrealized gains on available-for-sale equity securities:					
Unrealized holding gains arising during the period	—	101	15,888	—	15,989
Reclassification adjustments for losses included in net loss	—	—	(3,061)	—	(3,061)
Unrealized gains on available-for-sale equity securities, net	—	101	12,827	—	12,928
Unrealized losses on interest rate hedge agreements:					
Unrealized interest rate hedge losses arising during the period	(3,676)	—	—	—	(3,676)
Reclassification adjustment for amortization of interest expense included in net loss	1,865	—	—	—	1,865
Unrealized losses on interest rate hedge agreements, net	(1,811)	—	—	—	(1,811)
Unrealized gains on foreign currency translation:					
Unrealized foreign currency translation losses arising during the period	—	—	(1,364)	—	(1,364)
Reclassification adjustment for cumulative foreign currency translation losses realized upon sale	—	—	7,028	—	7,028
Unrealized gains on foreign currency translation, net	—	—	5,664	—	5,664
Total other comprehensive (loss) income	(1,811)	101	18,491	—	16,781
Comprehensive loss	(113,427)	(92,364)	(57,236)	171,692	(91,335)
Less: comprehensive income attributable to noncontrolling interests	—	—	(3,476)	—	(3,476)
Comprehensive loss attributable to Alexandria Real Estate Equities, Inc.’s common stockholders	$ (113,427)	$ (92,364)	$ (60,712)	$ 171,692	$ (94,811)

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16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Six Months Ended June 30, 2017
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 75,932	$ 153,457	$ 175,647	$ (315,985)	$ 89,051
Other comprehensive income (loss)					
Unrealized gains (losses) on available-for-sale equity securities:					
Unrealized holding gains (losses) arising during the period	—	(45)	6,441	—	6,396
Reclassification adjustments for losses included in net income	—	4	2,478	—	2,482
Unrealized gains (losses) on available-for-sale equity securities, net	—	(41)	8,919	—	8,878
Unrealized gains (losses) on interest rate hedge agreements:					
Unrealized interest rate hedge gains (losses) arising during the period	888	—	(221)	—	667
Reclassification adjustment for amortization of interest expense included in net income	1,609	—	3	—	1,612
Unrealized gains (losses) on interest rate hedge agreements, net	2,497	—	(218)	—	2,279
Unrealized gains on foreign currency translation:					
Unrealized foreign currency translation gains arising during the period	—	—	3,756	—	3,756
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	—	2,421	—	2,421
Unrealized gains on foreign currency translation, net	—	—	6,177	—	6,177
Total other comprehensive income (loss)	2,497	(41)	14,878	—	17,334
Comprehensive income	78,429	153,416	190,525	(315,985)	106,385
Less: comprehensive income attributable to noncontrolling interests	—	—	(13,131)	—	(13,131)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$ 78,429	$ 153,416	$ 177,394	$ (315,985)	$ 93,254

16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Comprehensive Income
for the Six Months Ended June 30, 2016
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net loss	$ (105,680)	$ (61,790)	$ (33,039)	$ 102,359	$ (98,150)
Other comprehensive (loss) income					
Unrealized gains (losses) on available-for-sale equity securities:					
Unrealized holding gains (losses) arising during the period	—	78	(31,512)	—	(31,434)
Reclassification adjustments for losses (gains) included in net loss	—	11	(10,098)	—	(10,087)
Unrealized gains (losses) on available-for-sale equity securities, net	—	89	(41,610)	—	(41,521)
Unrealized losses on interest rate hedge agreements:					
Unrealized interest rate hedge losses arising during the period	(10,637)	—	—	—	(10,637)
Reclassification adjustment for amortization of interest expense included in net loss	2,023	—	—	—	2,023
Unrealized losses on interest rate hedge agreements, net	(8,614)	—	—	—	(8,614)
Unrealized gains on foreign currency translation:					
Unrealized foreign currency translation gains arising during the period	—	—	2,164	—	2,164
Reclassification adjustment for cumulative foreign currency translation losses realized upon sale	—	—	7,028	—	7,028
Unrealized gains on foreign currency translation, net	—	—	9,192	—	9,192
Total other comprehensive (loss) income	(8,614)	89	(32,418)	—	(40,943)
Comprehensive loss	(114,294)	(61,701)	(65,457)	102,359	(139,093)
Less: comprehensive income attributable to noncontrolling interests	—	—	(7,506)	—	(7,506)
Comprehensive loss attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$ (114,294)	$ (61,701)	$ (72,963)	$ 102,359	$ (146,599)

