



DISEASE

THERE ARE MANY SIGNIFICANT DISEASES FOR WHICH THERE ARE STILL NO CURES. AS RESEARCH AND DEVELOPMENT EXPENDITURES INCREASE IN THE QUEST TO DEVELOP EFFECTIVE THERAPIES FOR THESE CRITICAL INDICATIONS, THERE IS AN INCREASING NEED FOR SCIENTIFIC LABORATORY SPACE.



The successful candidate should have a Ph.D. in pharmacology or toxicology, at least two years of postdoctoral experience, and will be expected to continue an independent/fundable research program and contribute to the teaching of professional students. Priority will be given to areas such as ocular neuropharmacology, and toxins. Applications should be received by January 30, 1998, until the positions are filled. This position is available beginning July 1998. Priority areas of autonomous cardiovascular neurotoxicology. These positions will be filled by July 1998. Faculty rank and salary will be commensurate with prior experience. *Please send application materials, a statement of research and teaching interests, and a curriculum vitae to:*

CELEBRATE EVOLUTIONARY BIOLOGIST

The Department of Biology at the University of North Carolina at Chapel Hill seeks a broadly trained biologist with a strong background in invertebrate zoology to begin in a tenure-track ASSISTANT PROFESSOR position in fall, 1998. Candidate must have Ph.D. in biology, at least two years of teaching at undergraduate level, and active research program using modern techniques. The successful candidate will teach upper-level courses in invertebrate zoology and invertebrate zoology or invertebrate zoology, and may develop courses in invertebrate zoology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

POPULATION ECOLOGIST

The Department of Biology at the University of North Carolina at Chapel Hill seeks a broadly trained Population Ecologist with a strong background in quantitative methods to begin in a tenure-track ASSISTANT PROFESSOR position in fall, 1998. Candidate must have Ph.D. in biology, at least two years of teaching at undergraduate level, and active research program using modern techniques. The successful candidate will teach upper-level courses in population ecology and population ecology, and may develop courses in population ecology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

FACULTY POSITION IN CARDIOLOGY

The Department of Cardiology at the University of North Carolina at Chapel Hill seeks a broadly trained Cardiovascular Biologist with a strong background in cardiovascular biology to begin in a tenure-track ASSISTANT PROFESSOR position in fall, 1998. Candidate must have Ph.D. in biology, at least two years of teaching at undergraduate level, and active research program using modern techniques. The successful candidate will teach upper-level courses in cardiovascular biology and cardiovascular biology, and may develop courses in cardiovascular biology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

ASSISTANT PROFESSOR OF MOLECULAR BIOLOGY

The Department of Molecular Biology at the University of North Carolina at Chapel Hill seeks a broadly trained Molecular Biologist with a strong background in molecular biology to begin in a tenure-track ASSISTANT PROFESSOR position in fall, 1998. Candidate must have Ph.D. in biology, at least two years of teaching at undergraduate level, and active research program using modern techniques. The successful candidate will teach upper-level courses in molecular biology and molecular biology, and may develop courses in molecular biology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

The Department of Geological and Environmental Sciences invites applications for a tenure-track ASSISTANT PROFESSORSHIP in soil/environmental geosciences. This new position is intended to complement our growing research and teaching programs, at both the graduate and undergraduate levels, in environmental geoscience. Research specialties may include but are not limited to geochemical and biogeochemical studies of soils, both modern and ancient, aqueous/groundwater geochemistry, mineral soil-water interactions, and geochemical cycling and modeling. This new position is intended to complement our growing research and teaching programs, at both the graduate and undergraduate levels, in environmental geoscience. Applicants must have a Ph.D. degree at the time of appointment.

Priority will be given to those applications received by March 16, 1998. Applicants must have a Ph.D. degree at the time of appointment. This appointment must be made at the Assistant Professor level. *Please send a letter of interest, a statement of teaching and research objectives and accomplishments, a curriculum vitae, a publication list, and the names and addresses of three potential recommenders.*

ASSISTANT PROFESSOR, WILDLIFE

The Department of Wildlife Management and Conservation at the University of North Carolina at Chapel Hill seeks a broadly trained Wildlife Biologist with a strong background in wildlife ecology to begin in a tenure-track ASSISTANT PROFESSOR position in fall, 1998. Candidate must have Ph.D. in biology, at least two years of teaching at undergraduate level, and active research program using modern techniques. The successful candidate will teach upper-level courses in wildlife ecology and wildlife ecology, and may develop courses in wildlife ecology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

TWO BIOTECHNOLOGY POSITIONS

The Department of Biotechnology at the University of North Carolina at Chapel Hill seeks two broadly trained Biotechnologists with a strong background in biotechnology to begin in tenure-track ASSISTANT PROFESSOR positions in fall, 1998. Candidates must have Ph.D. degrees in biotechnology, at least two years of teaching at undergraduate level, and active research programs using modern techniques. The successful candidates will teach upper-level courses in biotechnology and biotechnology, and may develop courses in biotechnology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

TEACHING POSITIONS IN CELL BIOLOGY AND PARASITOLOGY

The Department of Cell Biology and Parasitology at the University of North Carolina at Chapel Hill seeks two broadly trained Cell Biologists and Parasitologists with a strong background in cell biology and parasitology to begin in tenure-track ASSISTANT PROFESSOR positions in fall, 1998. Candidates must have Ph.D. degrees in cell biology or parasitology, at least two years of teaching at undergraduate level, and active research programs using modern techniques. The successful candidates will teach upper-level courses in cell biology and parasitology, and may develop courses in cell biology and parasitology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

POSITION ANNOUNCEMENT
ASSISTANT PROFESSOR OF BIOLOGICAL CHEMISTRY
 The Department of Biological Chemistry at the University of North Carolina at Chapel Hill seeks a broadly trained Biological Chemist with a strong background in biological chemistry to begin in a tenure-track ASSISTANT PROFESSOR position in fall, 1998. Candidate must have a Ph.D. in biology, at least two years of teaching at undergraduate level, and active research program using modern techniques. The successful candidate will teach upper-level courses in biological chemistry and biological chemistry, and may develop courses in biological chemistry. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

MOLECULAR BIOLOGY

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SEARCH FOR ASSOCIATE PROFESSOR

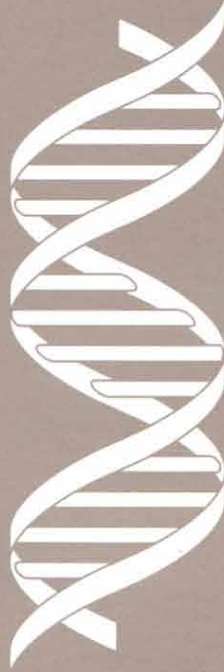
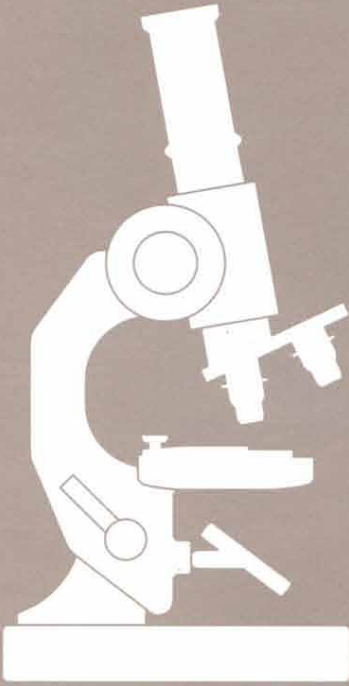
The Division of Pharmacology at the University of North Carolina at Chapel Hill seeks a broadly trained Pharmacologist with a strong background in pharmacology to begin in a tenure-track ASSISTANT PROFESSOR position in fall, 1998. Candidate must have Ph.D. in biology, at least two years of teaching at undergraduate level, and active research program using modern techniques. The successful candidate will teach upper-level courses in pharmacology and pharmacology, and may develop courses in pharmacology. Research space, small animal facilities, and start-up funds will be available. Postdoctoral fellowships will be available. Please send curriculum vitae, unofficial copies of undergraduate transcripts, statement of research interests, and professional goals, and names of three references. Research facilities and start-up funds will be available. Research facilities and start-up funds will be available. *For consideration, send materials by January 26, 1998.*

POSITION ANNOUNCEMENT

MOLECULAR BIOLOGY

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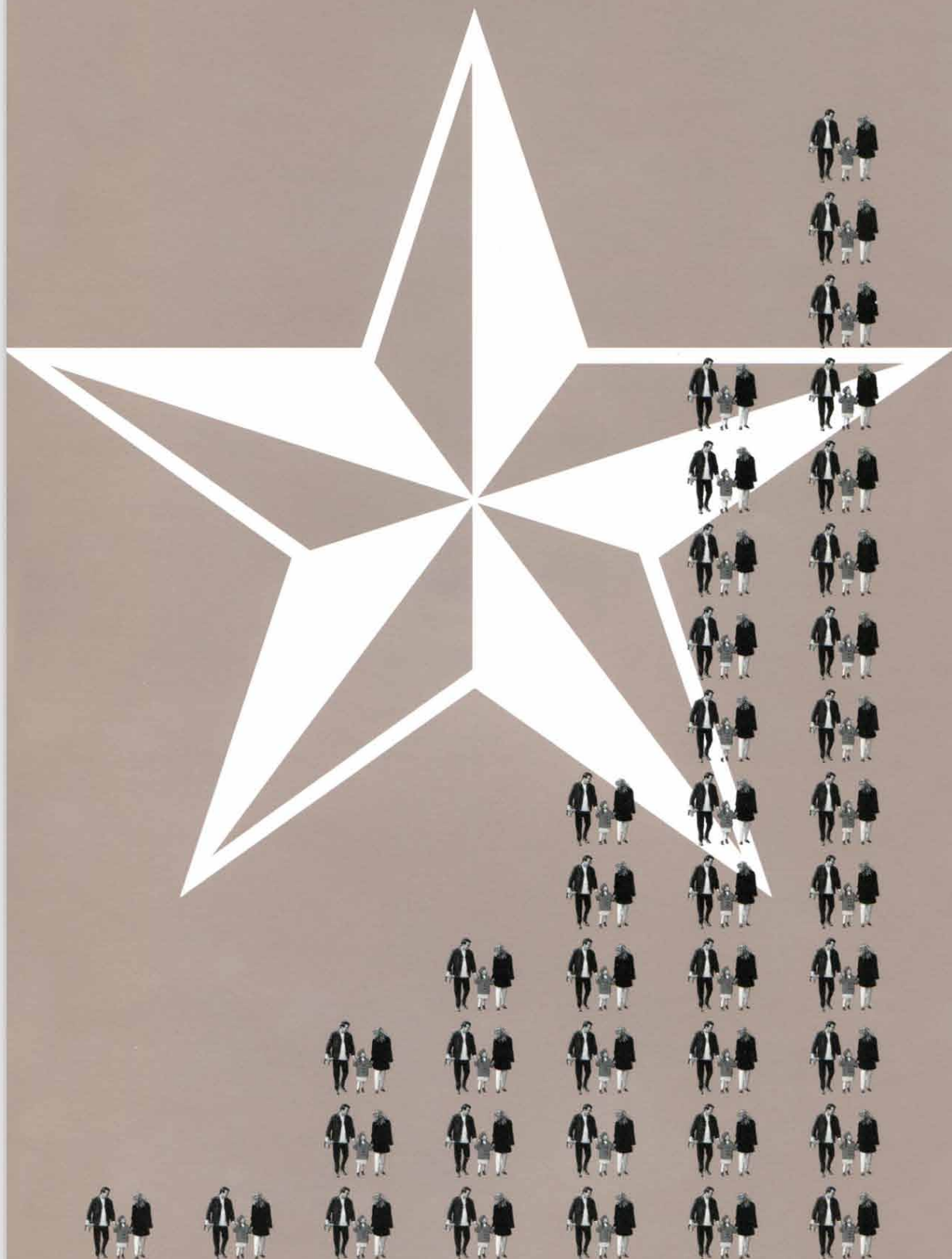
R&D IN EXCESS OF ONE HALF TRILLION DOLLARS IS SPENT ANNUALLY IN THE UNITED STATES TO TREAT INCURABLE DISEASES. IMPROVEMENTS IN TECHNOLOGY, WHICH INCLUDE ENHANCED DIAGNOSTICS AND THE ABILITY TO IDENTIFY EFFECTIVE DRUG COMPOUNDS MORE QUICKLY, ARE THE RESULT OF INCREASING RESEARCH AND DEVELOPMENT BUDGETS.



TENANTS THE USERS OF SCIENTIFIC RESEARCH SPACE ARE BROAD AND DIVERSE, FROM PHARMACEUTICAL AND BIOTECHNOLOGY COMPANIES TO DIAGNOSTIC AND CLINICAL LABORATORIES, GOVERNMENT AGENCIES, SCIENTIFIC RESEARCH INSTITUTIONS, AND MANUFACTURERS OF PERSONAL CARE PRODUCTS.

