ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-K
February 29, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange
(Including related preferred stock purchase rights)	New York Stock Exchange
8.375% Series C Cumulative Redeemable Preferred Stock	

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

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

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

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

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

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

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

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

The aggregate market value of the shares of Common Stock held by non-affiliates of registrant was approximately $2.8 billion based on the closing price for such shares on the New York Stock Exchange on June 30, 2007.

As of February 26, 2007, the registrant had outstanding 32,019,146 shares of Common Stock.

Documents Incorporated By Reference

Part III of this report incorporates certain information by reference from the registrant s definitive proxy statement to be filed within 120 days of the end of the fiscal year covered by this report in connection with the registrant s annual meeting of stockholders to be held on or about May 22, 2008.

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PART I

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify some of the forward-looking statements by the use of forward-looking words such as believes , expects , may , will , should , seeks , intends , plans , estimates or anticipates , or the nega or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, those described below in this report and under the headings Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation . We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements contained in this or any other document, whether as a result of new information, future events or otherwise.

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

ITEM 1. BUSINESS

General

We are a Maryland corporation formed in October 1994 that has elected to be taxed as a real estate investment trust (REIT) for federal income tax purposes. We are engaged principally in the ownership, operation, management, selective development, redevelopment and acquisition of life science properties. Our properties are designed and improved for lease primarily to institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, life science product, service, and translational medicine entities, as well as governmental agencies. Our properties leased to tenants in the life science industry typically consist of buildings containing scientific research and development laboratories and other improvements that are generic to tenants operating in the life science industry. We refer to such properties as life science properties . As of December 31, 2007, we had 166 properties (162 properties located in ten states in the United States and four properties located in Canada) containing approximately 12.1 million rentable square feet of office/laboratory space plus approximately 1.6 million rentable square feet undergoing ground-up development and an imbedded pipeline for future ground-up development approximating 8.7 million developable square feet.

Business and growth strategy

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

- California - Los Angeles Metro;
- California - San Diego;
- California - San Francisco Bay;
- Eastern Massachusetts;
- International - Canada;

- International - China;
- New Jersey/Suburban Philadelphia;
- New York City;
- Southeast;
- Suburban Washington D.C.; and
- Washington - Seattle.

Our tenant base is broad and diverse within the life science industry and reflects our focus on regional, national and international tenants with substantial financial and operational resources. For a more detailed description of our properties and tenants, see Item 2. Properties. We have an experienced Board of Directors and are led by a senior management team with extensive experience in both the real estate and life science industries.

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

- selectively developing properties in our target life science cluster markets;
- redeveloping existing office, warehouse, shell space or newly acquired properties into generic laboratory space that can be leased at higher rental rates in our target life science cluster markets;
- acquiring high quality life science properties in our target life science cluster markets at prices that enable us to realize attractive returns;
- retenanting and re-leasing space at higher rental rates while minimizing tenant improvement costs;
- realizing contractual rental rate escalations, which are currently provided for in approximately 94% of our leases (on a rentable square footage basis);
- implementing effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures; and
- maintaining a strong and flexible balance sheet.

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

Internal growth

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

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

Development

We seek to acquire strategic land parcels in key life science cluster markets to enhance our growth through ground-up development projects. Our development strategy is primarily to pursue selective projects where we expect to achieve investment returns that will equal or exceed our returns on acquisitions. We generally have undertaken ground-up development projects only if our investment in infrastructure will be substantially made for generic, rather than tenant specific, improvements. As of December 31, 2007, we had six parcels of land undergoing ground-up development approximating 1.6 million rentable square feet of office/laboratory space and an imbedded pipeline for future ground-up development approximating 8.7 million developable square feet of office/laboratory space.

Redevelopment

We seek to enhance our growth by redeveloping existing office, warehouse or shell space as generic laboratory space that can be leased at higher rates. As of December 31, 2007, we had approximately 775,000 rentable square feet undergoing redevelopment at 16 properties. In addition to properties undergoing redevelopment, as of December 31, 2007, our asset base contained imbedded opportunities for a future permanent change of use to office/laboratory space through redevelopment aggregating approximately 1.8 million rentable square feet.

Growth through international expansion

The biopharmaceutical industry is an international industry. As such, we intend to continue expansion in Canada, Europe, and Asia. We believe that expansion into worldwide markets outside the United States represents a natural extension of our strategy to continue to be the leading provider of real estate to the broad and diverse life science industry. Our international expansion strategy mirrors our focus in the United States on supply constrained markets with political, economic or physical constraints to new development as well as proximity to centers of life science research and technology transfer. We believe that our established client tenant relationships, our contacts in the life science industry, our underwriting of markets and investments and our strategic alliances with political and economic development entities will assist us in expanding internationally.

Acquisitions

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

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

Tenants

As of December 31, 2007, we had 391 leases with a total of 323 tenants, and 90 of our 166 properties were single-tenant properties. Our three largest tenants accounted for approximately 13.4% of our aggregate annualized base rent, or approximately 6.9%, 3.5% and 3.0%, respectively. None of our tenants represented more than 10% of total revenues for the year ended December 31, 2007.

Competition

In general, other life science properties are located in close proximity to our properties. The amount of rentable space available in any market could have a material effect on our ability to rent space and on the rents that we can earn. In addition, we compete for investment opportunities with insurance companies, pension and investment funds, private equity entities, partnerships, developers, investment companies, other REITs, and owner/occupants. Many of these entities have substantially greater financial resources than we do and may be able to pay more than us or accept more risk than we are willing to accept. These entities may be less sensitive to risks with respect to the creditworthiness of a tenant or the geographic concentration of their investments. Competition may also reduce the number of suitable investment opportunities available to us or may increase the bargaining power of property owners seeking to sell. Competition in acquiring existing properties and land, both from institutional capital sources and from other REITs, has been very strong over the past several years. We believe we have differentiated ourselves from our competitors, as we are the largest owner, manager and developer of life science properties, in key life science markets.

Financing and working capital

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

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

Preferred securities

We may consider from time to time the issuance of additional series of preferred stock that are senior to our common stock. At December 31, 2007, we had preferred stock outstanding with a liquidation preference of approximately $129.6 million. The preferred stock has general preference rights with respect to liquidation and quarterly distributions. In June 2004, we completed a public offering of 5,185,500 shares of our 8.375% Series C Cumulative Redeemable Preferred Stock with aggregate proceeds of approximately $124.0 million. In July 2004, we redeemed all 1,543,500 outstanding shares of our 9.50% Series A Cumulative Redeemable Preferred Stock at an aggregate redemption price of approximately $38.6 million. In March 2007, we redeemed all 2,300,000 outstanding shares of our 9.10% Series B Cumulative Redeemable Preferred Stock at an aggregate redemption price of approximately $57.5 million. Future redemptions or repurchases of our preferred securities may occur after their respective call dates. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and Capital Resources- Other Resources and Liquidity Requirements.

Financial information about our operating segment

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

Available information

We will provide, upon request and free of charge, paper copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including any amendments to the foregoing reports, as soon as is reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. These materials, along with our corporate governance guidelines, Business Integrity Policy and board committee charters, are also available through our corporate website at http://www.labspace.com. Further, a copy of this annual report on Form 10-K is located at the Securities and Exchange Commission s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The public may also download these materials from the Securities and Exchange Commission s website at http://www.sec.gov. Any amendments to, and waivers of, our Business Integrity Policy will be posted on our corporate website.

Employees

As of December 31, 2007, we had 150 full-time employees. We believe that we have good relations with our employees. We have adopted a Business Integrity Policy that applies to all of our employees. Its receipt and review by each employee is documented and verified annually.

ITEM 1A. RISK FACTORS

Financing our future growth plan or refinancing existing debt maturities could be impacted by negative capital market conditions

Recently, financial markets have experienced unusual volatility and uncertainty. While this condition has occurred most visibly within the subprime mortgage lending sector of the credit market, liquidity has tightened in overall financial markets, including the debt and equity capital markets. Consequently, there is greater uncertainty regarding our ability to access the credit market in order to attract financing on reasonable terms. Our ability to finance our pending or new acquisitions, development and redevelopment projects, as well as our ability to refinance debt maturities could be adversely affected by our inability to secure permanent financing on reasonable terms, if at all.

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

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

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

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

We have reserved for issuance to our officers, directors and employees pursuant to our Amended and Restated 1997 Stock Award and Incentive Plan that number of shares of our common stock that equals 12% of the total number of shares outstanding at any time, provided that in no event may the number of shares of our common stock available for issuance under the plan exceed 3,000,000 shares at any time. As of December 31, 2007, a total of 973,881 shares were reserved for issuance under our 1997 Stock Award and Incentive Plan.

As of December 31, 2007, options to purchase 255,345 shares of our common stock were outstanding, all of which were exercisable. We have filed a registration statement with respect to the issuance of shares of our common stock pursuant to grants under our equity incentive plan. In addition, any shares issued under our equity incentive plan will be available for sale in the public market from time to time without restriction by persons who are not our affiliates (as defined in Rule 144 adopted under the Securities Act of 1933). Affiliates will be able to sell shares of our common stock pursuant to exemptions from registration requirements or upon registration.

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

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

- national and local economic conditions;
- competition from other life science properties;

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

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

Our distributions to stockholders may decline at any time

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

- our amount of cash available for distribution;
- our financial condition;
- any decision by our Board of Directors to reinvest funds rather than to distribute such funds;
- our capital expenditures;
- the annual distribution requirements under the REIT provisions of the Internal Revenue Code; and
- other factors our Board of Directors deems relevant.

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

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

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

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

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

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

- Our cash flow from operations may not be sufficient to meet required payments of principal and interest.
- We may be forced to dispose of one or more of our properties, possibly on disadvantageous terms, to make payments on our debt.
- We may default on our debt obligations, and the lenders or mortgagees may foreclose on our properties that secure those loans.
- A foreclosure on one of our properties could create taxable income without any accompanying cash proceeds to pay the tax.
- A default under a mortgage loan that has cross default provisions may cause us to automatically default on another loan.