16. Condensed consolidating financial information (continued)

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

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Net income	$ 75,932	$ 153,457	$ 175,647	$ (315,985)	$ 89,051
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Depreciation and amortization	3,430	—	197,851	—	201,281
Loss on early extinguishment of debt	670	—	—	—	670
Gain on sales of real estate – rental properties	—	—	(270)	—	(270)
Impairment of real estate	—	—	203	—	203
Gain on sales of real estate – land parcels	—	—	(111)	—	(111)
Equity in earnings of unconsolidated real estate joint ventures	—	—	(950)	—	(950)
Distributions of earnings from unconsolidated real estate JVs	—	—	249	—	249
Amortization of loan fees	3,774	—	1,964	—	5,738
Amortization of debt discounts (premiums)	290	—	(1,511)	—	(1,221)
Amortization of acquired below-market leases	—	—	(10,363)	—	(10,363)
Deferred rent	—	—	(53,497)	—	(53,497)
Stock compensation expense	10,756	—	—	—	10,756
Equity in earnings of affiliates	(159,548)	(153,445)	(2,992)	315,985	—
Investment gains	—	(15)	(5,766)	—	(5,781)
Investment losses	—	10	318	—	328
Investment impairments	—	—	4,491	—	4,491
Changes in operating assets and liabilities:					
Restricted cash	(13)	—	(2,125)	—	(2,138)
Tenant receivables	—	—	1,354	—	1,354
Deferred leasing costs	—	—	(26,811)	—	(26,811)
Other assets	(8,947)	—	4,293	—	(4,654)
Accounts payable, accrued expenses, and tenant security deposits	(7,109)	(12)	20,404	—	13,283
Net cash (used in) provided by operating activities	(80,765)	(5)	302,378	—	221,608
Investing Activities					
Proceeds from sales of real estate	—	—	3,528	—	3,528
Additions to real estate	—	—	(436,377)	—	(436,377)
Purchases of real estate	—	—	(480,543)	—	(480,543)

Deposits for investing activities	—	—	450	—	450
Investments in subsidiaries	(573,334)	(464,024)	(9,565)	1,046,923	—
Additions to investments	—	—	(81,192)	—	(81,192)
Investments in unconsolidated real estate JVs	—	—	(163)	—	(163)
Sales of investments	—	204	12,373	—	12,577
Net cash used in investing activities	$ (573,334)	$ (463,820)	$ (991,489)	$ 1,046,923	$ (981,720)

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16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)
for the Six Months Ended June 30, 2017
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Financing Activities					
Borrowings from secured notes payable	$ —	$ —	$ 117,666	$ —	$ 117,666
Repayments of borrowings from secured notes payable	—	—	(1,677)	—	(1,677)
Proceeds from issuance of unsecured senior notes payable	424,384	—	—	—	424,384
Borrowings from unsecured senior line of credit	2,069,000	—	—	—	2,069,000
Repayments of borrowings from unsecured senior line of credit	(1,797,000)	—	—	—	(1,797,000)
Repayments of borrowings from unsecured senior bank term loans	(200,000)	—	—	—	(200,000)
Transfer to/from parent company	21,995	463,825	561,103	(1,046,923)	—
Change in restricted cash related to financing activities	—	—	(1,530)	—	(1,530)
Payment of loan fees	(3,957)	—	(387)	—	(4,344)
Repurchase of 7.00% Series D cumulative convertible preferred stock	(17,934)	—	—	—	(17,934)
Redemption of 6.45% Series E cumulative redeemable preferred stock	(130,350)	—	—	—	(130,350)
Proceeds from the issuance of common stock	459,607	—	—	—	459,607
Dividends on common stock	(149,296)	—	—	—	(149,296)
Dividends on preferred stock	(7,015)	—	—	—	(7,015)
Contributions from noncontrolling interests	—	—	8,505	—	8,505
Distributions to noncontrolling interests	—	—	(10,791)	—	(10,791)
Net cash provided by financing activities	669,434	463,825	672,889	(1,046,923)	759,225
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	732	—	732
Net increase (decrease) in cash and cash equivalents	15,335	—	(15,490)	—	(155)
Cash and cash equivalents as of the beginning of period	30,603	—	94,429	—	125,032
Cash and cash equivalents as of the end of period	$ 45,938	$ —	$ 78,939	$ —	$ 124,877
Supplemental Disclosure of Cash Flow Information:					
Cash paid during the period for interest, net of interest capitalized	$ 41,598	$ —	$ 12,212	$ —	$ 53,810

Non-Cash Investing Activities:					
Change in accrued construction	$ —	$ —	$ (25,138)	$ —	$ (25,138)
Contribution of real estate to an unconsolidated real estate JV	$ —	$ —	$ 6,998	$ —	$ 6,998

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16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows
for the Six Months Ended June 30, 2016
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Net loss	$ (105,680)	$ (61,790)	$ (33,039)	$ 102,359	$ (98,150)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:					
Depreciation and amortization	3,275	—	137,760	—	141,035
Impairment of real estate	—	—	185,123	—	185,123
Equity in losses of unconsolidated real estate JVs	—	—	543	—	543
Distributions of earnings from unconsolidated real estate JVs	—	—	181	—	181
Amortization of loan fees	3,898	—	1,814	—	5,712
Amortization of debt discounts (premiums)	218	—	(330)	—	(112)
Amortization of acquired below-market leases	—	—	(1,940)	—	(1,940)
Deferred rent	—	—	(14,568)	—	(14,568)
Stock compensation expense	11,556	—	—	—	11,556
Equity in earnings of affiliates	39,347	61,814	1,198	(102,359)	—
Investment gains	—	(322)	(20,284)	—	(20,606)
Investment losses	—	11	6,810	—	6,821
Changes in operating assets and liabilities:					
Restricted cash	(3)	—	235	—	232
Tenant receivables	—	—	1,277	—	1,277
Deferred leasing costs	—	—	(13,858)	—	(13,858)
Other assets	(4,638)	—	(1,293)	—	(5,931)
Accounts payable, accrued expenses, and tenant security deposits	10,343	(508)	(35,042)	—	(25,207)
Net cash (used in) provided by operating activities	(41,684)	(795)	214,587	—	172,108
Investing Activities					
Proceeds from sales of real estate	—	—	16,905	—	16,905
Additions to real estate	—	—	(363,061)	—	(363,061)
Deposits for investing activities	—	—	(75)	—	(75)
Investments in unconsolidated real estate JVs	—	—	(5,946)	—	(5,946)
Investments in subsidiaries	(268,460)	(288,584)	(5,806)	562,850	—
Additions to investments	—	—	(52,366)	—	(52,366)
Sales of investments	—	845	20,698	—	21,543
Repayment of notes receivables	—	—	9,036	—	9,036