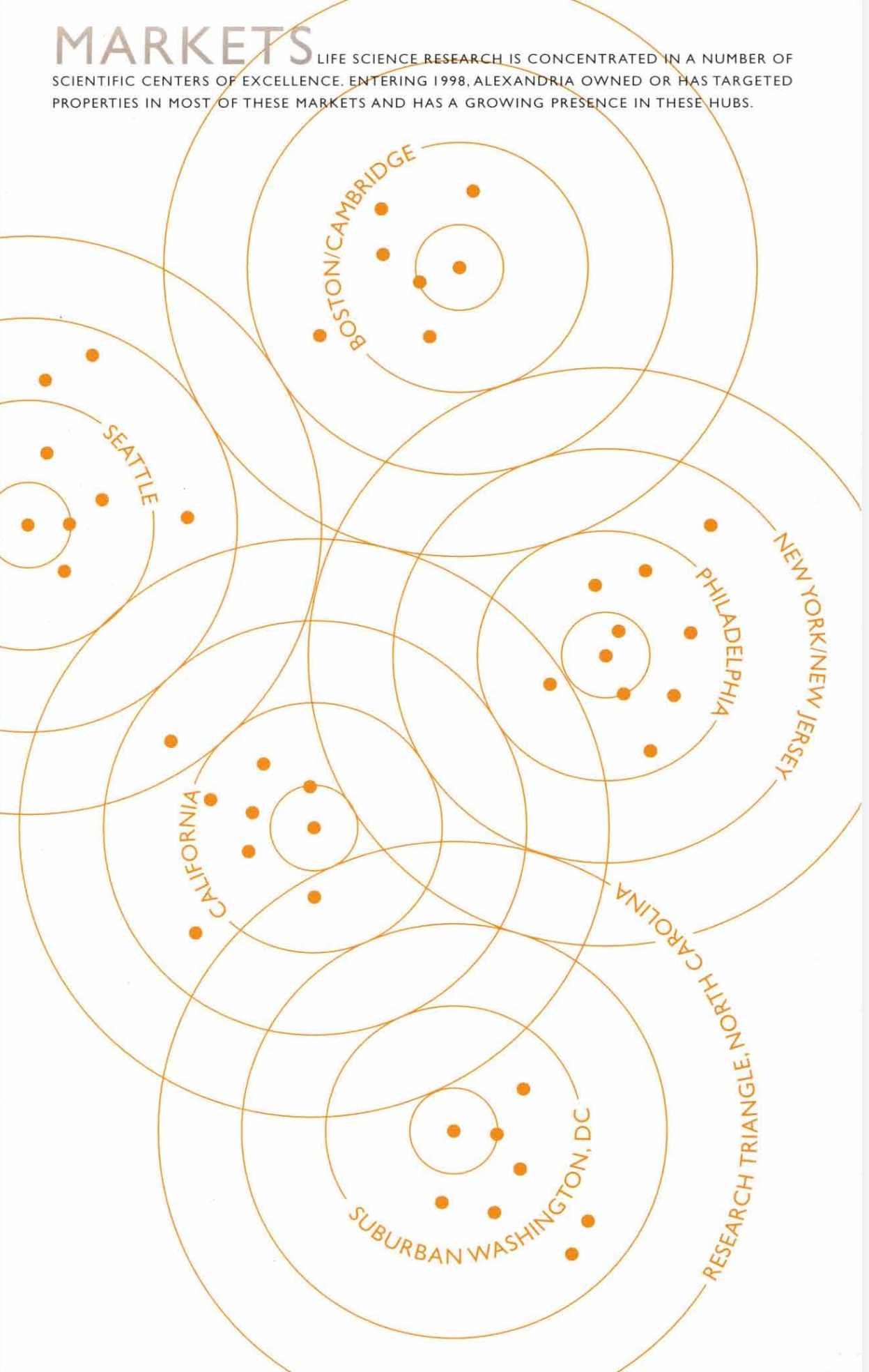
PRIORITY

BOTH PRIVATE AND PUBLIC SECTOR SCIENTIFIC RESEARCH BUDGETS HAVE INCREASED SIGNIFICANTLY OVER THE LAST DECADE. THERE IS STRONG EXECUTIVE AND CONGRESSIONAL SUPPORT TO SUBSTANTIALLY INCREASE THE BUDGET OF THE NATIONAL INSTITUTES OF HEALTH OVER THE NEXT FIVE YEARS.



MARKETS

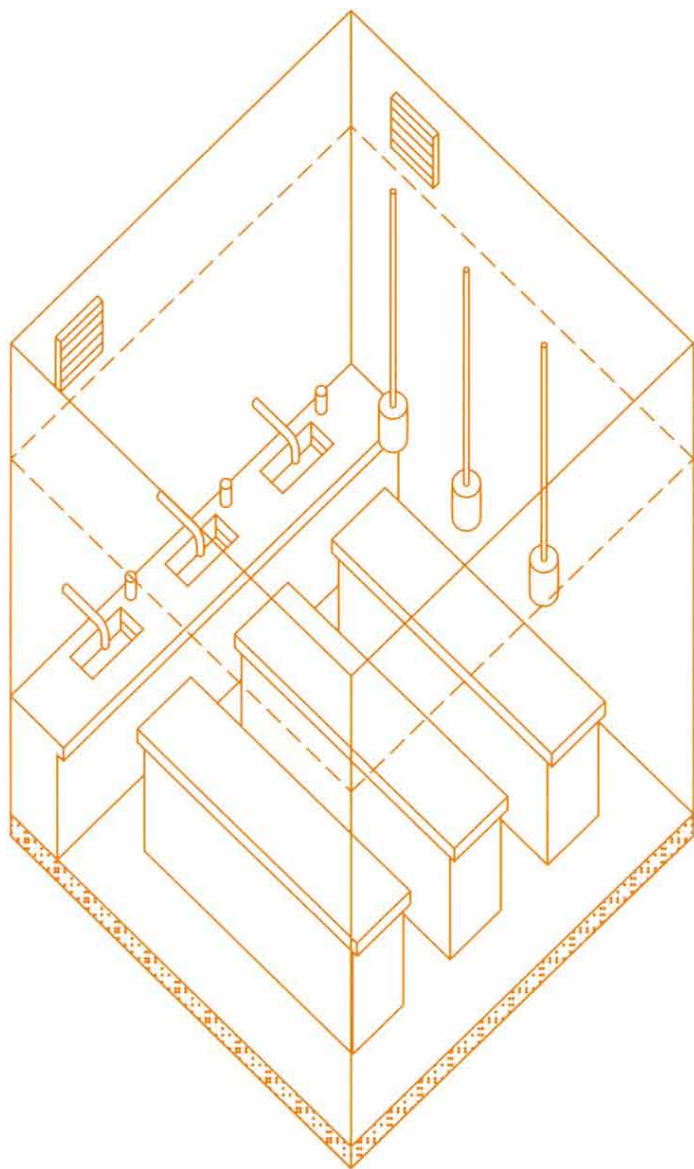
LIFE SCIENCE RESEARCH IS CONCENTRATED IN A NUMBER OF SCIENTIFIC CENTERS OF EXCELLENCE. ENTERING 1998, ALEXANDRIA OWNED OR HAS TARGETED PROPERTIES IN MOST OF THESE MARKETS AND HAS A GROWING PRESENCE IN THESE HUBS.



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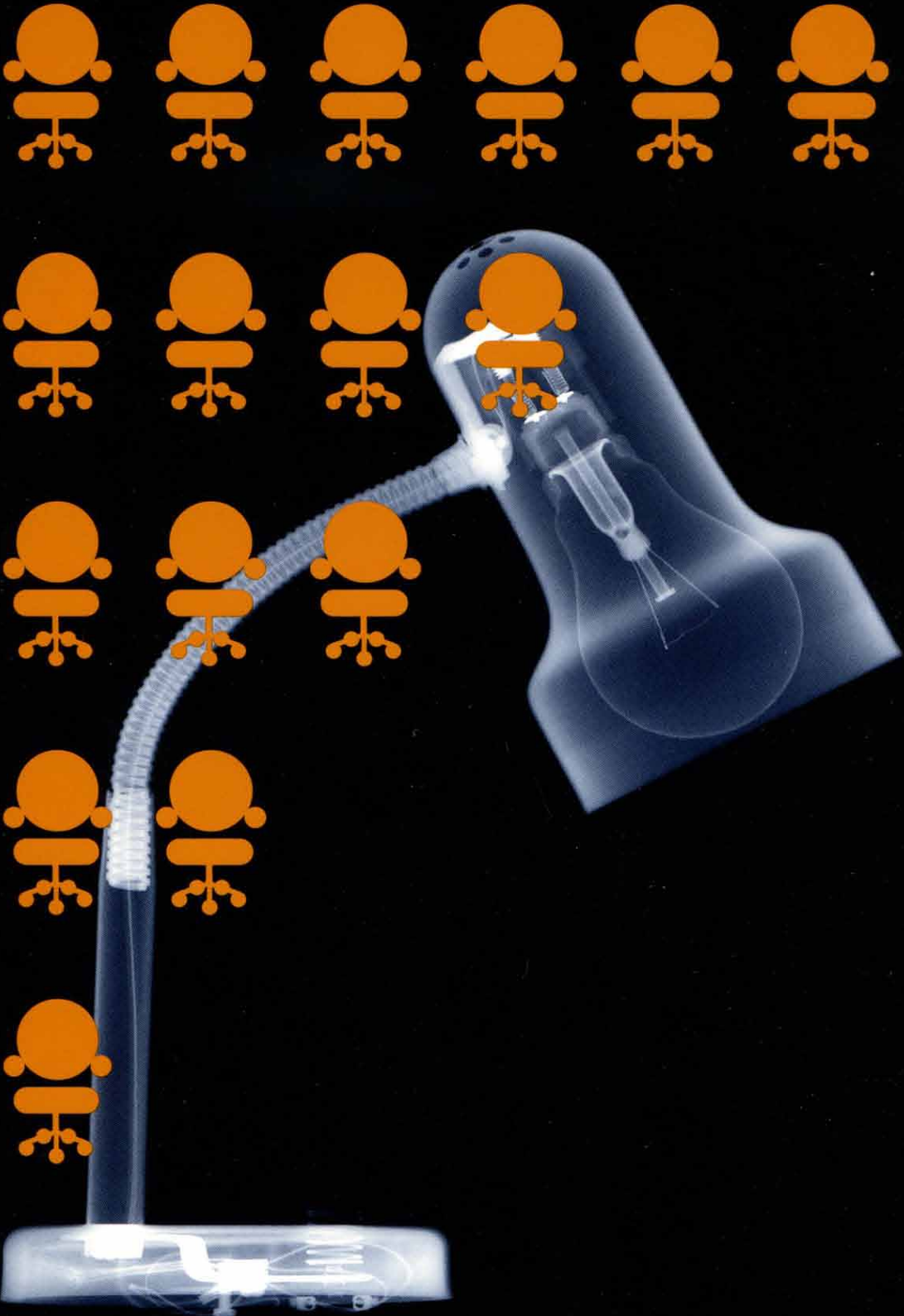