- We may not be able to refinance or extend our existing debt.
- The terms of any refinancing or extension may not be as favorable as the terms of our existing debt.
- We may be subject to a significant increase in the variable interest rates on our unsecured line of credit and unsecured term loan and certain other borrowings, which could adversely impact our operations.

As of December 31, 2007, we had outstanding mortgage indebtedness of approximately $1.2 billion, secured by 73 properties and 6 land development parcels, and outstanding debt under our unsecured line of credit and unsecured term loan of approximately $1.1 billion. In addition, as of December 31, 2007, we had outstanding $460 million of 3.70% convertible unsecured notes.

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

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

- restrict our ability to incur additional indebtedness;
- restrict our ability to make certain investments;
- restrict our ability to merge with another company;

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

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

If interest rates rise, our debt service costs will increase

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

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

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

Proposed accounting rule changes for certain convertible debt instruments could increase significantly the non-cash interest expense associated with our outstanding convertible notes and adversely affect our results of operations

In August 2007, the Financial Accounting Standards Board (FASB) released for public comment a proposed FASB Staff Position (FSP) that would affect the accounting treatment for convertible debt instruments, such as our outstanding unsecured convertible notes, that may be settled wholly or partially in cash. The proposed FSP would require that instruments within its scope be separated into their liability and equity components at initial recognition by recording the liability component at the fair value of a similar liability that does not have an associated equity component and attributing the remaining proceeds from issuance to the equity component. The excess of the principal amount of the liability component over its initial fair value would be amortized to interest expense using the interest method. In addition, the proposed FSP requires that interest cost for our unsecured convertible notes be accounted for based on our nonconvertible debt borrowing rate. The FASB is expected to begin its redeliberations of the guidance in the proposed FSP in early 2008. The proposed FSP may be effective for reporting periods as early as 2008 and is expected to be applied retrospectively to prior periods. If the FSP is issued as proposed, we expect an increase in our non-cash interest expense associated with our $460 million aggregate principal amount outstanding of convertible notes that were issued in January 2007, including non-cash interest expense for prior periods as a result of its proposed retrospective application. We believe the additional non-cash interest expense we may recognize under the proposed FSP would result in an increase to interest expense as our estimated nonconvertible debt borrowing rate is higher than the current contractual coupon rate of 3.70% on our $460 million unsecured convertible notes. For example, under the proposed FSP, if the interest rate for our nonconvertible borrowing rate was approximately 2.5% higher than the current contractual coupon rate of 3.70% on our unsecured convertible notes, our non-cash interest expense included in net income for the year ended December 31, 2007 would increase by approximately 8% to 9%. The proposed FSP, if adopted as proposed, will also increase our non-cash interest in future periods during which our unsecured convertible notes remain outstanding. We are currently evaluating our nonconvertible debt borrowing rate and the overall impact of the proposed FSP on our consolidated financial statements. The impact of the proposed FSP on our consolidated financial statements could be influenced by certain factors, including the ultimate outcome of the final rules under the proposed FSP.

Our real estate developments have and will continue to increase in the future

We will continue to pursue opportunities to acquire land for future ground-up development and we will continue to initiate ground-up development projects. As of December 31, 2007, we had approximately 1.6 million rentable square feet undergoing ground-up development and we had an imbedded pipeline for future ground-up development approximating 8.7 million developable square feet. Our existing projects undergoing ground-up development and future ground-up development projects increase our risk of unsuccessful real estate development activities which may have an adverse affect on our business.

We may be unsuccessful with our real estate development activities

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

- delays in construction;
- budget overruns;
- lack of availability and/or increasing costs of materials;
- commodity pricing of building materials and supplies;
- financing availability;
- volatility in interest rates;
- labor availability;
- uncertainty of leasing;
- timing of the commencement of rental payments;
- changes in local submarket conditions;
- delays or denials of entitlements or permits; and
- other property development uncertainties.

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

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

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

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

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

- reinforced concrete floors;
- upgraded roof loading capacity;
- increased floor to ceiling heights;

- heavy-duty HVAC systems;
- enhanced environmental control technology;
- significantly upgraded electrical, gas and plumbing infrastructure; and
- laboratory benches.

We may have difficulty managing our growth

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

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

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

The acquisition, ownership and operation of real estate is subject to many risks that may adversely affect our business and our ability to make payments to our stockholders, including the risks that:

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

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

We face substantial competition in our target markets

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

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

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

Poor economic conditions in our markets could adversely affect our business

Our properties are located in the following markets:

- California - Los Angeles Metro;
- California - San Diego;

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

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

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

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

Our ability to negotiate contractual rent escalations in future leases and to achieve increases in rental rates will depend upon market conditions and the demand for life science properties at the time the leases are negotiated and the increases are proposed.

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

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

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

- Some of our tenants depend on availability of reimbursements from the government or private insurance plans and reimbursements may decrease in the future.

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

- Drugs that are developed and manufactured by some of our tenants require regulatory approval, including FDA approval, prior to being made, marketed, sold and used. The regulatory approval process to manufacture and market drugs is costly, typically takes several years, requires the expenditure of substantial resources and is often unpredictable. A tenant may fail or experience significant delays in obtaining these approvals.

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

- A drug made by a tenant may not be well accepted by doctors and patients, or may be less effective or accepted than competitor s drugs, or may be subsequently recalled from the market, even if it is successfully developed, proven safe and effective in human clinical trials, manufactured and the requisite regulatory approvals are obtained.

- Some of our tenants require significant funding to develop and commercialize their products and technologies, which funding must be obtained from private investors, the public markets, companies in the life science industry or federal, state and local governments. Such funding may become unavailable or difficult to obtain.

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

We cannot assure you that our tenants will be able to develop, make, market or sell their products and technologies due to the risks inherent in the life science industry. Any tenant that is unable to avoid, or sufficiently mitigate, the risks described above, may have difficulty making rental payments to us.

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

Our revenues are derived primarily from rental payments and reimbursement of operating expense under our leases. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely payments under its lease. Also, when our tenants decide not to renew their leases or terminate early, we may not be able to re-lease the space. Even if tenants decide to renew or lease space, the terms of renewals or new leases, including the cost of any tenant improvements, concessions and lease commissions, may be less favorable to us than current lease terms. Consequently, we could lose the cash flow from the affected properties, which could negatively impact our business. We may have to divert cash flow generated by other properties to meet our mortgage payments, if any, or to pay other expenses related to owning the affected properties. As of December 31, 2007, leases at our properties representing approximately 8.0% and 8.5% of the aggregate leased square footage of our properties were scheduled to expire in 2008 and 2009, respectively.

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

Our revenues are derived primarily from rental payments and reimbursement of operating expenses under our leases. If our tenants, especially significant tenants, fail to make rental payments under their leases, our financial condition, cash flow and our ability to make distributions to our stockholders could be adversely affected.

As of December 31, 2007, we had 391 leases with a total of 323 tenants, and 90 of our 166 properties were single-tenant properties. Our three largest tenants accounted for approximately 13.4% of our aggregate annualized base rent, or approximately 6.9%, 3.5% and 3.0%, respectively. Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2007, using rental revenues calculated on a straight-line basis in accordance with United States generally accepted accounting principles (GAAP). Annualized base rent does not include reimbursements for real estate taxes, insurance, utilities, common area and other operating expenses, substantially all of which are borne by the tenants in the case of triple net leases.

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

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

U.S. government tenants may be subject to annual budget appropriations. If one of our U.S. government tenants fails to receive its annual budget appropriation, it might not be able to make its lease payments to us. In addition, defaults under leases with federal government tenants are governed by federal statute and not by state eviction or rent deficiency laws. All of our leases with U.S. government tenants provide that the government tenant may terminate the lease under certain circumstances. As of December 31, 2007, leases with U.S. government tenants at our properties accounted for approximately 3.0% of our aggregate annualized base rent.

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

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

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

Our properties may have defects that are unknown to us

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

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

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

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

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

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

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

We could incur significant costs complying with environmental laws

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

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

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

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

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

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

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

The additional investigations have included, as appropriate:

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

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

Our insurance may not adequately cover all potential losses

If we experience a loss at any of our properties that is not covered by insurance or that exceeds our insurance policy limits, we could lose the capital invested in the affected property and, possibly, future revenues from that property. In addition, we could continue to be obligated on any mortgage indebtedness or other obligations related to the affected properties. We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our properties. We have obtained earthquake insurance for all of our properties because many of them are located in the vicinity of active earthquake faults. We also carry environmental remediation insurance and have title insurance policies on all of our properties. We obtain our title insurance policies when we acquire the property, with each policy covering an amount equal to the initial purchase price of each property. Accordingly, any of our title insurance policies may be in an amount less than the current value of the related property.

We believe that our insurance policy specifications, insured limits and deductibles are consistent with or superior to those customarily carried for similar properties. Our tenants are also required to maintain comprehensive insurance, including liability and casualty insurance, that is customarily obtained for similar properties. There are, however, certain types of losses that we and our tenants do not generally insure against because they are uninsurable or because it is not economical to insure against them. In the current market, there have recently been substantial increases in the premium cost of property and liability insurance. The availability of coverage against certain types of losses, such as from terrorism or toxic mold, has become more limited and, when available, is at a significantly higher premium cost. We cannot predict whether insurance coverage against terrorism or toxic mold will remain available for our properties because insurance companies may no longer offer coverage against such losses or, if offered, such coverage may become prohibitively expensive. Many, but not all, of our properties are low-rise buildings. Toxic mold has not presented any material problems at any of our properties.