Net cash used in investing activities	$ (268,460)	$ (287,739)	$ (380,615)	$ 562,850	$ (373,964)

16. Condensed consolidating financial information (continued)

Condensed Consolidating Statement of Cash Flows (continued)
for the Six Months Ended June 30, 2016
(In thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Financing Activities					
Borrowings from secured notes payable	$ —	$ —	$ 148,722	$ —	$ 148,722
Repayments of borrowings from secured notes payable	—	—	(233,168)	—	(233,168)
Proceeds from issuance of unsecured senior notes payable	348,604	—	—	—	348,604
Principal borrowings from unsecured senior line of credit	1,486,000	—	—	—	1,486,000
Repayments of borrowings from unsecured senior line of credit	(1,565,000)	—	—	—	(1,565,000)
Transfer to/from parent company	(27,824)	288,534	302,140	(562,850)	—
Change in restricted cash related to financing activities	—	—	10,582	—	10,582
Payment of loan fees	(3,866)	—	(4,061)	—	(7,927)
Repurchase of 7.00% Series D cumulative convertible preferred stock	(59,310)	—	—	—	(59,310)
Proceeds from the issuance of common stock	367,802	—	—	—	367,802
Dividends on common stock	(115,589)	—	—	—	(115,589)
Dividends on preferred stock	(12,086)	—	—	—	(12,086)
Financing costs paid for sales of noncontrolling interests	—	—	(8,093)	—	(8,093)
Contributions from and sale of noncontrolling interests	—	—	31,020	—	31,020
Distributions to and purchase of noncontrolling interests	—	—	(57,998)	—	(57,998)
Net cash provided by financing activities	418,731	288,534	189,144	(562,850)	333,559
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	(801)	—	(801)
Net increase in cash and cash equivalents	108,587	—	22,315	—	130,902
Cash and cash equivalents as of the beginning of period	31,982	—	93,116	—	125,098
Cash and cash equivalents as of the end of period	$ 140,569	$ —	$ 115,431	$ —	$ 256,000
Supplemental Disclosure of Cash Flow Information:					
Cash paid during the period for interest, net of interest capitalized	$ 28,404	$ —	$ 9,252	$ —	$ 37,656

Non-Cash Investing Activities:					
Change in accrued construction	$ —	$ —	$ 59,871	$ —	$ 59,871
Non-Cash Financing Activities:					
Redemption of redeemable noncontrolling interests	$ —	$ —	$ (5,000)	$ —	$ (5,000)

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

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

- Operating factors such as a failure to operate our business successfully in comparison to market expectations or in comparison to our competitors, our inability to obtain capital when desired or refinance debt maturities when desired, and/or a failure to maintain our status as a REIT for federal tax purposes.
- Market and industry factors such as adverse developments concerning the life science and technology industries and/or our tenants.
- Government factors such as any unfavorable effects resulting from federal, state, local, and/or foreign government policies, laws, and/or funding levels.
- Global factors such as negative economic, political, financial, credit market, and/or banking conditions.
- Other factors such as climate change, cyber intrusions, and/or changes in laws, regulations, and financial accounting standards.

This list of risks and uncertainties is not exhaustive. Additional information regarding risk factors that may affect us is included under “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10 K for the fiscal year ended December 31, 2016. Readers of this quarterly report on Form 10 Q should also read our other documents filed publicly with the SEC for further discussion regarding such factors.

Overview

We are a Maryland corporation formed in October 1994 that has elected to be taxed as a REIT for federal income tax purposes. We are an S&P 500® urban office REIT uniquely focused on collaborative life science and technology campuses in AAA innovation cluster locations with a total market capitalization of $16.0 billion and an asset base in North America of 28.4 million square feet as of June 30, 2017. The asset base in North America includes 20.6 million RSF of operating properties, including 1.7 million RSF of development and redevelopment of new Class A properties currently undergoing construction. Additionally, the asset base in North America includes 7.8 million SF of future development projects, including 1.3 million SF of near-term projects undergoing marketing for lease and pre-construction activities and 2.8 million SF of intermediate development projects. Founded in 1994, we pioneered this niche and have since established a significant market presence in key locations, including Greater Boston, San Francisco, New York City, San Diego, Seattle, Maryland, and Research Triangle Park. We have a longstanding and proven track record of developing Class A properties clustered in urban life science and technology campuses that provide our innovative tenants with highly dynamic and collaborative environments that enhance their ability to successfully recruit and retain world-class talent and inspire productivity, efficiency, creativity, and success. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value.

As of June 30, 2017:

- Investment-grade tenants represented 51% of our total annual rental revenue;
- Approximately 97% of our leases (on an RSF basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area expenses, and other operating expenses (including increases thereto) in addition to base rent;
- Approximately 95% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index; and
- Approximately 94% of our leases (on an RSF basis) provided for the recapture of capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement, and parking lot resurfacing) that we believe would typically be borne by the landlord in traditional office leases.