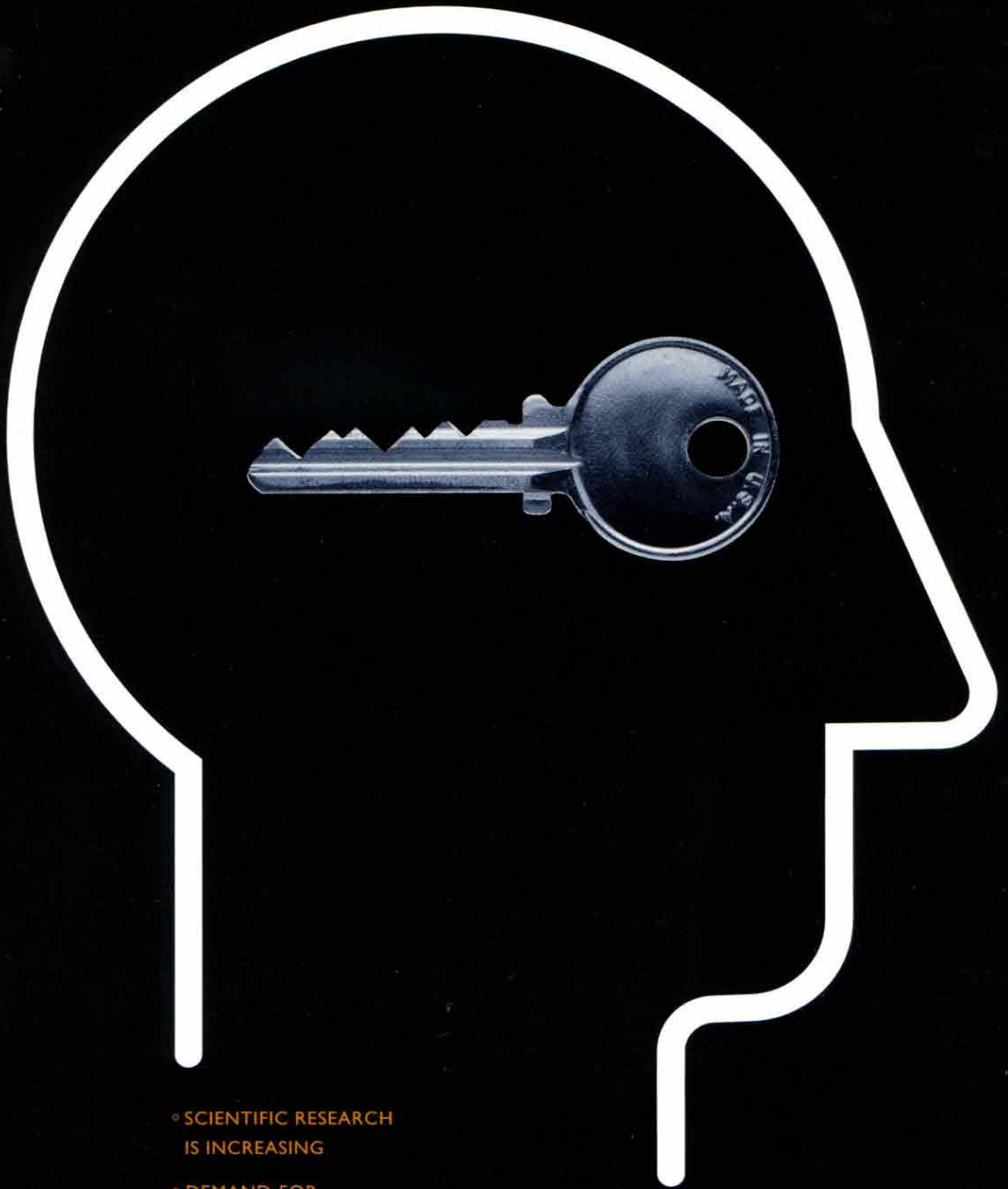
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FACILITIES THE LABORATORY IS THE PLATFORM FOR SCIENTIFIC RESEARCH. WHILE GENERIC WITHIN THE LIFE SCIENCE INDUSTRY, THESE FACILITIES DIFFER FROM CONVENTIONAL SPACE IN THEIR USE OF LABORATORY BENCHES AND SOPHISTICATED MECHANICAL INFRASTRUCTURE.

GROWTH

GIVEN THE INCREASE IN R&D SPENDING IN BOTH THE PUBLIC AND PRIVATE SECTORS, THE LACK OF QUALITY TECHNICAL SPACE AND A HEALTHY REAL ESTATE ENVIRONMENT, WE BELIEVE THE OUTLOOK FOR ALEXANDRIA'S FUTURE IS BRIGHT.

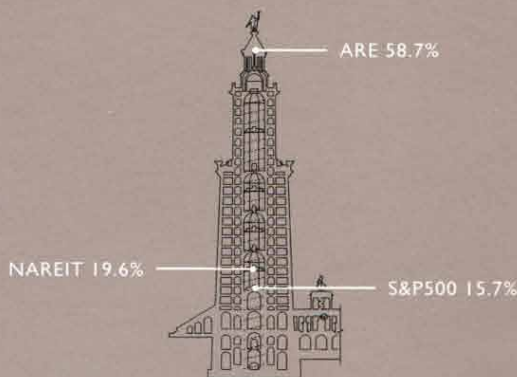




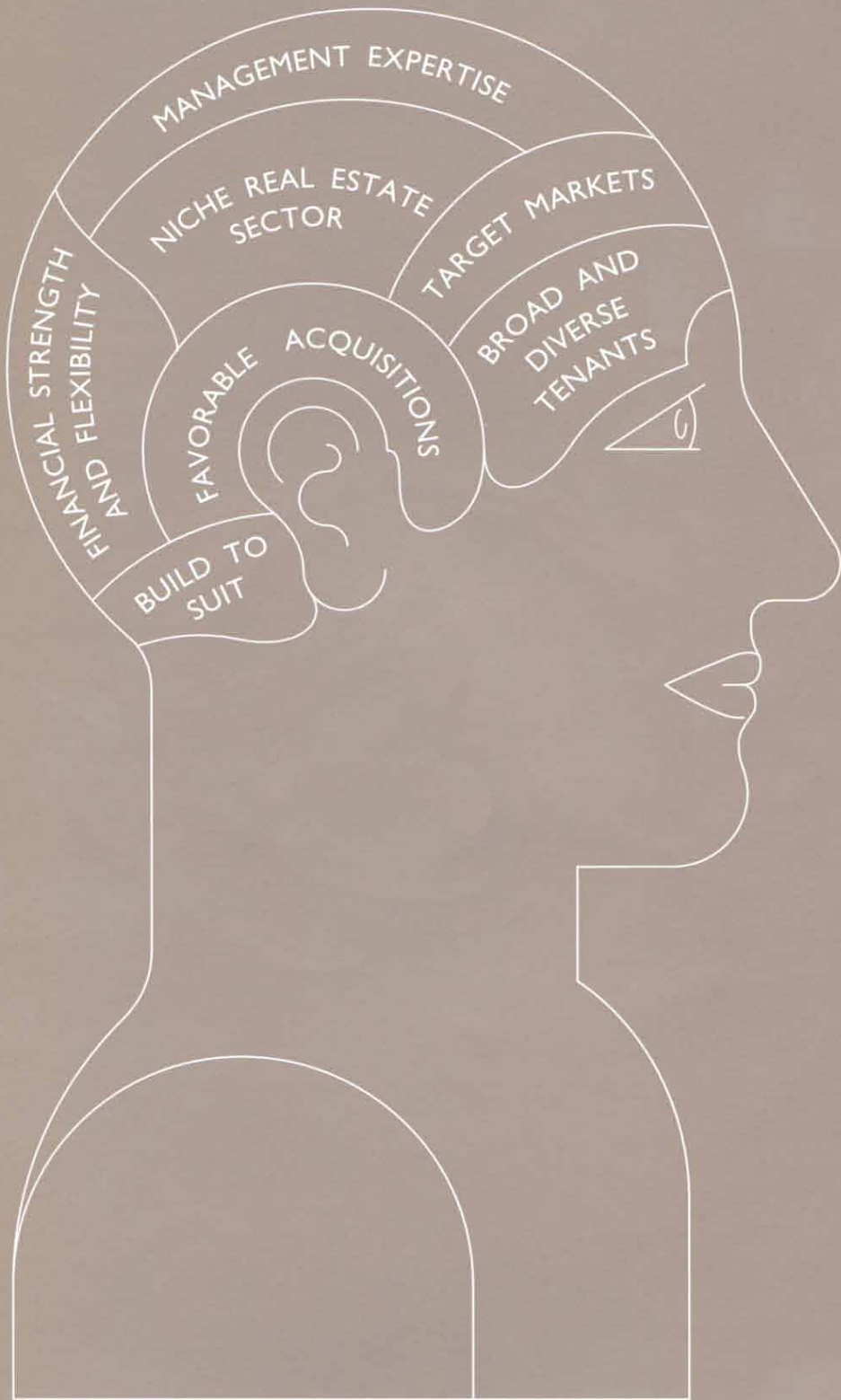
- SCIENTIFIC RESEARCH IS INCREASING
- DEMAND FOR TECHNICAL SPACE IS INCREASING
- SUPPLY OF TECHNICAL SPACE IS LIMITED

VISION IN 1987 MARKET CAPITALIZATION OF THE REIT INDUSTRY WAS UNDER \$10 BILLION, TODAY IT IS OVER \$150 BILLION. IN THE SAME PERIOD, PHARMACEUTICAL R&D BUDGETS GREW AT DOUBLE-DIGIT RATES. ALEXANDRIA IS THE ONLY PUBLICLY TRADED REIT FOCUSED SOLELY ON THE LIFE SCIENCE MARKET.

FIRST IN CLASS Alexandria is the only publicly traded REIT principally addressing the unmet facilities needs of the life science industry – a robust and vital sector of the economy. Alexandria has executed its strategic plan addressing a critically important niche in the real estate market. Our shareholders were rewarded as Alexandria delivered a total return of over 58% in 1997. This performance has been recognized by the National Association of Real Estate Investments (“NAREIT”), the industry’s principal trade organization, which named Alexandria the number one performing REIT in the office-industrial-storage category for 1997.



ALEXANDRIA REAL ESTATE EQUITIES, INC.'S PERFORMANCE TO NAREIT INDEX AND S&P500
(TOTAL RETURN PERFORMANCE MAY 28, 1997 TO DECEMBER 31, 1997)



WISDOM

ALEXANDRIA'S MANAGEMENT HAS EXTENSIVE EXPERIENCE IN BOTH REAL ESTATE AND THE LIFE SCIENCE INDUSTRY. BROAD BASED CAPABILITIES INCLUDE THE ACQUISITION, CONSTRUCTION, AND MANAGEMENT OF OFFICE/LABORATORY FACILITIES BLENDED WITH EXPERTISE IN THE BUSINESS OF SCIENTIFIC RESEARCH.



DEAR SHAREHOLDERS: 1997 was a historic year for Alexandria. We completed our initial public offering last May, an event that occurred less than three and one-half years after the Company's founding in January 1994, presenting Alexandria as the only publicly traded REIT with a principal investment focus on the office/laboratory niche. According to one equity research report, our pioneering, focused strategy created one of the most exciting and unique public investment vehicles in the REIT industry.

During the year, we significantly expanded both the size and geographic scope of our portfolio, adding both high-quality properties and premier life science industry tenants. Our financial results in each of the first three quarters as a public company exceeded Wall Street's consensus expectations and have brought further recognition to our company and its strategy. We look forward to continuing to build on the success of 1997, maximizing return for our shareholders and exerting a positive influence on the conduct of important scientific research at the benchtop.

The life science industry has experienced well over a decade of significant growth. An increase in the incidence of disease, newer technologies assisting

the drug development process and the aging of the American population have all contributed to this growth and to the national priority placed on breakthrough scientific research. Scientific research spending from both the public and private sectors continues to grow. Such research requires facilities with extensive infrastructure improvements designed to meet the needs of life science industry tenants. Given the fragmentation in life science facility ownership, a vacuum of relevant expertise among real estate professionals and our own expertise in both real estate and life sciences, we believe that a unique investment opportunity exists for a public company focused on the acquisition, management, expansion and selective development of such properties. We believe our investment strategy fulfills a significant market need.

Our strategy targets tenants conducting scientific research at the benchtop and focuses on geographic locations in scientific centers of excellence, which have significant concentrations of such tenants. These include pharmaceutical, biotechnology, diagnostic and personal care products companies, major scientific research institutions, and certain related government agencies. The complex nature of the scientific research work conducted by such tenants and the higher technical requirements of the facilities which they occupy produce significant deterrents to entry by other owners. As such, demand is strong while supply of high quality facilities that meet the needs and standards of life science industry tenants is limited, resulting in higher occupancy and lower turnover rates. By focusing on the acquisition of facilities in the dominant hubs for scientific research, Alexandria is able to pursue its strategy of building critical mass in each market enhancing our strategy of becoming the landlord of choice to organizations operating in our market niche.

Indeed, our properties are home to some of the most prominent members of the broad and diverse life science community, both nationally and internationally, including R.W. Johnson Pharmaceutical Research Institute (Johnson & Johnson), Novartis AG, Chiron Corporation, Agouron Pharmaceuticals Inc., The Gillette

Company, The Scripps Research Institute, American Medical Laboratories, Inc., U.S. Food and Drug Administration and U.S. Army Corps of Engineers.

THE YEAR IN REVIEW In May, Alexandria completed a successful IPO, which raised gross proceeds of \$155 million, providing us with the financial resources to aggressively expand our portfolio in our existing markets and make our initial foray into three others, including Raleigh/Durham, Boston and New Jersey. During 1997, we acquired seven properties with a total of 293,000 square feet. This brought our portfolio at year end to 22 properties and 1,748,000 square feet. As our business plan dictates, all of our properties are located in established scientific research communities, mainly on the East and West coasts. Year end average occupancy of our portfolio averaged 97%, indicating the strong demand and limited supply for laboratory space.