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

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

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

We depend upon the services of relatively few executive officers. The loss of services of any one of them may adversely affect our business, financial condition and prospects. We use the extensive personal and business relationships that members of our management have developed over time with owners of life science properties and with major life science industry tenants. We cannot assure you that our senior executive officers will remain employed with us.

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

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

- We would be subject to federal income tax on our taxable income at regular corporate rates.
- We would not be allowed a deduction for distributions to our stockholders in computing taxable income.
- Unless we were entitled to relief under the Internal Revenue Code of 1986, as amended, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification.
- We would no longer be required by the Internal Revenue Code to make any distributions to our stockholders.

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

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code to our operations and financial results**,** and the determination of various factual matters and circumstances not entirely within our control. There are only limited judicial or administrative interpretations of these provisions. Although we believe that we have operated, commencing with our taxable year ended December 31, 1996, in a manner so as to qualify as a REIT, we cannot assure you that we are or will remain so qualified.

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

We may change our business policies without stockholder approval

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

- status as a REIT;
- incurrence of debt and debt management activities;
- selective development and acquisition activities;
- stockholder distributions; and
- other policies, as appropriate.

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

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

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

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

The constructive ownership rules are complex and may cause shares of our common stock owned directly or constructively by a group of related individuals or entities to be constructively owned by one individual or entity. A transfer of shares to a person who, as a result of the transfer, violates the Ownership Limit, may be void or may be deemed to be made to a trust, for the benefit of one or more qualified charitable organizations designated by us. In that case, the intended transferee will have only a right to share, to the extent of the transferee s original purchase price for such shares, in proceeds from the trust s sale of those shares.

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

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

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

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

External factors may adversely impact the valuation of investments

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

We have certain ownership interests outside the United States, and we expect to continue to pursue international expansion opportunities that may subject us to different or greater risks than those associated with our domestic operations

We have four operating properties and one development parcel in Canada and a development project in China. We are pursuing, and intend to continue to pursue, additional growth opportunities in Canada, Europe and Asia. International development and ownership activities involve risks that are different from those we face with respect to our domestic properties and operations. These risks include but are not limited to:

- adverse effects of changes in exchange rates for foreign currencies;
- any international currency gain recognized with respect to changes in exchange rates may not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT;
- challenges with respect to the repatriation of foreign earnings;
- changes in foreign political, regulatory and economic conditions, including regionally, nationally, and locally;
- challenges in managing international operations;
- challenges of complying with a wide variety of foreign laws and regulations, including those relating to corporate governance, operations, taxes, employment and legal proceedings;
- differences in lending practices;
- differences in cultures; and

- changes in applicable laws and regulations in the United States that affect foreign operations.

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

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

We are pursuing, and intend to continue to pursue, additional growth opportunities in Canada, Europe and Asia. Investments in countries where the U.S. dollar is not the local currency are subject to international currency risk from the potential fluctuations in exchange rates between the U.S. dollar and the local currency. A significant decrease in the value of the Canadian dollar, or other foreign currencies where we may have a significant investment could materially affect our results of operations. We may attempt to mitigate such effects by borrowing in the local foreign currency in which we invest. Any international currency gain recognized with respect to changes in exchange rates may not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT.

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

Our organizational documents do not limit the amount of available funds that we may invest in non-wholly owned partnerships, limited liability companies or joint ventures and we intend to continue to develop and acquire properties through joint ventures, limited liability companies and partnerships with third parties. Such third parties may share certain approval rights over major decisions. Partnership, limited liability company or joint venture investments involve certain risks, including:

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

General

As of December 31, 2007, we had 166 properties containing approximately 12.1 million rentable square feet of office/laboratory space. Excluding properties undergoing redevelopment, our properties were approximately 93.8% leased as of December 31, 2007. The exteriors of our properties typically resemble traditional office properties, but the interior infrastructures are designed to accommodate the needs of life science industry tenants. These improvements typically are generic to life science industry tenants rather than being specific to a particular tenant. As a result, we believe that the improvements have long-term value and utility and are usable by a wide range of life science industry tenants. Generic infrastructure improvements to our life science properties typically include:

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

As of December 31, 2007, we held a fee simple interest in each of our properties, except for twenty-three properties that accounted for approximately 20% of the total rentable square footage of our properties. We had four properties in the San Francisco Bay market, in which we held pursuant to a commercial condominium interest, together with an undivided interest in the common areas of the project of which the property is a part. We also had three properties in the San Francisco Bay market, one property in the Southeast market, two properties in the Suburban Washington D.C. market and 13 properties in the Eastern Massachusetts market which we held pursuant to ground leasehold interests. See further discussion in our consolidated financial statements and notes thereto in Item 15. Exhibits, Financial Statement Schedules.

In addition, as of December 31, 2007, our asset base contained two ground-up development projects for approximately 887,000 rentable square feet in the New York City and San Francisco Bay markets which we held pursuant to ground leasehold interests and one ground-up development in China for approximately 280,000 rentable square feet which we held pursuant to a land usage right. We also had two land parcels for future ground up development of approximately 1.1 million developable square feet which we held pursuant to ground leasehold interests.

As of December 31, 2007, we had 391 leases with a total of 323 tenants, and 90 of our 166 properties were single-tenant properties. Leases in our multi-tenant buildings typically have terms of three to seven years, while the single-tenant building leases typically have initial terms of 10 to 20 years. As of December 31, 2007:

- approximately 88% of our leases (on a rentable square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area and other operating expenses (including increases thereto) in addition to base rent, and, in addition to our triple net leases, approximately 9% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses;
-

approximately 94% of our leases (on a rentable square footage basis) contained effective annual rent escalations that are either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index; and

- approximately 91% of our leases (on a rentable square footage basis) provided for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing), which we believe would typically be borne by the landlord in traditional office leases.

Our leases also typically give us the right to review and approve tenant alterations to the property. Generally, tenant-installed improvements to the properties remain our property after termination of the lease at our election. However, we are permitted under the terms of most of our leases to require that the tenant, at its expense, remove the improvements and restore the premises to their original condition.

The locations of our properties are diversified among a number of life science markets. The following table sets forth, as of December 31, 2007, the total rentable square footage, annualized base rent and encumbrances of our properties in each of our existing markets (dollars in thousands).

Location of properties

Markets	Number of Properties	Total Rentable Square Footage	% of Total Rentable Square Footage		Annualized Base Rent (1)	% of Annualized Base Rent		Encumbrances (2)
California Los Angeles Metro	2	61,003	0.5%	$	697	0.2%	$	
California San Diego	33	1,680,402	14.0		43,264	13.5		151,441
California San Francisco Bay	23	1,867,674	15.6		63,569	19.9		234,757
Eastern Massachusetts	38	3,387,038	28.2		107,322	33.6		372,256
International Canada	4	342,394	2.9		6,879	2.1		6,715
New Jersey/Suburban Philadelphia	8	441,504	3.7		9,176	2.9		16,377
Southeast	12	658,406	5.5		10,423	3.3		8,195
Suburban Washington D.C.	31	2,499,768	20.8		48,004	15.0		218,786
Washington Seattle	13	1,051,404	8.8		30,488	9.5		53,713
Total Properties (Continuing Operations)	164	11,989,593	100.0%	$	319,822	100.0%	$	1,062,240

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(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2007 (using rental revenue computed on a straight-line basis in accordance with GAAP). Amounts exclude spaces at properties totaling approximately 774,519 rentable square feet undergoing a permanent change in use to office/laboratory space through redevelopment and two properties totaling approximately 136,399 rentable square feet that are classified as held for sale.

(2) Certain properties are pledged as security under our secured notes payable as of December 31, 2007. See Schedule III Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation in Item 15. Exhibits, Financial Statement Schedules for additional information on our properties, including encumbered properties. Excludes approximately $150.7 million of encumbrances related to properties undergoing development and redevelopment and land held for development.

In addition, as of December 31, 2007, our asset base contained land parcels approximating 1.6 million rentable square feet undergoing ground-up development and an imbedded pipeline for future ground-up development opportunities for approximating 8.7 million developable square feet of office/laboratory space.

Tenants

Our life science properties are leased principally to a diverse group of tenants, with no tenant being responsible for more than 6.9% of our annualized base rent. The following table sets forth information regarding leases with our 10 largest tenants based upon annualized base rent as of December 31, 2007.

10 Largest Tenants

Tenant	Number of Leases	Remaining Lease Term in Years	Approximate Aggregate Rentable Square Feet	Percentage of Aggregate Leased Square Feet	Annualized Base Rent (in thousands) (1)	Percentage of Aggregate Annualized Base Rent
Novartis AG	3	7.6(2)	374,789	3.6%	$ 22,210	6.9%
GlaxoSmithKline plc	5	5.7(3)	297,651	2.8	11,084	3.5
United States Government	7	5.7(4)	373,423	3.5	9,620	3.0
ZymoGenetics, Inc.	2	11.4(5)	203,369	1.9	8,747	2.7
Cell Genesys, Inc.	1	10.5	155,685	1.5	8,360	2.6
Massachusetts Institute of Technology	3	4.3(6)	178,952	1.7	7,899	2.5
Theravance, Inc.	2	4.3(7)	170,244	1.6	6,136	1.9
The Scripps Research Institute	3	7.6(8)	113,754	1.1	5,750	1.8
Genentech, Inc.	1	10.8	126,971	1.2	5,527	1.7
Amylin Pharmaceuticals, Inc.	3	8.4(9)	158,983	1.5	5,460	1.7
Total/Weighted Average (10):	30	7.5	2,153,821	20.4%	$ 90,794	28.3%

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(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2007 (using rental revenue computed on a straight-line basis in accordance with GAAP).

(2) Amount shown is a weighted average of multiple leases with this tenant for 255,441 rentable square feet, 81,441 rentable square feet and 37,907 rentable square feet with remaining lease terms of 10.3 years, 2.5 years and 0.8 years, respectively.