Our primary business objective is to maximize stockholder value by providing our stockholders with the greatest possible total return and long-term asset value based on a multifaceted platform of internal and external growth. A key element of our strategy is our unique focus on Class A properties clustered in urban campuses. These key urban campus locations are characterized by high barriers to entry for new landlords, high barriers to exit for tenants, and a limited supply of available space. They represent highly desirable locations for tenancy by life science and technology entities because of their close proximity to concentrations of specialized skills, knowledge, institutions, and related businesses. Our strategy also includes drawing upon our deep and broad real estate, life science, and technology relationships in order to identify and attract new and leading tenants and to source additional value-creation real estate.

Executive summary

20 years on the NYSE

We celebrated our 20th anniversary as an NYSE listed REIT and achieved a total shareholder return of 1,218%, assuming reinvestment of dividends, from our initial public offering in May 1997 through June 30, 2017.

Increased common stock dividend

Common stock dividend for the three months ended June 30, 2017, of $0.86 per common share, up 3 cents, or 4%, over the three months ended March 31, 2017; continuation of our strategy to share growth in cash flows from operating activities with our stockholders, while also retaining a significant portion for reinvestment.

Strong internal growth

- Total revenues of $273.1 million, up 20.8%, for the three months ended June 30, 2017, compared to $226.1 million for the three months ended June 30, 2016, and total revenues of $543.9 million, up 23.0%, for the six months ended June 30, 2017, compared to $442.2 million for the six months ended June 30, 2016;
- Continued substantial leasing activity and strong rental rate growth, in light of minimal contractual lease expirations for 2017, and a highly leased value-creation pipeline:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Total leasing activity – RSF	1,081,777	2,402,558
Lease renewals and re-leasing of space:		
Rental rate increases	23.2%	26.2%
Rental rate increases (cash basis)	9.4%	14.7%
RSF (included in total leasing activity above)	604,142	1,483,005

- Executed key leases during the three months ended June 30, 2017:
  - 163,648 RSF, leased to Takeda Pharmaceutical Company Ltd. at our redevelopment project at 9625 Towne Centre Drive in our San Diego market; and
  - 109,780 RSF, renewed with Laboratory Corporation of America at 13112 Evening Creek Drive in our San Diego market.
- Same property net operating income growth:
  - 1.8% and 7.0% (cash basis) for the three months ended June 30, 2017, compared to the three months ended June 30, 2016; and
  - 2.2% and 6.2% (cash basis) for the six months ended June 30, 2017, compared to the six months ended June 30, 2016.

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

- Deliveries of new Class A properties drive significant growth in net operating income:

Delivery Date	RSF [(1)]	Percentage Leased [(1)]	Incremental Annual Net Operating Income [(1)]
2016	1,893,928	94%	$92 million (2)
1H17	304,276	100%	$21 million
2H17	1,100,841	81%	$74 million to $84 million [(2)]

(1) Represents incremental annual net operating income upon stabilization of our development and redevelopment of new Class A properties, including only our share of real estate joint venture projects. Partial deliveries of multi-tenant development projects are included in the respective period. RSF and percentage leased represent 100% of each property.
(2) Deliveries of projects are primarily weighted toward the fourth quarter.

- Key development project placed into service during the three months ended June 30, 2017: fully leased parking structure delivered to Illumina, Inc. at 5200 Illumina Way in our University Town Center submarket;
- 100 Binney Street on track to be 100% leased during the three months ended September 30, 2017:
- 59% leased as of July 2017, including one lease executed in the three months ended June 30, 2017 and one lease executed in July 2017;
- Two leases were distributed with execution expected in the first week of August;
- One lease on track for execution during the three months ending September 30, 2017;
- $95 million in contractual cash rents from our recently completed development and redevelopment projects:
- $40 million for the three months ended June 30, 2017;
- $55 million relatively evenly over five quarters from the third quarter of 2017 to the third quarter of 2018; and
- Completed strategic acquisitions of two properties and two land parcels during the three months ended June 30, 2017, for an aggregate purchase price of $244.0 million, including: (i) future development projects of over 1.0 million SF in our Greater Stanford submarket, (ii) a redevelopment project consisting of 175,000 RSF in Research Triangle Park, and (iii) an operating property consisting of 77,634 RSF in our Greater Stanford submarket. See the “Acquisitions” sections within this Item 2 for additional information.

Operating results

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change		2017	2016	Change	
Net income (loss) attributable to Alexandria's common stockholders – diluted:								
In millions	$31.6	$(127.6)	$159.3	N/A	$57.3	$(131.5)	$188.8	N/A
Per share	$0.35	$(1.72)	$2.07	N/A	$0.64	$(1.79)	$2.43	N/A
Funds from operations attributable to Alexandria's common stockholders – diluted, as adjusted:								
In millions	$136.2	$101.1	$35.1	34.7%	$266.7	$198.2	$68.6	34.6%
Per share	$1.50	$1.36	$0.14	10.3%	$2.98	$2.70	$0.28	10.4%

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

Core operating metrics and internal growth

- Percentage of annual rental revenue in effect as of June 30, 2017 from:
- Investment-grade tenants: 51%;
- Class A properties in AAA locations: 79%;
- Occupancy for operating properties in North America as of June 30, 2017: 95.7%;
- Operating margin for the three months ended June 30, 2017: 72%;
- Adjusted EBITDA margin for the three months ended June 30, 2017: 68%; and
- Weighted-average remaining lease term for our top 20 tenants:
- As of June 30, 2017: 13.5 years;
- As of June 30, 2017, excluding one long-term ground lease: 9.7 years.