Alexandria's market niche requires specialized management expertise. Our management team is highly experienced in all aspects of real estate, the capital markets and in the life science industry, which allows us to better evaluate prospective acquisitions and tenants and respond to our tenants' multi-faceted facilities needs. During the year, we augmented our management team with the addition of James H. Richardson as Senior Vice President, Acquisitions. Jim's vast experience with life science and technology properties includes founding the life science division of a large commercial real estate brokerage company. We are confident Jim's acquisition expertise and senior management experience will help us to continue to source high quality facilities for our acquisition pipeline, to effectively and efficiently manage our portfolio and to continue to execute our strategic plan.

THE YEAR AHEAD During 1998, Alexandria will continue to pursue our goal of developing a strategic franchise in each of our target markets, as well as being the office/laboratory expert and landlord of choice to our tenant base. With a 16%

debt-to-total market capitalization at year end and an unsecured credit line of up to \$150 million (only \$23 million of which had been utilized as of year end), we are positioned to continue our healthy acquisition pace, further solidifying our leadership in the office/laboratory market. Additionally, we believe our performance in 1997 positions us to access the capital markets as necessary to continue our growth.

In 1998 (through March 27) we have completed the acquisition of eleven properties, aggregating 927,000 square feet of leaseable space. Including these acquisitions, Alexandria's portfolio on a square footage basis has increased by 84% since our IPO. More importantly, we have ample candidates in the acquisition pipeline to enable us to continue to grow the company and maximize FFO on a per share basis.

In closing, we would like to thank our shareholders for their continued confidence in Alexandria and its management team. We are enthusiastic about the year, indeed the years, ahead and are genuinely appreciative of the support that every shareholder, tenant and employee has given us.

Sincerely,



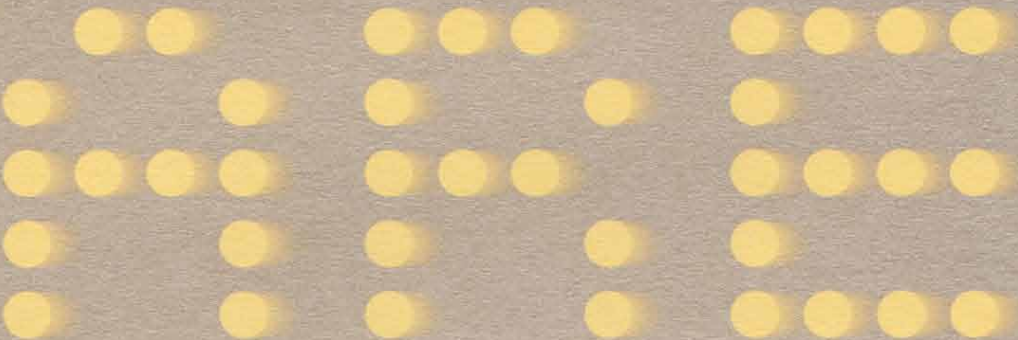
JERRY M. SUDARSKY
CHAIRMAN OF THE BOARD



JOEL S. MARCUS
CHIEF EXECUTIVE OFFICER

MARCH 27, 1998

FINANCIALS



SELECTED FINANCIAL DATA

ALEXANDRIA REAL ESTATE EQUITIES, INC.

The following table should be read in conjunction with the consolidated financial statements included elsewhere in this annual report.

	YEAR ENDED DECEMBER 31			For the Period October 27, 1994 (inception) through December 31, 1994
	1997	1996	1995	
<i>(Dollars in thousands, except per share amounts)</i>				
Operating Data:				
Total revenue	\$ 34,846	\$ 17,673	\$ 9,923	\$ 1,011
Total expenses	37,643	15,498	9,057	1,659
(Loss) income from operations	(2,797)	2,175	866	(648)
Charge in lieu of taxes	—	—	(105)	—
Net (loss) income	\$ (2,797)	\$ 2,175	\$ 761	\$ (648)
Net (loss) income per pro forma share of Common Stock - restated for 1996, 1995 and 1994 (basic and diluted)	\$ (0.35)	\$ 0.60	\$ 0.43	\$ (0.37)
Pro forma weighted average shares of Common Stock outstanding - restated for 1996, 1995 and 1994 ⁽¹⁾	8,075,864	3,642,131	1,765,923	1,765,923
Cash dividends declared per pro forma common share of Common Stock - restated for 1996 and 1995	\$ 1.60	\$ 0.87	\$ 0.51	\$ —
Balance Sheet Data (at period end):				
Rental properties - net of accumulated depreciation	\$ 229,970	\$ 146,960	\$ 54,353	\$ 54,366
Total assets	\$ 248,454	\$ 160,480	\$ 58,702	\$ 56,600
Mortgage loans payable and unsecured lines of credit	\$ 70,817	\$ 113,182	\$ 40,894	\$ 39,164
Total liabilities	\$ 81,537	\$ 120,907	\$ 42,369	\$ 40,119
Mandatorily redeemable Series V Preferred Stock	\$ —	\$ 25,042	\$ —	\$ —
Stockholders' equity	\$ 166,917	\$ 14,531	\$ 16,333	\$ 16,481
Other Data:				
Net (loss) income	\$ (2,797)	\$ 2,175	\$ 761	\$ (648)
Add:				
Special bonus ⁽²⁾	353	—	—	—
Stock compensation ⁽³⁾	4,239	—	—	—
Post-retirement benefit ⁽⁴⁾	632	438	—	—
Acquisition LLC financing costs ⁽⁵⁾	6,973	—	—	—
Write-off of unamortized loan costs ⁽⁶⁾	2,295	—	—	—
Depreciation and amortization	4,866	2,405	1,668	63
Funds from operations ⁽⁷⁾	\$ 16,561	\$ 5,018	\$ 2,429	\$ (585)

(Dollars in thousands, except per share amounts)

Other Data (continued):

	YEAR ENDED DECEMBER 31			For the Period October 27, 1994 (inception) through December 31, 1994
	1997	1996	1995	
Cash flows from operating activities	\$ 3,883	\$ (1,646)	\$ 355	\$ (1,024)
Cash flows from investing activities	\$ (87,620)	\$ (94,900)	\$ (1,554)	\$ (29,924)
Cash flows from financing activities	\$ 84,101	\$ 97,323	\$ 927	\$ 32,139
Number of properties owned at period end	22	12	4	4
Rentable square feet of properties owned at period end	1,747,837	1,031,070	313,042	313,042
Occupancy of properties owned at period end	97%	97%	96%	88%

- (1) Pro forma shares of Common Stock outstanding for the years ended December 31, 1997 and 1996 include all shares outstanding after giving effect to the Offering, weighted for the period beginning from the date of the Offering, conversion of all series of preferred stock, the 1,765,923 to 1 stock split, the issuance of the stock grants and exercise of substitute stock options. Pro forma restated shares of Common Stock outstanding for the periods ended December 31, 1995 and 1994 include shares outstanding after giving effect to the 1,765,923 to 1 stock split.
- (2) Represents a \$353,000 special bonus paid to an officer of the Company in connection with the Offering.
- (3) Represents an accrual for \$4,239,000 of non-recurring, non-cash compensation expense relating to the issuance of stock options and stock grants. In connection with the Offering, the holders of options previously granted by Holdings under its 1994 stock option plans received options to purchase shares of Common Stock of the Company in substitution therefor. These substitute options were exercised in connection with the Offering.
- (4) This adjustment relates solely to the non-cash accrual of a one-time post-retirement benefit for an officer of the Company.
- (5) In connection with the Offering, the Company acquired the membership interests in the Acquisition LLC for \$58,844,000, which exceeded the purchase price paid by the Acquisition LLC for the properties by \$6,973,000. This difference was accounted for as a financing cost.
- (6) Of this amount, \$2,147,000 represents the write-off of costs associated with debt paid off in connection with the Offering, and \$148,000 represents the write-off of costs associated with debt paid off in November 1997.
- (7) The Company computes funds from operations ("FFO") in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper ("White Paper"). The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring, sales of property and unusual items, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. For a more detailed discussion of FFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds from Operations."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ALEXANDRIA REAL ESTATE EQUITIES, INC.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this annual report.

Overview

Since its formation in October 1994, the Company has devoted substantially all of its resources to the acquisition and management of high quality, strategically located Life Science Facilities leased principally to tenants in the life science industry in its target markets.

In June 1997, the Company completed an initial public offering (the "Offering") of its common stock, par value \$.01 per share (the "Common Stock"). In connection with the Offering (and related exercise of the underwriters' over-allotment option), 7,762,500 shares of Common Stock were issued. Aggregate proceeds from the Offering (including proceeds from the exercise of the over-allotment option), net of underwriting discounts and commissions, advisory fees and offering costs, were approximately \$138.9 million.

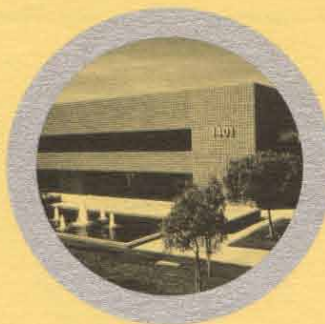
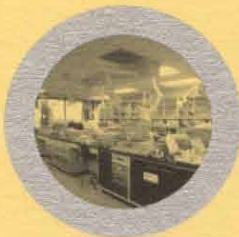
The Company receives income from rental revenue (including tenant recoveries) from its properties. Of the 22 properties owned by the Company as of December 31, 1997 (the "Properties"), four were acquired in calendar year 1994, eight in 1996 (the "1996 Acquired Properties"), three in 1997 in connection with the Offering and seven in 1997 subsequent to the Offering (together, the "1997 Acquired Properties"). As a result of the Company's acquisition activities, the financial data shows significant increases in total revenues and expenses for 1997 compared to 1996, largely attributable to the 1997 Acquired Properties, and the recognition of a full year of revenues for the 1996 Acquired Properties. For the foregoing reasons, and due to the effects of the Offering and related transactions, the Company does not believe its year-to-year historical financial data are comparable. Accordingly, the Company also has included pro forma financial information, which gives effect to the Offering and the acquisitions made in 1996 and 1997 in connection therewith.

Results of Operations

Comparison of the Year Ended December 31, 1997 to the Year Ended December 31, 1996

Rental revenue increased by \$12.7 million, or 98%, to \$25.6 million for 1997 compared to \$12.9 million for 1996. The increase resulted primarily from the 1996 Acquired Properties being owned for a full period and the addition of the 1997 Acquired Properties, which together contributed an additional

IMPROVED
LABORATORY SPACE AT
1431 HARBOR BAY PARKWAY,
ALAMEDA, CA



1401 HARBOR BAY PARKWAY,
ALAMEDA, CA

\$12.5 million of rental revenue in 1997. Rental revenue from the Properties owned since January 1, 1996 (the "Same Properties") increased by \$180,000, or 2%. This increase resulted primarily from the conversion and lease of 19,310 square feet of storage space to higher rent laboratory space at 10933 North Torrey Pines Road in October 1996.

Tenant recoveries increased by \$4.2 million, or 100%, to \$8.4 million for 1997 compared to \$4.2 million for 1996. The increase resulted primarily from the 1996 Acquired Properties being owned for a full period and the addition of the 1997 Acquired Properties, which together contributed an additional \$3.8 million of tenant recoveries. Tenant recoveries for the Same Properties increased by \$416,000, or 19%, due to an increase in operating expenses (particularly utilities) being passed through to the tenants.

Other income increased by \$273,000, or 48%, to \$836,000 for 1997 compared to \$563,000 for 1996, resulting from an increase in interest income due to the investment of excess funds from the Offering and increased amounts in capital improvement reserve accounts.

Rental operating expenses increased by \$4.4 million, or 100%, to \$8.8 million for 1997 compared to \$4.4 million for 1996. The increase resulted almost entirely from the 1996 Acquired Properties being owned for a full period and the addition of the 1997 Acquired Properties, which together contributed an additional \$4.0 million in operating expenses. Operating expenses for the Same Properties increased by \$401,000, or 17%, primarily due to increased utility expenses (due to greater usage) which were passed through to the tenants.

General and administrative expenses increased by \$504,000, or 26%, to \$2.5 million for 1997 compared to \$2.0 million for 1996 due to the Company's larger scope of operations and increased costs incurred as a result of being a public company.

Special bonus of \$353,000 in 1997 reflects a bonus paid to an officer of the Company in connection with the Offering. Post retirement benefit expense of \$632,000 and \$438,000 in 1997 and 1996, respectively, reflects an adjustment for the non-cash accrual associated with a one-time post retirement benefit for an officer of the Company. Stock compensation expense of \$4.2 million was recorded in 1997 for the non-recurring, non-cash expense related to the issuance of stock grants and options to officers, directors and certain employees of the Company principally in connection with the Offering.

Interest expense increased by \$716,000, or 11%, to \$7.0 million for 1997 compared to \$6.3 million for 1996. The increase resulted from indebtedness incurred to acquire the 1996 Acquired Properties, offset by a reduction in ongoing interest expense due to the payoff of \$72.7 million in secured notes payable in June 1997 with proceeds from the Offering.