(3) Amount shown is a weighted average of multiple leases with this tenant for 128,759 rentable square feet (represents two leases at two properties containing 68,000 and 60,759 rentable square feet); 17,932 rentable square feet and 150,960 rentable square feet with remaining lease terms of 12.3 years, 3.8 years and 2.9 years, respectively.

(4) Amount shown is a weighted average of multiple leases with this tenant for 81,580 rentable square feet, 68,711 rentable square feet, 114,568 rentable square feet (represents three leases at three properties containing 50,325 rentable square feet, 9,337 rentable square feet and 54,906 rentable square feet); 105,000 rentable square feet and 3,564 rentable square feet with remaining lease terms of 7.3 years, 6.1 years, 5.8 years, 4.4 years and 1.3 years, respectively.

(5) As of September 30, 2007, Novo A/S owns approximately 31% of ZymoGenetics, Inc.

(6) Amount shown is a weighted average of multiple leases with this tenant for 86,515 rentable square feet, 8,876 rentable square feet and 83,561 rentable square feet with remaining lease terms of 5.5 years, 3.8 years and 3.1 years, respectively.

(7) As of December 31, 2007, GlaxoSmithKline plc (GSK) owns 15.4% of the outstanding stock of Theravance, Inc.

(8) Amount shown is a weighted average of multiple leases with this tenant for 19,606 rentable square feet, 76,894 rentable square feet and 17,254 rentable square feet with remaining lease terms of 9.8 years, 8.7 years and 0.2 years, respectively.

(9) Amount shown is a weighted average of multiple leases with this tenant for 71,510 rentable square feet and 87,473 rentable square feet (represents two leases at two properties containing 45,030 rentable square feet and 42,443 rentable square feet) with remaining lease terms of 10.1 years and 7.1 years, respectively.

(10) Weighted average based on percentage of aggregate leased square feet.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a vote of our security holders in the fourth quarter of the fiscal year ended December 31, 2007.

PART II

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

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol ARE . On February 26, 2008, the last reported sales price per share of our common stock was $96.11, and there were approximately 263 holders of record of our common stock (excluding beneficial owners whose shares are held in the name of CEDE & Co.). The following table sets forth the quarterly high and low sales prices per share of our common stock as reported on the NYSE and the distributions paid by us with respect to each such period.

Period	High	Low	Per Share Distribution
2007			
Fourth Quarter	$107.45	$88.98	$0.78
Third Quarter	$103.93	$83.73	$0.76
Second Quarter	$112.17	$96.13	$0.76
First Quarter	$116.23	$97.26	$0.74
2006			
Fourth Quarter	$105.45	$92.60	$0.74
Third Quarter	$99.35	$88.09	$0.72
Second Quarter	$95.70	$81.52	$0.70
First Quarter	$98.00	$79.46	$0.70

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

The tax treatment of distributions paid in 2007 is as follows: (1) 83.6% ordinary dividend, (2) 10.0% capital gain at 15%, (3) 5.1% return of capital, and (4) 1.3% Section 1250 capital gain at 25%. The tax treatment of distributions on common stock paid in 2006 is as follows: (1) 82.1% ordinary dividend, (2) 12.3% capital gain at 15%, (3) 3.3% return of capital, and (4) 2.3% Section 1250 capital gain at 25%.

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

ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands, except per share amounts)				
Operating Data:					
Total revenue	$ 405,360	$ 310,779	$ 231,606	$ 172,466	$ 148,369
Total expenses	316,529	239,629	174,427	119,860	107,343
Minority interest	3,669	2,287	634		
Income from continuing operations	85,162	68,863	56,545	52,606	41,026
Income from discontinued operations, net	8,562	4,553	6,888	7,589	18,617
Net income	93,724	73,416	63,433	60,195	59,643
Dividends on preferred stock	12,020	16,090	16,090	12,595	8,898
Preferred stock redemption charge	2,799			1,876	
Net income available to common stockholders	$ 78,905	$ 57,326	$ 47,343	$ 45,724	$ 50,745
Earnings per share basic					
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.37	$ 2.10	$ 1.93	$ 1.98	$ 1.69
Discontinued operations, net	0.29	0.18	0.33	0.39	0.98
Earnings per share basic	$ 2.66	$ 2.28	$ 2.26	$ 2.37	$ 2.67
Earnings per share diluted					
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.34	$ 2.07	$ 1.90	$ 1.94	$ 1.67
Discontinued operations, net	0.29	0.18	0.32	0.39	0.97
Earnings per share diluted	$ 2.63	$ 2.25	$ 2.22	$ 2.33	$ 2.64
Weighted average shares of common stock outstanding					
Basic	29,668,231	25,102,200	20,948,915	19,315,364	18,993,856
Diluted	30,004,462	25,524,478	21,316,886	19,658,759	19,247,790
Cash dividends declared per share of common stock	$ 3.04	$ 2.86	$ 2.72	$ 2.52	$ 2.20

	Year Ended December 31, 2007	2006	2005	2004	2003
	(Dollars in thousands)				
Balance Sheet Data (at year end):					
Rental properties, net	**$ 3,146,915**	**$ 2,726,251**	**$ 1,675,520**	**$ 1,335,490**	**$ 862,239**
Total assets	**$ 4,642,094**	**$ 3,617,477**	**$ 2,362,450**	**$ 1,872,284**	**$ 1,272,577**
Total debt	**$ 2,787,904**	**$ 2,024,866**	**$ 1,406,666**	**$ 1,186,946**	**$ 709,007**
Total liabilities	**$ 3,062,768**	**$ 2,208,348**	**$ 1,512,535**	**$ 1,251,811**	**$ 765,442**
Minority interest	**$ 75,506**	**$ 57,477**	**$ 20,115**	**$**	**$**
Stockholders equity	**$ 1,503,820**	**$ 1,351,652**	**$ 829,800**	**$ 620,473**	**$ 507,135**
Reconciliation of Net Income Available to Common Stockholders to Funds from Operations Available to Common Stockholders:					
Net income available to common stockholders (1)	**$ 78,905**	**$ 57,326**	**$ 47,343**	**$ 45,724**	**$ 50,745**
Add:					
Depreciation and amortization (2)	**97,335**	**74,039**	**55,416**	**42,523**	**38,901**
Minority interest	**3,669**	**2,287**	**634**		
Subtract:					
Gain/loss on sales of property (3)	**(7,976)**	**(59)**	**(36)**	**(1,627)**	**(8,286)**
FFO allocable to minority interest	**(3,733)**	**(1,928)**	**(668)**		
Funds from operations available to common stockholders (4)	**$ 168,200**	**$ 131,665**	**$ 102,689**	**$ 86,620**	**$ 81,360**
Other Data:					
Cash provided by operating activities	**$ 185,382**	**$ 128,390**	**$ 120,678**	**$ 65,316**	**$ 74,311**
Cash used in investing activities	**$ (946,985)**	**$ (970,590)**	**$ (432,900)**	**$ (448,252)**	**$ (139,274)**
Cash provided by financing activities	**$ 766,685**	**$ 841,237**	**$ 312,975**	**$ 381,109**	**$ 66,158**
Number of properties at year end	**166**	**158**	**132**	**111**	**89**
Rentable square feet of properties at year end	**12,125,992**	**11,203,209**	**8,788,097**	**7,412,298**	**5,692,198**
Occupancy of properties at year end	**88%**	**88%**	**88%**	**87%**	**88%**
Occupancy of properties at year end, excluding properties undergoing redevelopment and properties held for sale	**94%**	**93%**	**93%**	**95%**	**94%**

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(1) During the first quarter of 2007, we redeemed our 9.10% Series B Cumulative Redeemable Preferred Stock (Series B Preferred Stock). In accordance with EITF Topic D-42, we recorded a charge of approximately $2,799,000 to net income available to common stockholders for costs related to the redemption of the Series B Preferred Stock. During the second quarter of 2004, we elected to redeem our 9.50% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock). Accordingly, in compliance with Emerging Issues Task Force Topic D-42, we recorded a charge of $1,876,000, in the second quarter of 2004 for costs related to the redemption of the Series A Preferred Stock.

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

(3) Gain/loss on sales of property relates to the disposition of four properties and four land parcels sold during 2007, three properties sold during 2006, one property sold during 2005, one property sold during 2004, and three properties sold during 2003. Gain/loss on sales of property is included in the consolidated statements of income in income from discontinued operations, net.

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

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

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

Overview

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

In 2007, we:

- Completed ground-up development of one property aggregating approximately 157,340 rentable square feet.
- Commenced ground-up development of four properties aggregating approximately 553,000 rentable square feet.
- Completed redevelopment of multiple spaces at ten properties aggregating approximately 258,411 rentable square feet.
- Sold four real estate assets and four land parcels for approximately $73 million.
- Closed follow-on common offering with net proceeds of approximately $215.2 million.
- Redeemed 9.10% Series B Cumulative Redeemable Preferred Stock and incurred redemption charge of approximately $2.8 million.

- Closed $460 million of 3.70% convertible notes.
- Closed $200 million secured loan and $62 million pre-construction secured loan.
- Increased credit facility to $1.9 billion plus a $500 million accordion.
- Acquired four land parcels aggregating approximately 541,592 developable square feet.
- Acquired sixteen properties aggregating approximately 1.3 million rentable square feet.

As of December 31, 2007, we had 166 properties containing approximately 12.1 million rentable square feet of office/laboratory space. As of that date, our properties were approximately 93.8% leased, excluding spaces at properties undergoing redevelopment. In addition, as of December 31, 2007, our asset base contained properties undergoing ground-up development approximating 1.6 million rentable square feet plus an imbedded pipeline for future ground-up development approximating 8.7 million developable square feet.