Balance sheet management

Key metrics

	As of June 30, 2017
Total market capitalization	$16.0 billion
Liquidity	$1.8 billion
Net debt to Adjusted EBITDA:	
Quarter annualized	6.2x
Trailing 12 months	6.8x
Fixed-charge coverage ratio:	
Quarter annualized	4.1x
Trailing 12 months	3.9x
Unhedged variable-rate debt as a percentage of total debt	11%
	13%

Current and future value-creation pipeline as a percentage of gross investments in real estate in North America

Key capital events

- During the three months ended June 30, 2017, we sold an aggregate of 2.1 million shares of common stock under our ATM program for gross proceeds of $245.8 million, or $118.97 per share, and net proceeds of approximately $241.8 million. As of June 30, 2017, there is no remaining availability on our ATM program. We expect to file a new ATM common stock offering program in the second half of 2017;
- On April 14, 2017, we completed the redemption of all 5.2 million outstanding shares of our Series E Redeemable Preferred Stock at a redemption price of $25.00 per share, or an aggregate of $130.0 million, plus accrued dividends;

- In April 2017, we executed three interest rate swap agreements aggregating:
- $150 million notional amount at a fixed pay rate of 1.60%, effective March 29, 2018; and
- $100 million notional amount at a fixed pay rate of 1.89%, effective March 29, 2019.

Corporate social responsibility and industry leadership

- 49% of total annual rental revenue is expected from LEED® certified projects upon completion of 14 in-process projects.
- 86 energy conservation measures were completed in 2015 and 2016. Achieved a year-over-year reduction in greenhouse gases.
- In June 2017, we celebrated the grand opening of Alexandria LaunchLabs® at the Alexandria Center® for Life Science – New York City and awarded the inaugural Alexandria LaunchLabs® Entrepreneurship Prize to Neochromosome, Inc. Alexandria LaunchLabs® is NYC's premier, full-service startup platform that satisfies the need for turn-key office/laboratory space and access to strategic risk capital for seed-stage life science companies. The grand opening was held in connection with the NYC Life Science Innovation Showcase in partnership with the New York Academic Consortium. To date, 13 initial member companies have been accepted to Alexandria LaunchLabs® from a competitive pool of applicants, indicating strong demand for Alexandria's office/laboratory space.
- In June 2017, we hosted former Vice President Joe Biden and Dr. Jill Biden at our Alexandria Center® for Life Science – New York City to launch the Biden Cancer Initiative, a comprehensive program to develop and accelerate progress in cancer prevention, detection, treatment, and care.
- In June 2017, Joel S. Marcus, Chairman, Chief Executive Officer & Founder, was named one of "Commercial Real Estate's Best Bosses of 2017" by Real Estate Forum. He was named one of 25 winners (out of more than 200 nominations) across the United States real estate industry, for his leadership qualities manifested from our founding in 1994 through recent commemoration of our 20th anniversary on the NYSE.

Incremental annual net operating income from development and redevelopment of new Class A properties

(1) Represents incremental annual net operating income upon stabilization of our development and redevelopment of new Class A properties, including only our share of real estate joint venture projects. Partial deliveries of multi-tenant development projects are included in the respective period. RSF and percentage leased represent 100% of each property.

(2) Deliveries of projects are primarily weighted toward the fourth quarter.

Operating summary

Favorable Lease Structure[1]	Same Property Net Operating Income Growth
Stable cash flows	
Percentage of triple net leases 97%	
Increasing cash flows	
Percentage of leases containing annual rent escalations 95%	
Lower capex burden	
Percentage of leases providing for the recapture of capital expenditures 94%	

Margins[2]	Rental Rate Growth: Renewed/Re-Leased Space
Adjusted EBITDA Operating	
68% 72%	

(1) Percentages calculated based on RSF as of June 30, 2017.
(2) Represents the three months ended June 30, 2017.

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

Annual Rental
Revenue from
Investment-Grade
Tenants[1]
51%

Tenant Mix

Percentage of
ARE's Annual
Rental Revenue[1]

(1) Represents annual rental revenue in effect as of June 30, 2017.

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

Class A Properties in AAA Locations

AAA Locations

79%
of ARE's
Annual Rental Revenue(1)

Percentage of ARE's Annual Rental Revenue(1)

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

Solid Historical Occupancy(2)

Occupancy across Key Locations

95%
Over 10 Years

Occupancy of Operating Properties as of June 30, 2017

(1) Represents annual rental revenue in effect as of June 30, 2017.

(2) Average occupancy of operating properties in North America as of each December 31 for the last 10 years and as of June 30, 2017.

(3) In December 2016, Eli Lilly and Company vacated 125,409 RSF at 10300 Campus Point Drive in our University Town Center submarket and relocated and expanded into 305,006 RSF at 10290 Campus Point Drive.