Acquisition LLC financing costs of \$7.0 million in 1997 represent the portion of the purchase price of the membership interests in ARE Acquisitions, LLC (the "Acquisition LLC") in excess of the cost incurred by the Acquisition LLC to acquire its three Life Science Facilities.

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

Depreciation and amortization increased by \$2.5 million, or 102%, to \$4.9 million for 1997 compared to \$2.4 million for 1996. The increase resulted primarily from depreciation associated with the 1996 Acquired Properties being owned for a full period and the addition of the 1997 Acquired Properties.

As a result of the foregoing, the net loss was \$2.8 million for 1997 compared to net income of \$2.2 million for 1996.

IMPROVED
LABORATORY SPACE AT
1124 COLUMBIA STREET,
SEATTLE, WA



14225 NEWBROOK DRIVE,
CHANTILLY, VA



Comparison of Year Ended December 31, 1996 to Year Ended December 31, 1995

Rental revenue increased by \$4.9 million, or 61%, to \$12.9 million for the year ended December 31, 1996 compared to \$8.0 million for the year ended December 31, 1995. The increase resulted primarily from the 1996 Acquired Properties, which contributed an additional \$4.6 million of rental revenue in 1996. Rental revenue from the Properties owned since January 1, 1995 (the "1995 Same Properties") increased by \$370,000, or 5%. Of this increase, \$320,000 resulted from a full year of rental income in 1996 resulting from the increase in occupancy at 11099 North Torrey Pines Road during 1995.

Tenant recoveries increased by \$2.5 million, to 147%, to \$4.2 million for 1996 compared to \$1.7 million for 1995. The increase resulted primarily from the addition of the 1996 Acquired Properties, which contributed an additional \$2.1 million of tenant recoveries. Tenant recoveries from the 1995 Same Properties increased by \$395,000, or 23%. Of this increase, \$300,000 resulted from a new lease at 11099 North Torrey Pines Road. The remaining increase resulted primarily from a new energy management system at 10933 North Torrey Pines Road that allows the Company to more accurately measure and recover from its tenants certain costs of utility usage.

Other income increased by \$359,000, or 176%, to \$563,000 for 1996 compared to \$204,000 for 1995. The increase resulted primarily from the addition of the 1996 Acquired Properties, which contributed an additional \$337,000 of other income.

Rental operating expenses increased by \$2.2 million, or 100%, to \$4.4 million for 1996 compared to \$2.2 million for 1995. The increase resulted primarily from the addition of the 1996 Acquired Properties, which contributed an additional \$2.0 million of rental operating expenses. Rental operating expenses from the 1995 Same Properties increased by \$162,000, or 7%, primarily as a result of an increase in expenses at 10933 North Torrey Pines Road.

General and administrative expenses increased by \$364,000, or 23%, to \$2.0 million for 1996 compared to \$1.6 million for 1995. The increase resulted primarily from additional professional fees incurred during 1996.

Post-retirement benefit expense in 1996 represents the non-cash accrual associated with a one-time post-retirement benefit for an officer of the Company.

Interest expense increased by \$2.8 million, or 80%, to \$6.3 million for 1996 compared to \$3.5 million for 1995. The increase resulted primarily from indebtedness incurred to acquire the 1996 Acquired Properties, which contributed an additional \$2.3 million of interest expense, and debt outstanding under the Company's then-existing unsecured line of credit, which was repaid in July 1996.

Depreciation and amortization increased by \$737,000, or 44%, to \$2.4 million for 1996 compared to \$1.7 million for 1995. The increase resulted primarily from depreciation associated with the 1996 Acquired Properties.

As a result of the foregoing, net income increased by \$1.4 million, or 184%, to \$2.2 million for 1996 compared to \$761,000 for 1995.

Liquidity and Capital Resources

The Offering and Secured Debt

The Company completed the Offering in June 1997. Aggregate proceeds of the Offering (including proceeds from the exercise of the over-allotment option), net of underwriting discounts and commissions, advisory fees, and offering costs, were approximately \$138.9 million. The Company used such net proceeds, as well as \$15.4 million in proceeds from two new mortgage loans, to repay outstanding debt of approximately \$77.7 million. In addition, in November 1997, the Company paid off \$6.7 million of secured debt with funds from its unsecured line of credit obtained in connection with the Offering. Total secured debt as of December 31, 1997 included the following:

	Principal Balance at December 31, 1997 (In thousands)	Interest Rate	Maturity Date
Collateral			
3535/3565 General Atomics Court, San Diego, CA	\$ 18,050	9.00%	December 2014
1431 Harbor Bay Parkway, Alameda, CA	8,500	7.17%	January 2014
1102/1124 Columbia Street, Seattle, WA	21,267	7.75%	May 2016
	<u>\$ 47,817</u>		

Unsecured Line of Credit

In connection with the Offering, the Company obtained an unsecured line of credit providing for borrowings of up to \$150 million, consisting of a \$100 million activated portion and a \$50 million portion that may be activated as needed at the Company's discretion (upon payment of an activation fee) provided that no default exists thereunder. The line of credit provides for borrowings bearing interest at a floating rate based on the Company's 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, the Company must elect to fix the rate for a one, two, three or six month period.

The line of credit contains financial covenants, including, among other things, maintenance of minimum market net worth, a total liabilities to gross asset value ratio, and a fixed charge coverage ratio (all as defined). The Company was in compliance with all such covenants as of December 31, 1997. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. Borrowings under the line of credit are limited to an amount based on a pool of unencumbered assets. Accordingly, as the Company acquires additional unencumbered properties, borrowings available under the line of credit will increase. As of December 31, 1997, borrowings under the line of credit were limited to approximately \$103 million, and \$23 million was outstanding (leaving \$80 million available) at a weighted average rate of interest of 6.9%.

The line of credit expires on May 31, 2000 and provides for annual extensions (provided there is no default) for two additional one-year periods upon notice by the Company and consent of the participating banks. In addition, at the Company's election, the line of credit may be converted at any time to a term loan with principal installments over two years from the date of such conversion.

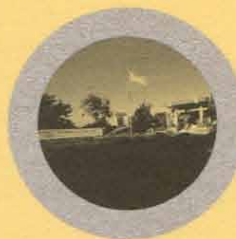
Restricted Cash

As of December 31, 1997, approximately \$3.4 million had been set aside in a restricted cash account to complete the upgrade of laboratory space (as well as certain related improvements to the property) at 1102/1124 Columbia Street pursuant to an agreement between the Company and a tenant. The Company also holds approximately \$758,000 in security deposit reserve accounts based on the terms of certain lease agreements.

ATRIUM AT
11099 NORTH TORREY
PINES ROAD,
SAN DIEGO, CA



10933 NORTH TORREY
PINES ROAD,
SAN DIEGO, CA



Liquidity Requirements

Although cash from operations required to fund interest expense has decreased substantially as a result of the Company's reduction in overall debt following the Offering, such reduction has been offset by an increased requirement to use cash from operations to meet distribution requirements to maintain the Company's REIT status. The Company expects to make distributions from cash available for distribution, which is expected to exceed cash historically available for distribution as a result of the reduction in debt described above, as well as the addition of the 1996 and 1997 Acquired Properties. Cash that accumulates on a short-term basis will be used to reduce outstanding balances under the Company's unsecured line of credit or will be invested by the Company primarily in interest-bearing accounts and other short-term, interest-bearing securities that are consistent with the Company's qualification for taxation as a REIT. The Company also believes that net cash provided by operations will be sufficient to fund its recurring non-revenue enhancing capital expenditures, tenant improvements and leasing commissions.

The Company expects to meet certain long-term liquidity requirements, such as property acquisitions, scheduled debt maturities, renovations, expansions and other non-recurring capital improvements, through long-term secured and unsecured indebtedness, including borrowings under the line of credit, and the issuance of additional debt and/or equity securities.

Exposure to Environmental Liabilities

In connection with the acquisition of all of the Properties, the Company has obtained Phase I environmental assessments to ascertain the existence of any environmental liabilities or other issues. The Phase I environmental assessments of the properties have not revealed any environmental liabilities that the Company believes would have a material adverse effect on the Company's financial condition or results of operations taken as a whole, nor is the Company aware of any such material environmental liabilities.

Historical Cash Flows

Net cash provided by operating activities for 1997 increased by \$5.5 million to \$3.9 million compared to net cash used by operating activities of \$(1.6) million for 1996. The increase resulted primarily from operating cash flows from the addition of the 1996 Acquired Properties and the 1997 Acquired Properties.

Net cash used in investing activities decreased by \$7.3 million to \$(87.6) million for 1997 compared to net cash used in investing activities of \$(94.9) million for 1996. This use of cash related primarily to costs associated with the acquisition of the 1997 Acquired Properties.

Net cash provided by financing activities decreased by \$13.2 million to \$84.1 million for 1997 compared to \$97.3 million for 1996. The decrease was impacted by \$85.8 million of principal reductions in debt, retired principally with proceeds from the Offering, offset by \$138.9 million in net proceeds from the Offering, \$15.4 million in proceeds from secured debt, and \$25.5 million in proceeds from unsecured lines of credit. In addition, the Company paid dividends on the Common Stock of \$8.8 million and dividends on preferred stock of \$1.1 million during 1997.

IMPROVED
LABORATORY SPACE AT
3535 GENERAL ATOMICS COURT,
ALAMEDA, CA



3565 GENERAL ATOMICS COURT,
SAN DIEGO, CA

Capital Expenditures, Tenant Improvements and Leasing Costs

The following table sets forth total and weighted average per square foot capital expenditures (excluding those expenditures which are recoverable from tenants or are revenue-enhancing) and tenant improvements and leasing costs for the period from October 1994 (inception of operations) to December 31, 1994, and for the years ended December 31, 1995, 1996, and 1997, attributable to leases that commenced at the properties after acquisition by the Company.

	Total/ weighted average	1997	1996	1995	1994
Capital expenditures:					
<i>Weighted average square feet in portfolio</i>	2,426,479	1,342,216	563,901	314,779	205,583
<i>Property related capital expenditures</i>	\$ 745,000	\$ 547,000	\$ 181,000	\$ 17,000	\$ —
<i>Per weighted average square foot in portfolio</i>	\$ 0.31	\$ 0.41	\$ 0.32	\$ 0.05	\$ —
Tenant improvements and leasing costs:					
Retenanted space:					
<i>Retenanted square feet</i>	276,711	40,953	180,398	49,938	5,422
<i>Tenant improvements and leasing costs</i>	\$1,986,000	\$ 164,000	\$1,220,000	\$576,000	\$ 26,000
<i>Per square foot leased</i>	\$ 7.18	\$ 4.00	\$ 6.76	\$ 11.53	\$ 4.80
Renewal space:					
<i>Renewal square feet</i>	42,379	1,232	25,063	16,084	—
<i>Tenant improvements and leasing costs</i>	\$ 48,291	\$ —	\$ —	\$ 48,291	\$ —
<i>Per square foot leased</i>	\$ 1.14	\$ —	\$ —	\$ 3.00	\$ —

Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required and to the extent they are recoverable from tenants. The Company maintains an active preventive maintenance program in order to minimize required capital improvements.

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

Inflation

As of December 31, 1997, approximately 76% of the Company's leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses (including increases thereto). In addition, approximately 19% of the Company's leases (on a square footage basis) required the tenants to pay a majority of operating expenses. In addition, approximately 64% of the Company's leases (on a square footage basis) contain effective annual rent escalations that are either fixed (ranging from 2.5% to 4.0%) or indexed based on the consumer price index or other index. Accordingly, the Company does not believe that its earnings or cash flow are subject to any significant risk of inflation. An increase in inflation, however, could result in an increase in the Company's variable rate borrowing cost, including borrowings under the unsecured line of credit.

Impact of the Year 2000

The Company has evaluated the significance of the change from the year 1999 to the year 2000 on its existing computer system and has taken steps to ensure that its computer system will not be adversely affected thereby. The financial impact of steps taken to accommodate the change for the year 2000 is not anticipated to be material. The Company relies in part on the computer systems of its vendors and other companies. If any such company failed to become year 2000 compliant, the Company could be adversely affected thereby. The Company has surveyed several of its larger vendors, and all have responded that they either are currently year 2000 compliant, or are actively taking steps to become year 2000 compliant.