Our primary sources of revenue are rental income and tenant recoveries from leases of our properties. The comparability of financial data from period to period is affected by the timing of our property development, redevelopment and acquisition activities. Of the 166 properties as of December 31, 2007, 16 were acquired in 2007, 19 in 2006, 18 in 2005, and 94 prior to 2005. In addition, we completed the development of one property in 2007 (together with the 16 properties acquired in 2007, the 2007 Properties), four properties in 2006 (together with the 19 properties acquired in 2006, the 2006 Properties), three properties in 2005 (together with the 18 properties acquired in 2005, the 2005 Properties), and 11 properties prior to 2005. As a result of these development and acquisition activities, as well as our ongoing redevelopment and leasing activities, there have been significant increases in total revenues and expenses, including significant increases in total revenues and expenses for 2007 as compared to 2006, and for 2006 as compared to 2005.

As of December 31, 2007, approximately 88% of our leases (on a rentable square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area and other operating expenses, including increases thereto. In addition, as of December 31, 2007, approximately 9% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses. Additionally, as of December 31, 2007, approximately 91% of our leases (on a rentable square footage basis) provided for the recapture of certain capital expenditures and approximately 94% of our leases (on a rentable square footage basis) contained effective annual rent escalations that are either fixed or indexed based on the consumer price index or another index.

Critical accounting policies

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

REIT compliance

We have elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code to our operations and financial results, and the determination of various factual matters and circumstances not entirely within our control. We believe that our current organization and method of operation comply with the rules and regulations promulgated under the Internal Revenue Code to enable us to qualify, and continue to qualify, as a REIT. However, it is possible that we have been organized or have operated in a manner that would not allow us to qualify as a REIT, or that our future operations could cause us to fail to qualify.

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

Rental properties, net and properties undergoing development and redevelopment and land held for development

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

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

Rental properties, properties undergoing development and redevelopment and land held for development and intangibles are individually evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144) when conditions exist which may indicate that it is probable that the sum of expected future undiscounted cash flows is less than the carrying amount. Upon determination that an impairment has occurred, a write-down is recorded to reduce the carrying amount to its estimated fair value.

Capitalization of costs

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

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

Accounting for investments

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

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

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

Interest rate swap agreements

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

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

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

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

Recognition of rental income and tenant recoveries

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

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

We maintain an allowance for estimated losses that may result from the inability of our tenants to make payments required under the terms of the lease. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and unrealized deferred rent. As of December 31, 2007 and 2006, we had no allowance for doubtful accounts.

Discontinued operations

We follow the provisions of SFAS 144 in determining whether a property qualifies as an asset held for sale and should be classified as discontinued operations . A property is classified as held for sale when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the property; (2) the property is available for immediate sale in its present condition, subject only to the terms that are usual and customary; (3) an active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated; (4) the sale of the property is probable and is expected to be completed within one year; (5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all of these criteria have been met, the property is classified as held for sale , its operations are classified as discontinued operations in our consolidated statements of income and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. A loss is recognized for any initial adjustment of the asset s carrying amount to fair value less costs to sell in the period the asset qualifies as held for sale. **Depreciation of assets ceases upon designation of a property as held for sale. Interest expense directly attributable to assets held for sale is classified in discontinued operations.**

Impact of recently issued accounting standards

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (R), Business Combinations (SFAS 141R), to create greater consistency in the accounting and financial reporting of business combinations. SFAS 141R requires a company to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity to be measured at their fair values as of the acquisition date. SFAS 141R also requires companies to recognize the fair value of assets acquired, the liabilities assumed and any noncontrolling interest in acquisitions of less than a one hundred percent interest when the acquisition constitutes a change in control of the acquired entity. In addition, SFAS 141R requires that acquisition-related costs and restructuring costs be recognized separately from the business combination and expensed as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Early adoption is prohibited. We are currently evaluating the impact of SFAS 141R on our financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 (SFAS 160). SFAS 160 amends ARB 51 Consolidated Financial Statements, and requires all entities to report noncontrolling interests in subsidiaries within equity in the consolidated financial statements, but separate from the parent shareholders equity. SFAS No. 160 also requires any acquisitions or dispositions of noncontrolling interests that do not result in a change of control to be accounted for as equity transactions. In addition, SFAS No. 160 requires that a parent company recognize a gain or loss in net income when a subsidiary is deconsolidated upon a change in control. SFAS No. 160 applies to fiscal years beginning after December 15, 2008 and is adopted prospectively. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. Earlier adoption is prohibited. The adoption of SFAS 160 will result in a reclassification of minority interest to a separate component of total equity and net income attributable to noncontrolling interest will no longer be treated as a reduction to net income but will be shown as a reduction from net income in calculating net income available to common stockholders. The adoption of SFAS 160 is not expected to have an impact on net income available to common stockholders or earnings per share attributable to common stockholders.

In August 2007, the Financial Accounting Standards Board (FASB) released for public comment a proposed FASB Staff Position (FSP) that would affect the accounting treatment for convertible debt instruments, such as our outstanding unsecured convertible notes, that may be settled wholly or partially in cash. The proposed FSP would require that instruments within its scope be separated into their liability and equity components at initial recognition by recording the liability component at the fair value of a similar liability that does not have an associated equity component and attributing the remaining proceeds from issuance to the equity component. The excess of the principal amount of the liability component over its initial fair value would be amortized to interest expense using the interest method. In addition, the proposed FSP requires that interest cost for our unsecured convertible notes be accounted for based on our nonconvertible debt borrowing rate. The FASB is expected to begin its redeliberations of the guidance in the proposed FSP in early 2008. The proposed FSP may be effective for reporting periods as early as 2008 and is expected to be applied retrospectively to prior periods. If the FSP is issued as proposed, we expect an increase in our non-cash interest expense associated with our $460 million aggregate principal amount outstanding of convertible notes that were issued in January 2007, including non-cash interest expense for prior periods as a result of its proposed retrospective application. We believe the additional non-cash interest expense we may recognize under the proposed FSP would result in an increase to interest expense as our estimated nonconvertible debt borrowing rate is higher than the current contractual coupon rate of 3.70% on our $460 million unsecured convertible notes. For example, under the proposed FSP, if the interest rate for our nonconvertible borrowing rate was approximately 2.5% higher than the current contractual coupon rate of 3.70% on our unsecured convertible notes, our non-cash interest expense included in net income for the year ended December 31, 2007 would increase by approximately 8% to 9%. The proposed FSP, if adopted as proposed, will also increase our non-cash interest in future periods during which our unsecured convertible notes remain outstanding. We are currently evaluating our nonconvertible debt borrowing rate and the overall impact of the proposed FSP on our consolidated financial statements. The impact of the proposed FSP on our consolidated financial statements could be influenced by certain factors, including the ultimate outcome of the final rules under the proposed FSP.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective

January 1, 2008. We do not expect the adoption of SFAS 159 to have a material impact on our financial statements.

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

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

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

Results of operations

Comparison of the year ended December 31, 2007 to the year ended December 31, 2006

Rental revenues increased by $69.9 million, or 29%, to $306.7 million for 2007 compared to $236.8 million for 2006. The increase resulted primarily from the 2006 Properties being owned for a full year and the addition of the 2007 Properties.

Tenant recoveries increased by $21.7 million, or 35%, to $83.8 million for 2007 compared to $62.1 million for 2006. The increase resulted primarily from the 2006 Properties being owned for a full year and the addition of the 2007 Properties.

Other income increased by $3.0 million, or 26%, to $14.9 million for 2007 compared to $11.8 million for 2006, due to an overall increase in all sources of other income. Other income consists of construction management fees, interest, investment income and storage.

Rental operating expenses increased by $29.4 million, or 42%, to $99.2 million for 2007 compared to $69.8 million for 2006. The increase resulted primarily from increases in rental operating expenses (primarily property taxes, insurance and utilities) from properties developed, redeveloped and acquired in 2007 and 2006. The majority of the increase in rental operating expenses is recoverable from our tenants.

General and administrative expenses increased by $6.4 million, or 25%, to $32.5 million for 2007 compared to $26.1 million for 2006, primarily due to the growth in both the depth and breadth of our operations in multiple markets, from 158 properties with approximately 11.2 million rentable square feet as of December 31, 2006 to 166 properties containing approximately 12.1 million rentable square feet as of December 31, 2007. As a percentage of total revenues, general and administrative expenses for 2007 remained relatively consistent with 2006.

Interest expense increased by $17.0 million, or 24%, to $88.4 million for 2007 compared to $71.4 million for 2006. The increase resulted primarily from increases in indebtedness on our unsecured line of credit and unsecured term loan, secured notes payable and outstanding indebtedness related to our unsecured convertible notes. These borrowings were utilized to finance the development, redevelopment and acquisition of the 2006 and 2007 Properties. We have entered into certain interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan (see Liquidity and Capital Resources Interest Rate Swaps).

Depreciation and amortization increased by $24.0 million, or 33%, to $96.5 million for 2007 compared to $72.4 million for 2006. The increase resulted primarily from depreciation associated with the 2006 Properties being owned for a full year and the addition of the 2007 Properties.

Income from discontinued operations of $8.6 million for 2007 reflects the results of operations of two properties that were designated as held for sale as of December 31, 2007 and four properties and four land parcels sold during 2007. In connection with the properties and land parcels sold in 2007, we recorded a gain of approximately $8.0 million. Income from discontinued operations of $4.6 million for 2006 reflects the results of operations of two properties designated as held for sale as of December 31, 2007, four properties and four land parcels sold during 2007 and three properties sold in 2006. In connection with the properties sold in 2006, we recorded a gain of approximately $59,000.

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

Rental revenues increased by $56.7 million, or 32%, to $236.8 million for 2006 compared to $180.1 million for 2005. The increase resulted primarily from the 2005 Properties being owned for a full year and the addition of the 2006 Properties.