Leasing

The following table summarizes our leasing activity at our properties:

	Three Months Ended		Six Months Ended		Year Ended	
	June 30, 2017		June 30, 2017		December 31, 2016	
	Including Straight-Line Rent	Cash Basis	Including Straight-Line Rent	Cash Basis	Including Straight-Line Rent	Cash Basis
(Dollars are per RSF)						
Leasing activity:						
Renewed/re-leased space [1]						
Rental rate changes	23.2%	9.4%	26.2%	14.7%	27.6%	12.0%
New rates	$40.17	$38.70	$48.72	$45.41	$48.60	$45.83
Expiring rates	$32.60	$35.37	$38.60	$39.59	$38.09	$40.92
Rentable square footage	604,142		1,483,005		2,129,608	
Tenant improvements/leasing commissions	$15.16		$18.72 [2]		$15.69	
Weighted-average lease term	6.1 years		6.2 years		5.5 years	
Developed/redeveloped/previously vacant space leased						
New rates	$32.95	$33.09	$28.23	$24.18	$50.24	$38.72
Rentable square footage	477,635		919,553		1,260,459	
Tenant improvements/leasing commissions	$8.80		$6.63		$12.42	
Weighted-average lease term	5.1 years		10.0 years		32.6 years	
Leasing activity summary (totals):						
New rates	$36.98	$36.22	$40.88	$37.29	$49.21	$43.19
Rentable square footage	1,081,777		2,402,558 [3]		3,390,067	
Tenant improvements/leasing commissions	$12.35		$14.09		$14.48	
Weighted-average lease term	5.7 years		7.6 years		15.6 years	
Lease expirations: [1]						
Expiring rates	$32.57	$35.30	$37.73	$38.70	$36.70	$39.32
Rentable square footage	613,868		1,758,706		2,484,169	

Leasing activity includes 100% of results for properties managed by us. Refer to the “Non-GAAP Measures and Definitions” section within this Item 2 for a description of the basis used to compute the measures above.

(1) Excludes 28 month-to-month leases for 46,902 RSF and 20 month-to-month leases for 31,207 RSF as of June 30, 2017 and December 31, 2016, respectively.

(2) Includes approximately $4.5 million, or $3.06 per square foot, of leasing commissions related to lease renewals at two of our properties in our Cambridge submarket during the three months ended March 31, 2017, that generated increases in rental rates of 28.8% and 20.4% (cash basis).

(3) During the six months ended June 30, 2017, we granted tenant concessions/free rent averaging 2.6 months with respect to the 2,402,558 RSF leased. Approximately 65% of the leases executed during the six months ended June 30, 2017 did not include concessions for free rent.

Summary of contractual lease expirations

The following table summarizes information with respect to the contractual lease expirations at our properties as of June 30, 2017:

Year	Number of Leases	RSF	Percentage of Occupied RSF	Annual Rental Revenue (per RSF)	Percentage of Total Annual Rental Revenue
2017 [1]	36	318,397	1.8 %	$ 41.65	1.6 %
2018	105	1,376,083	7.7 %	$ 37.98	6.4 %
2019	88	1,494,412	8.3 %	$ 39.93	7.3 %
2020	100	2,052,268	11.4 %	$ 38.20	9.6 %
2021	76	1,584,862	8.8 %	$ 41.41	8.0 %
2022	65	1,272,145	7.1 %	$ 46.13	7.2 %
2023	37	1,683,420	9.4 %	$ 42.07	8.6 %
2024	23	1,269,192	7.1 %	$ 49.53	7.7 %
2025	15	457,165	2.5 %	$ 48.48	2.7 %
2026	16	646,397	3.6 %	$ 46.42	3.7 %
Thereafter	54	5,812,046	32.3 %	$ 52.73	37.2 %

Lease expirations include 100% of the RSF for each property managed by us in North America.

(1) Excludes 28 month-to-month leases for 46,902 RSF as of June 30, 2017.

The following tables present information by market with respect to our lease expirations in North America as of June 30, 2017, for the remainder of 2017 and all of 2018:

	2017 Contractual Lease Expirations					Annual Rental Revenue (per RSF)
Market	Leased	Negotiating/ Anticipating	Targeted for Development/Redevelopment	Remaining Expiring Leases	Total [1]	
Greater Boston	68,493	12,880	—	66,309	147,682	$ 40.48
San Francisco	—	—	—	—	—	—
New York City	—	1,070	—	14,849	15,919	N/A
San Diego	31,792	—	—	30,845	62,637	33.13
Seattle	12,511	—	—	6,180	18,691	46.26
Maryland	14,141	6,289	—	8,590	29,020	25.01
Research Triangle Park	9,364	—	—	14,309	23,673	21.65
Canada	—	—	—	—	—	—
Non-cluster markets	—	—	—	20,775	20,775	24.45
Total	136,301	20,239	—	161,857	318,397	$ 41.65
Percentage of expiring leases	43 %	6 %	— %	51 %	100 %	

	2018 Contractual Lease Expirations		Annual
	Leased	Total	Rental

Market		Negotiating/ Anticipating	Targeted for Development/Redevelopment	Remaining Expiring Leases		Revenue (per RSF)
Greater Boston	18,263	11,830	—	296,890 (2)	326,983	$ 58.59
San Francisco	34,623	11,114	321,971 (3)	136,343	504,051	35.48
New York City	—	915	—	4,060	4,975	N/A
San Diego	15,611	—	—	282,520	298,131	29.99
Seattle	—	—	—	15,264	15,264	43.66
Maryland	5,104	—	—	70,297	75,401	19.88
Research Triangle Park	—	4,575	—	55,410	59,985	26.27
Canada	—	—	—	80,689	80,689	20.55
Non-cluster markets	—	—	—	10,604	10,604	26.58
Total	73,601	28,434	321,971	952,077 (4)	1,376,083	$ 37.98
Percentage of expiring leases	5 %	2 %	23 %	70 %	100 %	

Lease expirations include 100% of the RSF for each property managed by us in North America. Annual rental revenue (per RSF) represents amounts in effect as of June 30, 2017.