Pro Forma Condensed Consolidated Financial Information

Due to the impact of the Offering and related transactions and the acquisitions by the Company in 1996 and 1997, the historical results of operations are not indicative of the Company's future results of operations. The following pro forma condensed consolidated financial information presents the results of operations of the Company as if the Offering (including the exercise of the over-allotment option) and related transactions occurred on January 1, 1996. Pro forma results for the year ended December 31, 1997 do not include the operations of two of the Properties (14225 Newbrook Drive and 1330 Piccard Drive) for the period prior to their acquisition by the Acquisition LLC (on January 13, 1997 and January 15, 1997, respectively). These Properties were owner-occupied prior to purchase and, as a result, there were no historical operating results for these Properties as rental properties. The adjusted pro forma financial information presented below assumes that the new leases entered into with the sellers of such Properties were in effect for the entire period presented. The pro forma and adjusted pro forma financial information presented below is based upon historical information and various assumptions and does not purport to present the actual results that would have occurred had the Offering and related transactions occurred on January 1, 1996, nor to project the Company's results of operations for any future period.

Condensed Consolidated Pro Forma Financial Information (Unaudited)

YEAR ENDED DECEMBER 31

	Pro Forma		Adjusted Pro Forma
	1997	1996	1997
<i>(Dollars in thousands, except per share amounts)</i>			
Total revenues	\$ 38,103	\$ 25,249	\$ 38,374
Expenses:			
<i>Rental operations</i>	8,857	6,471	8,865
<i>General and administrative</i>	2,662	2,900	2,662
<i>Interest</i>	4,818	3,836	4,818
<i>Special bonus</i>	353	—	353
<i>Stock compensation</i>	4,239	—	4,239
<i>Post retirement benefit</i>	632	438	632
<i>Write-off of unamortized loan costs</i>	148	—	148
<i>Depreciation and amortization</i>	5,269	3,521	5,309
	26,978	17,166	27,026
Net income	\$ 11,125	\$ 8,083	\$ 11,348
Pro forma shares of Common Stock outstanding	11,404,631	11,404,631	11,404,631
Net income per pro forma share of Common Stock outstanding	\$ 0.98	\$ 0.71	\$ 1.00

Funds from Operations

Management believes that funds from operations (“FFO”) is helpful to investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of the ability of the Company to incur and service debt, to make capital expenditures and to make distributions. The Company computes FFO in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”) in its March 1995 White Paper (the “White Paper”), which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management’s discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. The White Paper defines FFO as net income (loss) (computed in accordance with generally accepted accounting principals (“GAAP”)), excluding gains (or losses) from debt restructuring, sales of property and unusual items, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of the Company’s financial performance or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company’s liquidity, nor is it indicative of funds available to fund the Company’s cash needs, including its ability to make distributions. (See “– Historical Cash Flows” for information regarding these measures of cash flow).

The following tables present the Company’s FFO for the year ended 1997 on an historical, pro forma and adjusted pro forma basis and for the years ended 1996 and 1995 on an historical basis. The adjusted pro forma information for the year ended December 31, 1997 assumes that leases entered into with sellers of previously owner-occupied properties were in effect for the entire period presented:

(In thousands)	(UNAUDITED) YEAR ENDED DECEMBER 31, 1997			(UNAUDITED) YEAR ENDED DECEMBER 31	
	Historical	Pro forma	Adjusted Pro forma	1996 Historical	1995 Historical
Net (loss) income	\$ (2,797)	\$ 11,125	\$ 11,348	\$ 2,175	\$ 761
Add:					
Special bonus	353	353	353	—	—
Stock compensation	4,239	4,239	4,239	—	—
Post-retirement benefit	632	632	632	438	—
Acquisition LLC financing costs	6,973	—	—	—	—
Write-off of unamortized loan costs	2,295	148	148	—	—
Depreciation and amortization	4,866	5,269	5,309	2,405	1,668
Funds from Operations	\$ 16,561	\$ 21,766	\$ 22,029	\$ 5,018	\$ 2,429

SEATTLE LIFE
SCIENCES CENTER
1102-1124 COLUMBIA STREET,
SEATTLE, WA



25/35/45 WEST WATRINS
MILL ROAD,
GAITHERSBURG, MD

REPORT OF INDEPENDENT AUDITORS

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

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

We have audited the accompanying consolidated balance sheets of Alexandria Real Estate Equities, Inc. and subsidiaries (the "Company") as of December 31, 1997, and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1997, 1996 and 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for the years ended December 31, 1997, 1996 and 1995, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Los Angeles, California
January 30, 1998

CONSOLIDATED BALANCE SHEETS

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share amounts)

	DECEMBER 31	
	1997	1996
Assets		
Rental properties, net	\$ 229,970	\$ 146,960
Cash and cash equivalents	2,060	1,696
Tenant security deposits and other restricted cash	6,799	5,585
Tenant receivables and deferred rent	3,630	1,332
Loan fees and costs (net of accumulated amortization of \$175 and \$131 in 1997 and 1996, respectively)	1,350	2,502
Other assets	4,645	2,405
Total assets	\$ 248,454	\$ 160,480
Liabilities and stockholders' equity		
Secured notes payable	\$ 47,817	\$ 113,182
Unsecured line of credit	23,000	—
Accounts payable, tenant security deposits and other liabilities	6,158	3,650
Dividends payable	4,562	1,550
Due to Health Science Properties Holding Corporation	—	2,525
	81,537	120,907
Commitments and contingencies	—	—
Mandatorily redeemable Series V cumulative convertible preferred stock, \$0.01 par value, \$1,000 stated value per share, 50,000 shares authorized; 27,500 issued and outstanding at December 31, 1996	—	25,042
Stockholders' equity:		
Preferred stock:		
Series T 8.5% preferred stock, \$0.01 par value and \$100 stated value per share, 12 shares issued and outstanding at December 31, 1996	—	1
Series U 8.5% cumulative convertible preferred stock, \$0.01 par value and \$500 stated value per share, 220 shares issued and outstanding at December 31, 1996	—	110
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 11,604,631 and 1,765,923 shares issued and outstanding at December 31, 1997 and 1996, respectively	114	—
Additional paid-in capital	173,735	16,195
Accumulated deficit	(6,932)	(1,775)
Total stockholders' equity	166,917	14,531
Total liabilities and stockholders' equity	\$ 248,454	\$ 160,480

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share amounts)

Revenues:

Rental

\$ 25,622 \$ 12,941 \$ 8,020

Tenant recoveries

8,388 4,169 1,699

Other

836 563 204

34,846 17,673 9,923

Expenses:

Rental operations

8,766 4,356 2,228

General and administrative

2,476 1,972 1,608

Interest

7,043 6,327 3,553

Stock compensation

4,239 — —

Post retirement benefit

632 438 —

Special bonus

353 — —

Acquisition LLC financing costs

6,973 — —

Write-off of unamortized loan costs

2,295 — —

Depreciation and amortization

4,866 2,405 1,668

37,643 15,498 9,057

(Loss) income from operations

(2,797) 2,175 866

Charge in lieu of income taxes

— — 105

Net (loss) income

\$ (2,797) \$ 2,175 \$ 761

Net (loss) income allocated to preferred stockholders

\$ 3,038 \$ 1,590 \$ —

Net (loss) income allocated to common stockholders

\$ (5,835) \$ 585 \$ 761

Net (loss) income per pro forma share of common stock -
restated for 1996 and 1995 (basic and diluted)

\$ (0.35) \$ 0.60 \$ 0.43

Pro forma weighted average shares of common stock outstanding -
restated for 1996 and 1995 (basic and diluted)

8,075,864 3,642,131 1,765,923

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

(Dollars in thousands)

Operating activities

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
Net (loss) income	\$ (2,797)	\$ 2,175	\$ 761
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,866	2,405	1,668
Stock option compensation	4,161	—	—
Changes in operating assets and liabilities:			
Tenant security deposits and other restricted cash	(1,214)	(4,371)	(779)
Tenant receivables and deferred rent	(2,298)	(502)	(709)
Loan fees and costs	906	(2,402)	(15)
Other assets	(2,249)	(1,231)	(982)
Accounts payable, tenant security deposits and other liabilities	2,508	2,280	411
Net cash provided by (used in) operating activities	3,883	(1,646)	355

Investing activities

Additions to rental properties	(3,566)	(1,578)	(1,554)
Purchase of rental properties	(84,054)	(93,322)	—
Net cash used in investing activities	(87,620)	(94,900)	(1,554)

Financing activities

Proceeds from secured notes payable	15,360	77,260	1,250
Proceeds from issuance of common stock	138,919	—	—
Proceeds from issuance of Series V preferred stock (net of issuance costs of \$3,391)	—	24,109	—
Proceeds from issuance of Series U preferred stock	—	110	—
Proceeds from unsecured lines of credit	25,500	—	1,000
(Decrease) increase in due to Health Science Properties Holding Corporation	(2,525)	2,420	105
Principal reductions on unsecured line of credit	(2,500)	(4,000)	—
Principal reductions on secured notes payable	(80,725)	(972)	(519)
Common dividends paid	(8,800)	(939)	(909)
Preferred dividends paid	(1,127)	(665)	—
Redemption of Series T preferred stock	(1)	—	—
Net cash provided by financing activities	84,101	97,323	927
Net increase (decrease) in cash and cash equivalents	364	777	(272)
Cash and cash equivalents at beginning of year	1,696	919	1,191
Cash and cash equivalents at end of year	\$ 2,060	\$ 1,696	\$ 919

Supplemental disclosure of cash flow information

Cash paid during the year for interest and financing costs, net of interest capitalized	\$ 13,552	\$ 5,953	\$ 3,409
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See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

<i>(Dollars in thousands)</i>	Number of Series T Preferred Shares	Series T Preferred Stock	Number of Series U Preferred Shares
Balance at January 1, 1995 (restated)	—	\$ —	—
Issuance of Series T preferred stock	12	1	—
Dividends declared and payable on common stock	—	—	—
Net income	—	—	—
Balance at December 31, 1995 (restated)	12	1	—
Issuance of Series U preferred stock	—	—	220
Accretion on Series V preferred stock	—	—	—
Cash dividends on Series T, U, & V preferred stock	—	—	—
Dividends declared and payable on common stock	—	—	—
Net income	—	—	—
Balance at December 31, 1996 (restated)	12	1	220
Accretion on Series V preferred stock	—	—	—
Cash dividends on Series T, U and V preferred stock	—	—	—
Exercise of compensatory stock options and issuance of stock grants (including compensation expense of \$4,161)	—	—	—
Issuance of common stock in connection with initial public offering, net of offering costs	—	—	—
Conversion of Series V and Series U preferred stock	—	—	(220)
Redemption of Series T preferred stock	(12)	(1)	—
Dividends declared and payable on common stock	—	—	—
Net loss	—	—	—
Balance at December 31, 1997	—	\$ —	—

See accompanying notes

Series U Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
\$ -	1,765,923	\$ 18	\$ 17,110	\$ (648)	\$ 16,480
-	-	-	-	-	I
-	-	-	-	(909)	(909)
-	-	-	-	761	761
-	1,765,923	18	17,110	(796)	16,333
110	-	-	-	-	110
-	-	-	(933)	-	(933)
-	-	-	-	(665)	(665)
-	-	-	-	(2,489)	(2,489)
-	-	-	-	2,175	2,175
110	1,765,923	18	16,177	(1,775)	14,531
-	-	-	(1,911)	-	(1,911)
-	-	-	-	(1,127)	(1,127)
-	209,615	2	4,190	-	4,192
-	7,762,500	78	138,812	-	138,890
(110)	1,666,593	16	27,045	-	26,951
-	-	-	-	-	(1)
-	-	-	(10,578)	(1,233)	(11,811)
-	-	-	-	(2,797)	(2,797)
\$ -	11,404,631	\$ 114	\$ 173,735	\$ (6,932)	\$ 166,917

Background, Basis of Presentation and Summary of Significant Accounting Policies

Background

Alexandria Real Estate Equities, Inc. (known as Health Science Properties, Inc. prior to 1997), a Maryland corporation (the "Company"), is a real estate investment trust ("REIT") formed in 1994.

The Company and its subsidiaries were formed to acquire, manage and selectively develop properties for lease principally to participants in the life science industry ("Life Science Facilities"). As of December 31, 1997 and 1996, the Company owned 22 and 12 Life Science Facilities, respectively, in four and three states, respectively, consisting of 1,748,000 and 1,031,000 rentable square feet, respectively.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, which own, directly or indirectly, Life Science Facilities. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Initial Public Offering and Related Transactions

On June 2, 1997, the Company completed an initial public offering (the "Offering") of 6,750,000 shares of common stock. The Offering price was \$20.00 per share, resulting in gross proceeds of \$135,000,000. On June 26, 1997, the underwriters exercised their over-allotment option provided for in the Offering, and the Company issued an additional 1,012,500 shares of common stock, resulting in additional gross proceeds of \$20,250,000. The aggregate net proceeds of the Offering (including exercise of the over-allotment option), net of underwriting discounts and commissions, advisory fees and offering costs, were approximately \$138,890,000.