Tenant recoveries increased by $15.4 million, or 33%, to $62.1 million for 2006 compared to $46.7 million for 2005. The increase resulted primarily from the 2005 Properties being owned for a full year and the addition of the 2006 Properties.

Other income increased by $7.1 million, or 148%, to $11.8 million for 2006 compared to $4.8 million for 2005, due to an overall increase in all sources of other income. Other income consists of construction management fees, interest, and investment income and storage.

Rental operating expenses increased by $18.4 million, or 36%, to $69.8 million for 2006 compared to $51.3 million for 2005. The increase resulted primarily from increases in rental operating expenses (primarily property taxes, insurance, and utilities) from properties developed, redeveloped and acquired in 2006. The majority of the increase in rental operating expenses is recoverable from our tenants.

General and administrative expenses increased by $5.0 million or 24%, to $26.1 million for 2006 compared to $21.1 million for 2005, primarily due to the growth in both the depth and breadth of our operations in multiple markets, including internationally, from 132 properties with approximately 8.8 million rentable square feet as of December 31, 2005 to 158 properties with approximately 11.2 million rentable square feet as of December 31, 2006. As a percentage of total revenues, general and administrative expenses for 2006 remained relatively consistent with 2005.

Interest expense increased by $22.3 million, or 45%, to $71.4 million for 2006 compared to $49.1 million for 2005. The increase resulted primarily from increases in indebtedness on our unsecured line of credit, unsecured term loan and secured notes payable, and increases in the floating interest rates on our unsecured line of credit, unsecured term loan and other floating rate debt. These borrowings were utilized to finance the development, redevelopment, and acquisition of the 2005 and 2006 Properties. The weighted average interest rate on our unsecured line of credit and unsecured term loan (not including the effect of interest rate swap agreements) increased from 5.68% as of December 31, 2005 to 6.50% as of December 31, 2006. We have entered into certain interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan (see Liquidity and Capital Resources Interest Rate Swap Agreements).

Depreciation and amortization increased by $19.5 million, or 37%, to $72.4 million for 2006 compared to $52.9 million for 2005. The increase resulted primarily from depreciation associated with the 2005 Properties being owned for a full year and the addition of the 2006 Properties.

Income from discontinued operations of $4.6 million for 2006 reflects the results of operations of two properties that were designated as held for sale as of December 31, 2007, four properties and four land parcels sold during 2007 and three properties sold in 2006. In connection with the property sold in 2006, we recorded a gain of approximately $59,000. Income from discontinued operations of $6.9 million for 2005 reflects the results of operations of two properties that were designated as held for sale as of December 31, 2007, four properties and four land parcels sold during 2007, three properties sold in 2006, and one property sold in 2005. In connection with the sale of one property in 2005, we recorded a gain of approximately $36,000.

Liquidity and capital resources

Cash flows

Net cash provided by operating activities for 2007 increased by $57.0 million to $185.4 million compared to $128.4 million for 2006. The increase resulted primarily from an increase in cash flows from operations and cash flows from overall changes in operating assets and liabilities.

Net cash used in investing activities for 2007 was $947.0 million compared to $970.6 million for 2006. Net cash used in investing activities was relatively consistent for 2007 and 2006 with a higher level of investments in properties undergoing development and redevelopment and land held for development offset by a lower level of additions to rental properties and a higher level of proceeds from the sales of properties during 2007 as compared to 2006.

Net cash provided by financing activities for 2007 decreased by $74.5 million to $766.7 million compared to $841.2 million for 2006. The decrease was primarily due to a decrease in proceeds from issuance of common stock and secured notes payable coupled with the redemption of Series B Preferred Stock, partially offset by an increase in proceeds from the issuance of unsecured convertible notes.

Off-balance sheet arrangements

As of December 31, 2007, we had no off-balance sheet arrangements.

Contractual obligations and commitments

Contractual obligations as of December 31, 2007 consisted of the following (in thousands):

	Payments by Period				
	Total	**2008**	**2009-2010**	**2011-2012**	**Thereafter**
Secured notes payable	$ 1,212,904	$ 160,074	$ 377,479	$ 147,539	$ 527,812
Unsecured line of credit and unsecured term loan	1,115,000		365,000	750,000	
Convertible debt	460,000			460,000	
Estimated interest payments	529,041	114,258	199,897	132,321	82,565
Ground lease obligations	635,214	6,126	13,566	15,943	599,579
Other obligations	5,396	1,254	2,308	1,834	
Total	$ 3,957,555	$ 281,712	$ 958,250	$ 1,507,637	$ 1,209,956

Secured notes payable as of December 31, 2007 included 34 notes secured by 73 properties and 6 land development parcels.

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

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

Estimated interest payments on our fixed rate debt and hedged variable rate debt were calculated based upon on contractual interest rates, including the impact of interest rate swap agreements; interest payment dates and scheduled maturity dates. As of December 31, 2007, approximately 77% of our debt was fixed rate debt or variable rate debt subject to interest rate swap agreements. See additional information regarding our interest rate swap agreements under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and Capital Resources-Interest Rate Swap Agreements. The remaining 23% of our debt is unhedged variable rate debt based primarily on LIBOR. Interest payments on our unhedged variable rate debt have been excluded from the table above because the Company cannot reasonably determine the future interest obligations on

its variable rate debt as the Company cannot predict variable interest rates in the future. See additional information regarding our debt under Notes 5, 6, 7 and 8 to our consolidated financial statements.

Ground lease obligations as of December 31, 2007 included leases for 19 of our properties and three land development parcels. These lease obligations have remaining lease terms of 25 to 99 years, exclusive of extension options.

In addition to the above, we were committed as of December 31, 2007 under the terms of contracts to complete the construction of properties undergoing development and redevelopment and land held for development at a remaining aggregate cost of approximately $361.4 million.

As of December 31, 2007, we were also committed to fund approximately $18.3 million for the construction of building infrastructure improvements under the terms of leases and/or construction contracts and approximately $33.4 million for certain investments.

Tenant security deposits and other restricted cash

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

	December 31,			
		2007		**2006**
Funds held in trust under the terms of certain secured notes payable	**$**	**20,375**	**$**	**19,993**
Funds held in escrow related to construction projects		**23,727**		**5,814**
Other restricted funds		**7,809**		**8,553**
Total	**$**	**51,911**	**$**	**34,360**

Secured notes payable

Secured notes payable totaled approximately $1.2 billion as of December 31, 2007 and 2006. Our secured notes payable had weighted average interest rates of approximately 6.08% and 6.21% at December 31, 2007 and 2006, respectively, with maturity dates ranging from January 2008 to August 2016.

Our secured notes payable generally require monthly payments of principal and interest. The total book values of rental properties, net and properties undergoing development and redevelopment and land held for development securing debt were approximately $1.9 billion and $1.7 billion at December 31, 2007 and 2006, respectively. At December 31, 2007, our secured notes payable were comprised of approximately $902.9 million and $310.0 million of fixed and variable rate debt, respectively, compared to approximately $940.0 million and $234.9 million of fixed and variable rate debt, respectively, at December 31, 2006.

The following is a summary of the scheduled principal payments for our secured notes payable and the weighted average interest rates as of December 31, 2007 (in thousands):

Year		Amount	Weighted Average Interest Rate (1)
2008	$	160,074	6.08%
2009		284,220	6.20
2010		93,259	6.18
2011		108,191	6.04
2012		39,348	6.00
Thereafter		527,812	5.93
Total secured notes payable	$	1,212,904	

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

Unsecured line of credit and unsecured term loan

In May 2007, we entered into an amendment to our amended and restated credit agreement to increase the maximum permitted borrowings under our unsecured credit facilities from $1.4 billion to $1.9 billion consisting of an $1.15 billion unsecured line of credit and a $750 million unsecured term loan. We may in the future elect to increase commitments under our unsecured credit facilities by up to an additional $500 million.

Our unsecured line of credit, as amended, bears interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank s reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months. Our unsecured line of credit matures in October 2010 and may be extended at our sole option for an additional one-year period. As of December 31, 2007, we had borrowings of $365 million outstanding on our unsecured line of credit with a weighted average interest rate of approximately 6.07%.

Our unsecured term loan bears interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank s reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months. Our unsecured term loan matures in October 2011 and may be extended at our sole option for an additional one-year period. As of December 31, 2007, we had borrowings of $750 million outstanding on our unsecured term loan with a weighted average interest rate, including the impact of our interest rate swap agreements, of approximately 5.84%.

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

Aggregate unsecured borrowings may be limited to an amount based primarily on the net operating income derived from a pool of unencumbered properties. Aggregate unsecured borrowings may increase as we complete the development, redevelopment or acquisition of additional unencumbered properties. As of December 31, 2007, aggregate unsecured borrowings were limited to approximately $2.1 billion.

Unsecured convertible notes

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

Holders of the Notes may convert their Notes into cash and, if applicable, shares of our common stock prior to stated maturity only under the following circumstances: (1) the Notes will be convertible during any calendar quarter after the calendar quarter ending March 31, 2007, if the closing sale price of our common stock for each of 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) the Notes will be convertible during the five consecutive business days immediately after any five consecutive trading day period (the Note Measurement Period) in which the average trading price per $1,000 principal amount of Notes was equal to or less than 98% of the average conversion value of the Notes during the Note Measurement Period; (3) the Notes will be convertible upon the occurrence of specified corporate transactions, including a change in control, certain merger or consolidation transactions or the liquidation of the Company; (4) the Notes will be convertible if we call the Notes for redemption; and (5) the Notes will be convertible at any time from, and including, December 15, 2026 until the close of business on the business day immediately preceding January 15, 2027 or earlier redemption or repurchase. As of December 31, 2007, the Notes had a conversion rate of approximately 8.4842 common shares per $1,000 principal amount of the Notes and a conversion price of approximately $117.87 per share of our common stock.