(1) Excludes 28 month-to-month leases for 46,902 RSF as of June 30, 2017.

(2) Includes 274,254 RSF located in our Cambridge submarket for the remaining expiring leases in 2018.

(3) Includes 195,000 RSF expiring during the three months ended March 31, 2018 at 960 Industrial Road, a recently acquired property located in our Greater Stanford submarket. We are pursuing entitlements aggregating 500,000 RSF for a multi-building development. Also includes 126,971 RSF of office space at 681 Gateway Boulevard in our South San Francisco submarket targeted for redevelopment into office/laboratory space upon expiration of the existing lease in the three months ended September 30, 2018. Concurrent with our redevelopment, we anticipate expanding the building by an additional 15,000 to 30,000 RSF, and expect the project to be delivered in 2019.

(4) The two largest remaining expiring leases in 2018 are 71,510 RSF at 9880 Campus Point Drive in our University Town Center submarket, which is under evaluation for options to create a Class A office/laboratory building at this property, and 60,917 RSF in our Canada market undergoing marketing.

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Top 20 tenants

79% of Top 20 Annual Rental Revenue from Investment-Grade Tenants

Our properties are leased to a high-quality and diverse group of tenants, with no individual tenant accounting for more than 4.0% of our annual rental revenue in effect as of June 30, 2017. The following table sets forth information regarding leases with our 20 largest tenants in North America based upon annual rental revenue in effect as of June 30, 2017 (dollars in thousands):

	Tenant	Remaining Lease Term in Years [1]	Aggregate RSF	Annual Rental Revenue [1]	Percentage of Aggregate Annual Rental Revenue [1]	Investment-Grade Ratings	
						Moody’s	S&P
1	Illumina, Inc.	13.1	891,495	$33,958	4.0%	—	BBB
2	Takeda Pharmaceutical Company Ltd.	12.8	386,111	30,516	3.6	A1	A-
3	Eli Lilly and Company	12.4	469,266	29,342	3.5	A2	AA-
4	Novartis AG	9.4	377,831	28,622	3.4	Aa3	AA-
5	Sanofi	10.8	446,975	25,166	3.0	A1	AA
6	Uber Technologies, Inc. [2]	75.4	422,980	22,118	2.6	—	—
7	New York University	13.1	209,224	20,651	2.5	Aa2	AA-
8	bluebird bio, Inc.	9.6	262,261	20,099	2.4	—	—
9	Dana-Farber Cancer Institute, Inc. [3]	13.4	254,130	19,512	2.3	A1	—
10	Roche	4.6	343,861	17,597	2.1	A1	AA
11	Amgen Inc.	6.8	407,369	16,838	2.0	Baa1	A
12	Massachusetts Institute of Technology	7.9	256,126	16,554	2.0	Aaa	AAA
13	United States Government	8.1	264,358	15,026	1.8	Aaa	AA+
14	Celgene Corporation	6.2	347,503	14,757	1.8	Baa2	BBB+
15	FibroGen, Inc.	6.4	234,249	14,198	1.7	—	—
16	Biogen Inc.	11.3	305,212	13,278	1.6	Baa1	A-
17	Juno Therapeutics, Inc.	11.8	241,276	12,619	1.5	—	—
18	Bristol-Myers Squibb Company	1.8	251,316	10,743	1.3	A2	A+
19	The Regents of the University of California	6.2	233,527	10,733	1.3	Aa2	AA
20	Merrimack Pharmaceuticals, Inc. [4]	1.7	141,432	9,998	1.2	—	—
	Total/weighted average	13.5 [5]	6,746,502	$382,325	45.6%		

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

(1) Based on percentage of aggregate annual rental revenue in effect as of June 30, 2017.

(2) Represents a ground lease with Uber Technologies, Inc. at 1455 and 1515 Third Street.

(3) In July 2017, we completed the sale of a condominium interest to Dana-Farber for 203,090 RSF of their leased space in 360 Longwood Avenue. Refer to “Real Estate Asset Sales” under the “Investments in Real Estate” section within this Item 2 for additional information on our dispositions.

(4) Tenant added through the acquisition of an in-place lease at One Kendall Square, located in our Cambridge submarket. During the three months ended June 30, 2017, we early terminated 25,735 RSF of Merrimack's lease and re-leased the space to a credit tenant at a 12.0% increase in rental rates (cash).

(5) Excluding the ground lease to Uber Technologies, Inc., the weighted-average remaining lease term for our top 20 tenants was 9.7 years as of June 30, 2017.