The following transactions also occurred in June 1997 in connection with the Offering:

- The Company paid off debt of approximately \$77,723,000, including (i) mortgage debt of \$72,698,000, (ii) debt of \$2,500,000 outstanding under its prior unsecured line of credit, and (iii) debt of \$2,525,000 to Health Science Properties Holding Corporation ("Holdings"). Holdings owned all of the Company's common stock prior to the Offering and 15.5% of the common stock of the Company after the Offering and the exercise of the over-allotment option.
- The Company obtained two new mortgage loans totaling \$15,360,000.
- The Company acquired an entity that owns three Life Science Facilities from affiliates of PaineWebber Incorporated, the lead managing underwriter for the Offering, for an aggregate purchase price of \$58,844,000 (see Note 9).
- Each previously outstanding share of the Company's common stock was split into 1,765.923 shares of common stock. The share data as of and for the years ended December 31, 1996 and 1995 has been restated to reflect the effects of the stock split.

- All of the previously outstanding shares of Series T preferred stock were redeemed at their stated value (\$1,200 in the aggregate) (see Note 6).
- All of the previously outstanding shares of Series U preferred stock and Series V preferred stock were converted into shares of common stock (7,354 shares in the aggregate for Series U and 1,659,239 shares in the aggregate for Series V) (see Note 6).
- Officers, directors and certain employees of the Company were granted an aggregate of 152,615 shares of the Company's common stock. In addition, officers, directors and certain employees of the Company were granted options to purchase 57,000 shares of the Company's common stock in substitution for stock options previously issued by Holdings (see Notes 5 and 8). These options were exercised at a nominal exercise price in connection with the Offering.
- Officers, directors and employees of the Company were granted options under the Company's 1997 stock option plan to purchase an aggregate of 600,000 shares of common stock of the Company at the Offering price (see Note 8).
- A special bonus of \$353,000 was paid to an officer of the Company.

Use of Estimates

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

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Rental Properties

Rental properties consist of the Company's portfolio of Life Science Facilities, recorded at cost. Costs associated with acquiring and renovating properties are capitalized as incurred. If events or circumstances indicate that the carrying amount of a property may be impaired, the Company would make an assessment of its recoverability by estimating the future undiscounted cash flows, excluding interest charges, of the property. If the carrying amount were to exceed the aggregate future cash flows, the Company would recognize an impairment loss to the extent the carrying amount exceeds the fair value of the property. Based upon such periodic assessments, no impairment has been determined and no rental properties carrying amounts have been adjusted.

Maintenance and repairs are expensed as incurred. Major replacements and betterments are capitalized and depreciated over their estimated useful lives.

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

Restricted Cash

Restricted cash as of December 31, 1997 and 1996, consists of a tenant improvement reserve of \$3,364,000 and \$4,715,000, respectively, established by the Company pursuant to a lease at one of the Company's properties, funds held in trust of \$1,966,000 and none, respectively, as additional security on a note with the City of Seattle, and security deposit funds and other restricted cash of \$1,469,000 and \$870,000, respectively. In connection with the repayment of the note with the City of Seattle, the cash held in trust was returned to the Company in February 1998 (see Note 4).

Loan Fees and Costs

Fees and costs incurred in obtaining long-term financing are amortized over the terms of the related loans and included in interest expense.

Rental Income

Rental income from leases with scheduled rent increases, free rent and other rent adjustments are recognized on a straight-line basis over the lease term. Amounts currently recognized as income, and expected to be received in later years, are included in tenant receivables and deferred rent. Amounts received currently, but recognized as income in future years, are included in unearned rent.

Other Income

Other income consists of interest income and other income associated with the operations of the properties. Interest income was \$588,000, \$118,000 and \$57,000 in 1997, 1996 and 1995, respectively.

Leasing Commissions

Leasing commissions are amortized on a straight-line basis over the term of the related lease.

Fair Value of Financial Instruments

The following disclosures of estimated fair value of financial instruments at December 31, 1997 and 1996 were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Based on the borrowing rates currently available to the Company for bank loans with similar maturities, the fair value of secured notes payable as of December 31, 1997 and 1996 is approximately \$46,822,000 and \$113,215,000, respectively. All other financial instruments are stated at amounts that approximate their fair value.

Net (Loss) Income Per Share

Historical per share data has not been presented because it is not meaningful due to the material changes in the Company's capital structure as a result of the Offering.

The Company has adopted Statement of Financial Accounting Standards No. 128 ("FAS 128") and has restated pro forma net income per share for the years ended December 31, 1996 and 1995. Because the impact of the Company's stock options outstanding as of December 31, 1997 is antidilutive, diluted net income per share is not presented for 1997. There were no dilutive stock options on a pro forma basis for 1996 and 1995.

Pro forma shares of common stock outstanding for the years ended December 31, 1997 and 1996 include all shares outstanding after giving effect to the 1,765.923 to 1 stock split, the issuance of stock grants, the issuance and exercise of substitute stock options and the conversion of the Series U and Series V preferred stock. In addition, shares issued to the public in connection with the Offering have been weighted for the period of time they were outstanding. Pro forma shares of common stock outstanding for the year ended December 31, 1995 include all shares outstanding after giving effect to the 1,765.923 to 1 stock split.

The following table sets forth the computation of net (loss) income per pro forma share of common stock outstanding:

	YEAR ENDED DECEMBER 31		
	1997	1996	1995
<i>(Dollars in thousands, except per share amounts)</i>			
Net (loss) income	\$ (2,797)	\$ 2,175	\$ 761
Pro forma shares of common stock before shares issued in the Offering-restated for 1996 and 1995	3,642,131	3,642,131	1,765,923
Shares issued in the Offering, weighted for period outstanding	4,433,733	—	—
Pro forma weighted average shares - restated for 1996 and 1995	8,075,864	3,642,131	1,765,923
Pro forma net (loss) income per pro forma share - restated for 1996 and 1995	\$ (0.35)	\$ 0.60	\$ 0.43
Pro forma dividends declared per share - restated for 1996 and 1995	\$ 1.60	\$ 0.87	\$ 0.51

Income Taxes

As a REIT, the Company is not subject to federal income taxation as long as it meets a number of organizational and operational requirements and distributes all of its taxable income to its stockholders. Since the Company believes it has met these requirements and the Company's distributions exceeded taxable income, no federal income tax provision has been reflected in the accompanying consolidated financial statements for 1997 and 1996. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate tax rates. For the year ended December 31, 1997, the Company reported that 37.6% of its distributions with respect to common stock represented a return of capital for federal income tax purposes, while none of the distributions for the year ended December 31, 1996 represented a return of capital.

For the year ended December 31, 1995, before the Company elected to be taxed as a REIT, deferred income taxes were recognized for tax consequences of temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods and tax net operating loss carryforwards.

Reclassifications

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

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Rental Properties

Rental properties are as follows:

	DECEMBER 31	
	1997	1996
<i>(Dollars in thousands)</i>		
Land	\$ 46,283	\$ 28,383
Building and improvements	189,624	121,236
Tenant and other improvements	2,867	1,535
	238,774	151,154
Less accumulated depreciation	(8,804)	(4,194)
	\$ 229,970	\$ 146,960

Four of the Company's rental properties are encumbered by deeds of trust and assignments of rents and leases associated with the properties (see Note 4). The net book value of these properties as of December 31, 1997 is \$70,663,000.

The Company leases space under noncancelable leases with remaining terms of 1 to 20 years. Certain tenants are also obligated to reimburse the Company for specific operating expenses.

The Company capitalizes interest to properties under construction and renovation during the period the asset is undergoing activities to prepare it for its intended use. Total interest capitalized was \$96,000 in 1997. Total interest incurred for the years ended December 31, 1997, 1996 and 1995 was \$7,139,000, \$6,327,000 and \$3,553,000, respectively.

A majority of the Company's lease agreements require that the lessee pay all taxes, maintenance, insurance and certain other operating expenses applicable to the leased properties.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 1997, are as follows (in thousands):

1998	\$ 31,642
1999	27,734
2000	24,079
2001	20,869
2002	17,095
Thereafter	107,032
	\$ 228,451

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Unsecured Line of Credit

In connection with the Offering, the Company obtained an unsecured line of credit providing for borrowings of up to \$150,000,000, consisting of a \$100,000,000 activated portion and a \$50,000,000 portion that may be activated as needed at the Company's discretion (upon the payment of an activation fee) provided no default exists under the line of credit facility. Borrowings under the line of credit bear interest at a floating rate which is based on the Company's 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, the Company must elect to fix the rate for a one, two, three or six month period.

The line of credit contains financial covenants, including, among other things, maintenance of minimum market net worth, a total liabilities to gross asset value ratio, and a fixed charge coverage ratio (all as defined). The Company was in compliance with all covenants as of December 31, 1997. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. Borrowings under the line of credit are limited to an amount based on a pool of unencumbered assets. Accordingly, as the Company acquires additional unencumbered properties, borrowings available under the line of credit will increase. As of December 31, 1997, borrowings under the line of credit were limited to approximately \$103,000,000, and \$23,000,000 was outstanding (leaving \$80,000,000 available), at a weighted average rate of interest of 6.9%.

The line of credit expires on May 31, 2000 and provides for annual extensions (provided there is no default) for two additional one-year periods. In addition, at the Company's election, the line of credit may be converted at any time to a term loan with principal installments over two years from the date of such conversion.

In connection with obtaining the line of credit, the Company incurred \$705,000 in fees and costs, which are being amortized over the term of the line of credit. In addition, the Company is required to continue to pay certain periodic fees for the line of credit, depending on the usage of the facility. The fees are included as part of interest expense.

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Secured Notes Payable

As of December 31, 1997, the Company had three notes payable to banks and an insurance company, secured by first and second deeds of trust on four rental properties. The notes bear interest at fixed rates ranging from 7.17% to 9.00% and are due at various dates through 2016. As of December 31, 1997 and 1996, the outstanding balances under these notes were \$47,817,000 and \$61,292,000, respectively.

As of December 31, 1996, the Company had an aggregate of \$51,890,000 outstanding under two notes payable and two secured lines of credit with PaineWebber Incorporated, the City of Seattle and two banks. The loans bore interest at variable rates based upon LIBOR or the prime rate. As of December 31, 1996, the interest rates on these loans ranged from 8.28% to 9.75%. In connection with the Offering, the Company repaid \$46,030,000 of the balance outstanding as of December 31, 1996. The remaining \$5,860,000 was repaid in November 1997. In connection with the retirement of these loans, the Company wrote-off \$2,147,000 of unamortized loan costs, including the cost of certain interest rate cap agreements.

Future principal payments due on secured notes payable, as of December 31, 1997, are as follows (in thousands):

1998	\$ 1,009
1999	2,451
2000	2,320
2001	2,502
2002	2,699
Thereafter	36,836
	<hr/>
	\$ 47,817

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Non-Cash Transactions

Stock compensation expense represents non-cash compensation expense associated with stock grants and stock options issued to officers, directors and certain employees of the Company in connection with the Offering. Stock compensation expense of \$4,239,000 was recognized to record the stock grants and the issuance and exercise of substitute stock options (see Note 8).

In connection with the Offering, outstanding shares of the Company's Series U preferred stock and Series V preferred stock were converted into shares of common stock (see Note 6). The common stock issued was recorded at the book value of the Series U preferred stock and the Series V preferred stock (an aggregate of \$27,061,000).

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Preferred Stock and Excess Stock

Series V Cumulative Convertible Preferred Stock

Prior to the Offering, the Company had 27,500 shares of mandatorily redeemable Series V cumulative convertible preferred stock outstanding. The stated value of each share was \$1,000. In connection with the Offering, the shares were converted into 1,659,239 shares of common stock. The conversion rate was computed to provide for an internal rate of return on the stated value of each share, equal to 20% less the return previously received from prior dividends.

Prior to conversion, Series V preferred stockholders were entitled to dividends at an annual rate of 10% of the stated value per share during the first twelve dividend periods or such larger amount as would be payable on an as converted basis if the Series V preferred stock were converted to common stock. Dividends were cumulative and payable in quarterly equal installments on March 31, June 30, September 30, and December 31 of each year. Offering costs associated with the issuance of the Series V preferred stock were deducted from the proceeds of the issuance. Until the conversion of the Series V preferred stock into shares of common stock in 1997, the Company accreted the amount of the offering costs and the difference between the minimum yield requirement on the Series V preferred stock (20% per annum) and the minimum dividend payment as a charge to additional paid-in capital.

Series T and Series U Preferred Stock

Holders of each of the Series T and Series U preferred stock were entitled to dividends at an annual rate of 8.5% of the stated value per share. In connection with the Offering, all of the previously outstanding shares of Series T preferred stock (12 shares) were redeemed at their stated value (\$1200 in the aggregate). In connection with the Offering, all of the previously outstanding shares of Series U preferred stock (220 shares) were converted into an aggregate of 7,354 shares of common stock.