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

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

Interest rate swap agreements

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

The following table summarizes our interest rate swap agreements as of December 31, 2007 (dollars in thousands):

Transaction Dates	Effective Dates	Termination Dates	Interest Pay Rates	Notional Amounts	Effective at December 31, 2007	Fair Values
December 2004	December 31, 2004	January 2, 2008	3.590%	$ 50,000	$ 50,000	$ 68
December 2004	January 3, 2006	July 1, 2008	3.927	50,000	50,000	156
June 2006	June 30, 2006	September 30, 2009	5.299	125,000	125,000	(3,486)
December 2003	December 29, 2006	October 31, 2008	5.090	50,000	50,000	(437)
December 2005	December 29, 2006	November 30, 2009	4.730	50,000	50,000	(1,016)
December 2005	December 29, 2006	November 30, 2009	4.740	50,000	50,000	(1,026)
December 2006	December 29, 2006	March 31, 2014	4.990	50,000	50,000	(2,244)
December 2006	January 2, 2007	January 3, 2011	5.003	28,500	28,500	(1,021)
April 2004	April 30, 2007	April 30, 2008	4.850	50,000	50,000	(47)
May 2005	June 29, 2007	June 30, 2008	4.400	50,000	50,000	(5)
December 2006	June 29, 2007	October 31, 2008	4.920	50,000	50,000	(367)
October 2007	October 31, 2007	June 30, 2008	4.458	50,000	50,000	(20)
October 2007	October 31, 2007	September 30, 2012	4.546	50,000	50,000	(1,194)
October 2007	October 31, 2007	September 30, 2013	4.642	50,000	50,000	(1,328)
May 2005	November 30, 2007	November 28, 2008	4.460	25,000	25,000	(108)
December 2005	January 2, 2008	December 31, 2010	4.768	50,000		(1,459)
May 2005	June 30, 2008	June 30, 2009	4.509	50,000		(556)
June 2006	June 30, 2008	June 30, 2010	5.325	50,000		(1,744)
June 2006	June 30, 2008	June 30, 2010	5.325	50,000		(1,744)
October 2007	July 1, 2008	March 31, 2013	4.622	25,000		(646)
October 2007	July 1, 2008	March 31, 2013	4.625	25,000		(649)
June 2006	October 31, 2008	December 31, 2010	5.340	50,000		(1,757)
June 2006	October 31, 2008	December 31, 2010	5.347	50,000		(1,764)
May 2005	November 28, 2008	November 30, 2009	4.615	25,000		(312)
December 2006	November 30, 2009	March 31, 2014	5.015	75,000		(1,628)
December 2006	November 30, 2009	March 31, 2014	5.023	75,000		(1,650)
December 2006	December 31, 2010	October 31, 2012	5.015	100,000		(935)
Total					$ 778,500	$ (26,919)

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

As of December 31, 2007 and 2006, our interest rate swap agreements were classified in accounts payable, accrued expenses, tenant security deposits and other assets at their fair values aggregating a liability balance of approximately $26.9 million and an asset balance of approximately $1.0 million, respectively, with the offsetting adjustment reflected as unrealized losses and gains in accumulated other comprehensive income in stockholders equity. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made. During the next twelve months, we expect to reclassify approximately $6.8 million from accumulated other comprehensive income to interest expense as an increase to interest expense.

Other resources and liquidity requirements

In September 2007, we sold 2,300,000 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriters over-allotment option). The shares were issued at a price of $96.00 per share, resulting in aggregate proceeds of approximately $215 million (after deducting underwriting discounts and other offering costs).

In February 2007, we called for redemption of our 9.10% Series B Cumulative Redeemable Preferred Stock (Series B Preferred Stock). The Series B Preferred Stock was redeemed in March 2007 at a redemption price equal to $25.00 per share plus $0.4107639 per share representing accumulated and unpaid dividends to the redemption date. In accordance with EITF Topic D-42, we recorded a charge of approximately $2,799,000 to net income available to common stockholders for costs related to the redemption of the Series B Preferred Stock.

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

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

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

Exposure to environmental liabilities

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

Capital expenditures, tenant improvements and leasing costs

The following table shows total and weighted average per square foot property-related capital expenditures, tenant improvements and leasing costs (all of which are added to the basis of the properties) related to our life science properties (excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue-enhancing or related to properties that have undergone redevelopment) for the years ended December 31, 2007, 2006, 2005, 2004 and 2003:

	Total Weighted Average	2007	2006	2005	2004	2003
Capital expenditures (1):						
Major capital expenditures	$ 7,186,000	$ 1,379,000	$ 575,000	$ 972,000	$ 2,628,000(2)	$ 1,632,000(3)
Recurring capital expenditures	$ 4,661,000	$ 648,000	$ 639,000	$ 1,278,000	$ 1,243,000	$ 853,000
Weighted average square feet in portfolio	41,227,675	11,476,217	9,790,326	8,128,690	6,123,807	5,708,635
Per weighted average square foot in portfolio						
Major capital expenditures	$ 0.17	$ 0.12	$ 0.06	$ 0.12	$ 0.43(2)	$ 0.29(3)
Recurring capital expenditures	$ 0.11	$ 0.06	$ 0.07	$ 0.16	$ 0.20	$ 0.15
Tenant improvements and leasing costs:						
Retenanted space (4)						
Tenant improvements and leasing costs	$ 6,743,000	$ 1,446,000	$ 1,370,000	$ 324,000	$ 713,000	$ 2,890,000
Retenanted square feet	995,802	224,767	248,846	130,887	142,814	248,488
Per square foot leased of retenanted space	$ 6.77	$ 6.43	$ 5.51	$ 2.48	$ 4.99	$ 11.63
Renewal space						
Tenant improvements and leasing costs	$ 4,719,000	$ 1,942,000	$ 957,000	$ 778,000	$ 937,000	$ 105,000
Renewal square feet	2,623,275	671,127	455,980	666,058	558,874	271,236
Per square foot leased of renewal space	$ 1.80	$ 2.89	$ 2.10	$ 1.17	$ 1.68	$ 0.39

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

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

(3) Major capital expenditures for 2003 included $1,072,000 or $0.19 per square foot in one-time costs related

to the implementation of our national branding and signage program.

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

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

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

Inflation

As of December 31, 2007, approximately 88% of our leases (on a rentable square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area and other operating expenses, including increases thereto. In addition, as of December 31, 2007, approximately 9% of our leases (on a rentable square footage basis) required the tenants to pay a majority of operating expenses. Approximately 94% of our leases (on a rentable square footage basis) contained effective annual rent escalations that are either fixed (generally ranging from 3% to 3.5%) or indexed based on the consumer price index or another index. Accordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk from inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including borrowings related to our unsecured line of credit and unsecured term loan.

Funds from operations

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

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

	Year Ended December 31,	
	2007	**2006**
Net income available to common stockholders	$ 78,905	$ 57,326
Add:		
Depreciation and amortization (1)	**97,335**	**74,039**
Minority interest	**3,669**	**2,287**
Less:		
Gain on sales of property (2)	**(7,976)**	**(59)**
FFO allocable to minority interest	**(3,733)**	**(1,928)**
Funds from operations available to common stockholders	**$ 168,200**	**$ 131,665**

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

(2) Gain on sales of property relates to the disposition of four properties and four land parcels during 2007 and three properties during 2006. Gain on sales of property is included in the consolidated statements of income in income from discontinued operations, net.

Property and lease information

The following table is a summary of our properties as of December 31, 2007 (dollars in thousands):

Markets	Number of Properties	Operating	Rentable Square Feet Redevelopment	Total	Annualized Base Rent (1)	Occupancy Percentage (1)
California Los Angeles Metro	2	31,343	29,660	61,003	$ 697	70.8%
California San Diego	33	1,465,032	215,370	1,680,402	43,264	94.9
California San Francisco Bay	23	1,837,457	30,217	1,867,674	63,569	95.8
Eastern Massachusetts	38	3,076,689	310,349	3,387,038	107,322	94.7
International Canada	4	296,362	46,032	342,394	6,879	100.0
New Jersey/Suburban Philadelphia	8	441,504		441,504	9,176	96.6
Southeast	12	596,172	62,234	658,406	10,423	86.0(2)
Suburban Washington D.C.	31	2,430,402	69,366	2,499,768	48,004	90.1
Washington Seattle	13	1,040,113	11,291	1,051,404	30,488	97.2
Total Properties (Continuing Operations)	164	11,215,074	774,519	11,989,593	$ 319,822	93.8%(3)

(1) Excludes spaces at properties totaling approximately 774,519 square feet undergoing a permanent change in use to office/laboratory space through redevelopment and two properties totaling approximately 136,399 square feet that are classified as held for sale.

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

(3) Including spaces undergoing a permanent change in use to office/laboratory space through redevelopment, occupancy as of December 31, 2007 was approximately 87.8%.

The following table summarizes information with respect to the lease expirations at our properties as of December 31, 2007:

Year of Lease Expiration	Number of Leases Expiring	Square Footage of Expiring Leases	Percentage of Aggregate Leased Square Feet	Annualized Base Rent of Expiring Leases (per square foot)
2008	67(1)	846,022	8.0%	$25.59
2009	63	896,692	8.5	24.75
2010	50	1,025,693	9.7	28.16
2011	60	1,721,434	16.4	27.28
2012	58	1,405,285	13.4	33.56
Thereafter	93	4,629,000	44.0	33.05

(1) Includes 16 month-to-month leases for approximately 85,000 square feet.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our future earnings and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, our interest rate swap agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our interest rate swap agreements in effect on, December 31, 2007 and 2006, we estimate that a 1% increase in interest rates on our variable rate debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements, would decrease annual future earnings by approximately $4.0 million and $1.5 million, respectively. We further estimate that a 1% decrease in interest rates on our variable rate debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements in effect on December 31, 2007 and 2006, would increase annual future earnings by approximately $4.0 million and $1.5 million, respectively. A 1% increase in interest rates on our secured debt, unsecured convertible notes and interest rate swap agreements would decrease their aggregate fair values by approximately $71.3 million and $68.8 million at December 31, 2007 and 2006, respectively. A 1% decrease in interest rates on our secured debt, unsecured convertible notes and interest rate swap agreements would increase their aggregate fair values by approximately $74.9 million and $71.7 million at December 31, 2007 and 2006, respectively.