Locations of properties

The locations of our properties are diversified among a number of life science and technology cluster markets. The following table sets forth the total RSF, number of properties, and annual rental revenue in effect as of June 30, 2017, in North America of our properties by market (dollars in thousands, except per RSF amounts):

Market	RSF Operating	Development	Redevelopment	Total	% of Total	Number of Properties	Annual Rental Revenue Total	% of Total	Per RSF
Greater Boston	5,852,281	431,483	—	6,283,764	31 %	51	$341,588	41 %	$60.67
San Francisco	3,714,560	747,355	—	4,461,915	22	33	167,376	20	45.26
New York City	727,674	—	—	727,674	4	2	61,879	7	85.61
San Diego	3,892,451	170,523	163,648	4,226,622	21	52	134,783	16	37.78
Seattle	989,085	48,835	—	1,037,920	5	11	46,107	5	47.96
Maryland	2,085,196	—	—	2,085,196	9	28	50,132	6	25.84
Research Triangle Park	1,043,726	—	175,000	1,218,726	6	16	24,149	3	24.13
Canada	256,967	—	—	256,967	1	3	6,424	1	25.21
Non-cluster markets	268,689	—	—	268,689	1	6	6,045	1	25.45
North America	18,830,629	1,398,196	338,648	20,567,473	100%	202	$838,483	100%	$46.55

RSF, number of properties, and annual rental revenue include 100% of each property managed by us in North America.

Summary of occupancy percentages in North America

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

	Operating Properties			Operating and Redevelopment Properties		
Market	6/30/17	3/31/17	6/30/16	6/30/17	3/31/17	6/30/16
Greater Boston	96.2%	96.1 %	97.9 %	96.2%	96.1 %	96.6 %
San Francisco	99.6	99.8	100.0	99.6	99.8	100.0
New York City	99.3	97.8	94.6	99.3	97.8	94.6
San Diego	91.7	91.0	93.8	88.0	87.3	81.8
Seattle	97.2 (1)	98.2	99.1	97.2	98.2	99.1
Maryland	93.0	92.6	96.4	93.0	92.6	96.4
Research Triangle Park	95.9 (2)	97.5	98.3	82.1 (3)	97.5	98.3
Subtotal	95.7	95.6	97.2	94.0	94.7	93.9
Canada	99.2	99.2	99.3	99.2	99.2	99.3
Non-cluster markets	88.4	88.4	88.2	88.4	88.4	88.2
North America	95.7%	95.5 %	97.0 %	94.0%	94.7 %	93.9 %

Occupancy includes 100% of each property managed by us in North America.

(1) Decline from March 31, 2017 primarily relates to 9,960 RSF that became vacant in the three months ended June 30, 2017 at 219 Terry Avenue North located in our Lake Union submarket. This space has been re-leased to

another tenant with commencement during the three months ending September 30, 2017.

(2) Decline from March 31, 2017 primarily relates to 17,400 RSF that became vacant during the three months ended June 30, 2017 at 5 Triangle Drive in our Research Triangle Park submarket. This space has been re-leased to another tenant with commencement during the three months ending September 30, 2017.

(3) Decline from March 31, 2017 primarily relates to the acquisition of a vacant 175,000 RSF property at 5 Laboratory Drive undergoing redevelopment into office/laboratory and upgrading existing greenhouse space. Refer to the “Acquisitions” section within this Item 2 for additional information.

Investments in real estate

A key component of our business model is our disciplined allocation of capital to the development and redevelopment of new Class A properties located in world-class collaborative life science and technology campuses in AAA urban innovation clusters. These projects are focused on providing high-quality, generic, and reusable space that meet the real estate requirements of, and are reusable by, a wide range of tenants. A significant number of our active development and redevelopment projects are highly leased and expected to be substantially delivered in the near future. Upon completion, each value-creation project is expected to generate a significant increase in rental income, net operating income, and cash flows. Our development and redevelopment projects are generally in locations that are highly desirable to high-quality entities, which we believe results in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset values. Our pre-construction activities are undertaken in order to get the property ready for its intended use, and include such activities as developing plans or obtaining permits. Our investments in real estate consisted of the following as of June 30, 2017 (dollars in thousands):

	Investments in Real Estate	Square Feet		
		Consolidated	Unconsolidated [1]	Total
Investments in real estate – North America:				
Rental properties	$9,989,951	18,416,830	413,799	18,830,629
Development and redevelopment of new Class A properties:				
2017 deliveries undergoing construction	723,716	1,100,841	—	1,100,841
2018 and 2019 deliveries				
Projects undergoing construction	89,460	636,003	—	636,003
Near-term projects undergoing marketing and pre-construction	102,330	1,340,144	—	1,340,144
2019 and beyond – intermediate development projects	287,072	2,800,009		2,800,009
Future development projects	284,630	3,981,362	90,000	4,071,362
Portion of developable square feet that will replace existing RSF included in rental properties [2]	N/A	(427,470)	—	(427,470)
Gross investments in real estate – North America	11,477,159	27,847,719	503,799	28,351,518
Less: accumulated depreciation	(1,694,254)			
Net investments in real estate – North America	9,782,905			
Net investments in real estate – Asia	36,508			
Investments in real estate	$9,819,413			

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

(2) Refer to footnotes 1 and 4 on the “2019 and Beyond (Intermediate Development Projects)” and “Summary of Pipeline” sections, respectively, within this Item 2.

Sustainability

(1) Upon completion of 14 in-process LEED® certified projects.
(2) Completed in 2015 and 2016.

Acquisitions

Our real estate asset acquisitions during the six months ended June 30, 2017, and subsequently, consisted of the following (dollars in thousands):