These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on December 31, 2007 and 2006. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

We have exposure to equity price market risk because of our equity investments in certain publicly-traded companies and privately held entities. We classify investments in publicly-traded companies as available-for-sale and, consequently, record them on our balance sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income or loss. Investments in privately held entities are generally accounted for under the cost method because we do not influence any of the operating or financial policies of the entities in which we invest. For all investments, we recognize other than temporary declines in value against earnings in the same period the decline in value was deemed to have occurred. There is no assurance that future declines in values will not have a material adverse impact on our future results of operations. By way of example, a 10% decrease in the fair value of our equity investments as of December 31, 2007 and 2006 would decrease their fair values by approximately $8.4 million and $7.5 million, respectively.

We have exposure to foreign currency exchange rate market risk related to our subsidiaries operating in Canada. The functional currency of our foreign subsidiaries operating in Canada is the local currency. Gains or losses resulting from the translation of our foreign subsidiaries balance sheets and income statements are included in accumulated other comprehensive income as a separate component of stockholders equity. Gains or losses will be reflected in our income statement when there is a sale or partial sale of our investment in these operations or upon a complete or substantially complete liquidation of the investment. Based on our current operating assets outside the United States as of December 31, 2007, we estimate that a 10% increase in foreign currency rates relative to the U.S. dollar would increase annual future earnings by approximately $694,000. We further estimate that a 10% decrease in foreign currency rates relative to the U.S. dollar would decrease annual future earnings by approximately $694,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Changes in internal control over financial reporting

There have been no significant changes in our internal control over financial reporting during the quarter ended December 31, 2007 that could materially affect, or is reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of disclosure controls and procedures

As of December 31, 2007, we performed an evaluation, under the supervision of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. These controls and procedures have been designed to ensure that information required for disclosure is recorded, processed, summarized and reported within the requisite time periods. Based on our evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2007.

Management s annual report on internal control over financial reporting

The management of Alexandria Real Estate Equities, Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with the authorizations of the Company s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements. Management has assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control Integrated Framework . Management concluded that based on its assessment, the Company s internal control over financial reporting was effective as of December 31, 2007. The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, an independent registered accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

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

We have audited Alexandria Real Estate Equities, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management s annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of the Company as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007, and our report dated February 26, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2008

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference from our definitive proxy statement for our 2008 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the end of our fiscal year (the 2008 Proxy Statement) under the caption Board of Directors and Executive Officers , Corporate Governance Guidelines and Code of Ethics and Section 16(a) Beneficial Ownership Reporting Compliance .

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from our 2008 Proxy Statement under the caption Board of Directors and Executive Officers Executive Compensation Tables and Discussions .

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information on the Company s equity compensation plan as of December 31, 2007:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity Compensation Plan Approved by Stockholders - 1997 Incentive Plan	255,345	$41.80	973,881

The other information required by this Item is incorporated herein by reference from our 2008 Proxy Statement under the caption Security Ownership of Management and Principal Stockholders .

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

The information required by this Item is incorporated herein by reference from our 2008 Proxy Statement under the captions Certain Relationships and Related Transactions and Director Independence .

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference from our 2008 Proxy Statement under the caption Fees Billed by Independent Registered Public Accountants .

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

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

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

(b) Exhibits and Index to Exhibits

Exhibit Number	**Exhibit Title**
3.1*	Articles of Amendment and Restatement of Alexandria, filed as an exhibit to Alexandria s quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.2*	

	Certificate of Correction of Alexandria, filed as an exhibit to Alexandria s quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.3*	Bylaws of Alexandria (as amended February 27, 2006), filed as an exhibit to Alexandria s annual report on Form 10-K filed with the Commission on March 16, 2006
3.4*	Articles Supplementary, dated February 10, 2000, relating to the election to be subject to Subtitle 8 of Title 3 of the Maryland General Corporation Law, filed as an exhibit to Alexandria s current report on Form 8-K filed with the Commission on February 10, 2000
3.5*	Articles Supplementary, dated January 28, 2002, relating to the 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria s current report on Form 8-A filed with the Commission on February 17, 2002

4.1*	Rights Agreement, dated as of February 10, 2000, between the Company and American Stock Transfer & Trust Company, as Rights Agent, including the forms of Articles Supplementary setting forth the terms of the Series A Junior Participating Preferred Stock, par value $.01 per share, Rights Certificate and the Summary of Rights to Purchase Preferred Stock attached as exhibits to the Rights Agreement. Pursuant to the Rights Agreement, printed Rights Certificates will not be mailed until after the Distribution Date (as defined in the Rights Agreement), filed as an exhibit to Alexandria s current report on Form 8-K filed with the Commission on February 10, 2000
4.2*	Specimen certificate representing shares of Common Stock, filed as an exhibit to Alexandria s Registration Statement on Form S-11 (No. 333-23545)
4.3*	Specimen certificate representing shares of 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria s current report on Form 8-A filed with the Commission on February 17, 2002
4.4*	Specimen certificate representing shares of 8.375% Series C Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria s current report on Form 8-A filed with the Commission on June 28, 2005
4.5*	Indenture, dated January 17, 2007, among the Company, Alexandria Real Estate Equities, L.P., as Guarantor, and Wilmington Trust company, as Trustee filed as an exhibit to Alexandria s current report on Form 8-K filed with the Commission on January 19, 2007
4.6*	Registration Rights Agreement, dated as of January 17, 2007, among the Company, Alexandria Real Estate Equities, L.P., UBS Securities LLC., Citigroup Global Markets, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated filed as an exhibit to Alexandria s current report on Form 8-K filed with the Commission on January 18, 2007
10.1* (1)	Amended and Restated 1997 Stock Award and Incentive Plan of Alexandria, dated December 29, 2000, filed as an exhibit to Alexandria s annual report on Form 10-K filed with the Commission on March 29, 2002
10.2* (1)	Form of Non-Employee Director Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria s Registration Statement on Form S-11 (No. 333-23545)
10.3* (1)	Form of Incentive Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria s Registration Statement on Form S-11 (No. 333-23545)
10.4* (1)	Form of Nonqualified Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria s Registration Statement on Form S-11 (No. 333-23545)
10.5* (1)	Form of Employee Restricted Stock Agreement for use in connection with shares of restricted stock issued to employees pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria s quarterly report on Form 10-Q filed with the Commission on November 15, 1999
10.6* (1)	Form of Independent Contractor Restricted Stock Agreement for use in connection with shares of restricted stock issued to independent contractors pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria s quarterly report on Form 10-Q filed with the Commission on November 15, 1999
10.7* (1)	Alexandria s 2000 Deferred Compensation Plans, effective December 1, 2000, filed as an exhibit to Alexandria s annual report on Form 10-K filed with the Commission on March 29, 2002
10.8* (1)	Executive Employment Agreement between Alexandria Real Estate Equities, Inc. and James H. Richardson, dated January 9, 2006 filed as an exhibit to Alexandria s annual report on Form 10-K filed with the Commission on March 16, 2006
10.9* (1)	Executive Employment Agreement between Alexandria Real Estate Equities, Inc. and Joel S. Marcus, dated March 13, 2006 filed as an exhibit to Alexandria s annual report on Form 10-K filed with the

	Commission on March 16, 2006
10.10* (1)	Executive Employment Agreement between Alexandria Real Estate Equities, Inc. and Dean A. Shigenaga, dated August 8, 2007
10.11 (1)	Summary of Director Compensation Arrangements
10.12*	Second Amended and Restated Credit Agreement as of October 31, 2006, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America as Syndication Agent, Eurohypo AG, New York Branch, Societe Generale, The Royal Bank of Scotland, PLC, Calyon, The Bank of Nova Scotia, UBS Loan Finance LLC, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners
10.13*	First Amendment to Second Amended and Restated Credit Agreement as of December 1, 2006, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America as Syndication Agent, Eurohypo AG, New York Branch, Societe Generale, The Royal Bank of Scotland, PLC, Calyon, The Bank of Nova Scotia, UBS Loan Finance LLC, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners
10.14*	Second Amendment to Second Amended and Restated Credit Agreement as of May 2, 2007, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries party thereto, Bank of America, N.A. as Administrative Agent, Lender, L/C Issuer, and Swing Line Lender, Citicorp North America Inc. as Syndication Agent, The Bank of Nova Scotia, The Royal bank of Scotland, PLC, Eurohypo AG, New York Branch, and HSH Nordbank AG New York Branch, as Co-Documentation Agents
11.1	Computation of Per Share Earnings (included in Note 2 to the Consolidated Financial Statements)
12.1	Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
14.1*	Alexandria Real Estate Equities, Inc. Business Integrity Policy and Procedures for Reporting Non-Compliance (code of ethics pursuant to Item 406 Regulation S-K), filed as an exhibit to Alexandria s annual report on Form 10-K filed with the Commission on March 16, 2005
21.1	List of Subsidiaries of Alexandria
23.1	Consent of Ernst & Young LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(*) Incorporated by reference.

(1) Management contract or compensatory arrangement.

SIGNATURES

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

ALEXANDRIA REAL ESTATE EQUITIES, INC.

Dated February 27, 2008	By:	/s/ Joel S. Marcus Joel S. Marcus Chief Executive Officer

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