Preferred Stock and Excess Stock Authorizations

The charter of the Company authorizes the issuance of up to 100,000,000 shares of preferred stock and 200,000,000 shares of excess stock (as defined), none of which was issued and outstanding at December 31, 1997.

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Commitments and Contingencies

Litigation

The Company currently is not subject to any material legal proceedings or claims, nor, to management's knowledge, are any material legal proceedings or claims being threatened.

Post-Retirement Benefit

In 1997, in connection with the Offering, an officer of the Company retired. In connection with the officer's retirement, the Company agreed to pay a post-retirement benefit equal to \$150,000 for each of the first three years following the Offering, and \$90,000 per year (plus an annual increase of 2% per year) thereafter for the remainder of the longer of the executive's life and the executive's current spouse's life. In 1997 and 1996, the Company recorded a post-retirement expense for past services equal to \$632,000 and \$438,000, respectively (pursuant to a prior agreement). The accrual was based upon the estimated number of payments to be made, discounted at a rate of 8%. As of December 31, 1997, the accrued liability for post-retirement benefit is \$1,037,000. For the year ended December 31, 1997, the Company paid \$75,000 under the retirement agreement of which \$42,000 represented interest.

Employee Retirement Savings Plan

Effective January 1, 1997, the Company adopted a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code ("Code"), whereby participants may contribute a portion of their compensation to their respective retirement accounts, in an amount not to exceed the maximum allowed under the Code. The plan provides for matching contributions by the Company, which amounted to \$36,000 for the year ended December 31, 1997. Plan participants are immediately vested in their contributions and in the matching contributions by the Company.

Concentration of Credit Risk

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

The Company is dependent on rental payments from a limited number of tenants, and the inability of any single tenant to make its lease payments could adversely affect the Company and its ability to make distributions to stockholders. As of December 31, 1997, the Company had 42 leases with a total of 35 tenants, and 12 of the Company's 22 properties were single tenant properties. At December 31, 1997, three of the Company's tenants accounted for approximately 29.5% of the Company's aggregate annualized base rent.

The Company does not generally require collateral or other security from its tenants other than security deposits. The Company has available from certain tenants two irrevocable letters of credit totaling \$858,000 which are used as security deposits for two leases.

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Stock Option Plans and Stock Grants

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee and director stock options, stock grants and stock appreciation rights. Under APB 25, if the exercise price of employee and director stock options granted by the Company equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

1997 Stock Option Plan

In connection with the Offering, the Company adopted a stock option and incentive plan (the "1997 Stock Option Plan"). The 1997 Stock Option Plan is administered by the Compensation Committee of the Board of Directors and provides for the grant of incentive stock options intended to qualify as such under Section 422 of the Code, non-qualified stock options, stock appreciation rights and restricted stock to employees, officers, directors and independent contractors (including non-employee directors) of the Company with respect to 900,000 shares of common stock. The 1997 Stock Option Plan permits the Compensation Committee to select eligible employees, officers, directors and independent contractors (including non-employee directors) of the Company to receive awards, to determine the type and number of awards to be granted and to determine the terms, conditions, restrictions and performance criteria relating to any award. As of December 31, 1997, there were 701,000 options outstanding under the 1997 Stock Option Plan. The Company has reserved 900,000 shares of common stock for issuance under the 1997 Stock Option Plan.

During the year ended December 31, 1997, the Company granted 701,000 stock options under the 1997 Stock Option Plan at exercise prices ranging from \$20.00 to \$30.94 (the market price at date of grant). All of these options have a ten year term. Options for 671,000 shares vest ratably in three annual installments from the date of grant. The remaining 30,000 options (which were issued to non-employee directors) were exercisable immediately upon the date of grant.

Pro forma information regarding net income and earnings per share has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value of the options issued under the 1997 Stock Option Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997: risk-free interest rate of 5.82%; dividend yield ranging from 5.17% to 8%; volatility factor of the expected market price of the Company's common stock of 28.7%; and a weighted average expected life of the option of five years.

For purposes of the following pro forma disclosures for the year ended December 31, 1997, the estimated fair value of these options has been amortized over the vesting periods (in thousands, except per share information):

Pro forma net loss	\$ (3,096)
Pro forma net loss per share	\$ (0.38)

A summary of the Company's stock option activity under the 1997 Stock Option Plan, and related information for the year ended December 31, 1997 follows:

	Stock Options Granted	Weighted Average Exercise Price of Options
Outstanding—beginning of year	—	—
Granted	701,000	\$ 20.80
Exercised	—	—
Forfeited	—	—
Outstanding—end of year	701,000	\$ 20.80
Exercisable at end of year	30,000	\$ 20.00
Weighted-average per share fair value of options granted during the year based upon the minimum value method		\$ 2.93

Exercise prices for options outstanding as of December 31, 1997 range from \$20.00 to \$30.94. The weighted average contractual life of those options is 9.5 years.

Prior Stock Option Plan

Prior to the Offering, the Company had a ten-year incentive and nonqualified stock option plan (the "Prior Plan") for certain employees and non-employee directors of the Company.

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

The following table sets forth certain information regarding activity in Holdings Stock Options, including (i) the grant date of the Holdings Stock Options, (ii) the number of substitute stock options that were granted in connection with the Offering in substitution for the underlying Holdings Stock Options and (iii) the weighted average exercise price of substitute stock options for shares of the Company's common stock.

	Grant Date of Holdings Stock Options	Substitute Stock Options Granted ⁽¹⁾	Weighted- Average Exercise Price of Substitute Options
1997			
Outstanding - beginning of year		37,749	\$ 0.54
Granted	1/28/97	19,251	0.54
Exercised		(57,000)	(0.54)
Forfeited		—	—
Outstanding - end of year		—	—
Exercisable at end of year		—	—
Weighted-average fair value of options granted during the year based upon the minimum value method			\$ 0.93
1996			
Outstanding - beginning of year		78,935	\$ 0.54
Granted	7/1/96	1,756	0.54
Exercised		(42,942)	0.54
Forfeited		—	—
Outstanding - end of year		37,749	\$ 0.54
Exercisable at end of year		13,606	\$ 0.54
Weighted-average fair value of options granted during the year based upon the minimum value method			\$ 0.03
1995			
Outstanding - beginning of year		51,727	\$ 0.54
Granted	12/31/95	27,208	0.54
Exercised		—	—
Forfeited		—	—
Outstanding - end of year		78,935	\$ 0.54
Exercisable at end of year		35,384	\$ 0.54
Weighted-average fair value of options granted during the year based upon the minimum value method			\$ 0.04

(1) THE GRANT OF SUBSTITUTE STOCK OPTIONS WAS MADE IN MAY 1997.

No compensation expense was recorded with respect to Holdings Stock Options issued during the years ended December 31, 1996 and 1995 since they were issued with an exercise price equal to the then fair market value of the Holdings common stock.

Stock Grants

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

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Purchase of Acquisition LLC

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

The Company's purchase price for the membership interests (\$58,844,000) exceeded the cost incurred by the Acquisition LLC to acquire the properties (\$51,871,000). The Company's acquisition of the membership interests in the Acquisition LLC has been recorded as a financing transaction, with the excess of the purchase price of such membership interests over the cost of the Acquisition LLC to acquire the properties (\$6,973,000) being reflected as a financing cost in the accompanying consolidated statement of operations.

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Related Party Transactions

During 1997, 1996 and 1995, the Company incurred \$3,358,000, \$1,708,000 and \$369,000, respectively, for legal services provided by a firm of which a minority shareholder of Holdings is a member.

During 1996, Holdings advanced to the Company \$2,483,000 bearing interest at a rate of 10% per annum which was due on demand. For the year ended December 31, 1996, \$162,000 of interest was accrued and \$42,000 was paid on this advance. During 1997 in connection with the Offering, the Company repaid this advance plus accrued interest.



Quarterly Financial Data (Unaudited)

Following is a summary of consolidated financial information on a quarterly basis for 1997 and 1996:

<i>(Dollars in thousands, except per share amounts)</i>	QUARTER			
	First	Second	Third	Fourth
1997				
Revenues	\$ 7,161	\$ 7,743	\$ 9,677	\$ 10,265
Net (loss) income	\$ (143)	\$ (10,989)	\$ 4,126	\$ 4,209
Net (loss) income per pro forma share (restated for first and second quarters)				
– basic	\$ (0.04)	\$ (1.80)	\$ 0.36	\$ 0.37
– diluted	\$ (0.04)	\$ (1.80)	\$ 0.36	\$ 0.36
1996				
Revenues	\$ 2,610	\$ 3,163	\$ 5,411	\$ 6,489
Net (loss) income	\$ 319	\$ 448	\$ 691	\$ 717
Net (loss) income per pro forma share (restated)	\$ 0.09	\$ 0.12	\$ 0.19	\$ 0.20

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Subsequent Events (Unaudited)

On various dates subsequent to December 31, 1997 (through March 27, 1998), the Company acquired 11 Life Science Facilities containing an aggregate of 927,000 rentable square feet for an aggregate purchase price of \$109,875,000 and made a \$6,000,000 loan secured by real estate related to one of these Life Science Facilities. Of these amounts, \$103,000,000 was funded through draws on the Company's line of credit, \$12,641,000 through the assumption of existing debt, and the remainder with working capital.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

ALEXANDRIA REAL ESTATE EQUITIES, INC.

In connection with certain forward-looking statements contained in this Annual Report and those that may be made in the future by or on behalf of the Company which are identified as forward-looking, the Company notes that there are various factors that could cause actual results to differ materially from those set forth in any such forward-looking statements, such as general economic conditions, the implementation of the Company's operational plan, changes in legislation and environmental conditions at the Company's properties. Accordingly, there can be no assurance that the forward-looking statements contained in this Annual Report will be realized or that actual results will not be significantly higher or lower in this Annual Report will be realized or that actual results will not be significantly higher or lower. See page one of the Annual Report on Form 10-K and the risk factors identified in the Company's Registration Statement on Form S-11 (No 333-23545) initially filed with the Securities and Exchange Commission March 18, 1997 for further discussion.

DIRECTORS AND OFFICERS

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

Board of Directors

Jerry M. Sudarsky

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

Joel S. Marcus

*Chief Executive Officer of
Alexandria Real Estate Equities, Inc.*

Alan D. Gold

*President of
Alexandria Real Estate Equities, Inc.*

Joseph Elmaleh

*Chemical Engineer
and International Financier*

Viren Mehta

President, Mehta Partners

David M. Petrone

*Chairman of the Board,
Housing Capital Corporation*

Anthony M. Solomon

*Chairman, The Blackstone Alternate Asset
Management Advisory Board*

Officers

Jerry M. Sudarsky

Chairman of the Board

Joel S. Marcus

Chief Executive Officer

Alan D. Gold

President

James H. Richardson

Senior Vice President - Acquisitions

Peter J. Nelson

*Chief Financial Officer,
Treasurer and Secretary*

Gary A. Kreitzer

*Senior Vice President
and In-House Counsel*

Steven A. Stone

Corporate Vice President

Vincent R. Ciruzzi

Vice President

TWENTY LARGEST TENANTS

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

(Ranked by annualized base rent) as of December 31, 1997

Tenant:	Approximate aggregate rentable square feet	Annualized base rent ⁽¹⁾ (in thousands)
American Medical Laboratories, Inc	248,200	\$ 4,341
Fred Hutchinson Cancer Research Center	131,600	2,705
Agouron Pharmaceuticals, Inc.	70,500	2,312
Corixa Corporation	65,200	1,964
Intracel Corporation	131,500	1,904
Advanced Tissue Sciences, Inc.	84,500	1,721
U.S. Army Corps of Engineers	105,000	1,563
U.S. Food & Drug Administration (FDA)	70,000	1,414
R.W. Johnson Pharmaceutical Research Institute (Johnson & Johnson)	45,000	1,379
The Scripps Research Institute	41,900	1,334
MedImmune, Inc.	81,300	1,300
Axys Pharmaceuticals, Inc.	55,500	1,262
Gene Logic, Inc.	49,200	1,192
Gillette Capital Corporation (The Gillette Company)	62,700	1,039
U.S. Bureau of Alcohol, Tobacco & Firearms	48,800	723
Shire Pharmaceuticals PLC ⁽²⁾	44,500	596
biomerieux Vitek, Ltd.	42,100	520
Chiron Corporation	47,800	519
American Presidential Companies, Ltd.	38,100	494
Syntro Corporation (Schering-Plough Corporation)	12,800	430
Total all tenants	1,690,974	\$31,662

(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 1997 (using rental revenue computed on a straight-line basis in accordance with generally accepted accounting principles).

(2) Shire Pharmaceuticals PLC subleases its space at 1550 East Gude Drive from Quest Diagnostics, Inc.

Common Stock

Listed on The New York
Stock Exchange
Symbol ARE

Corporate Office

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

Transfer Agent

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

Legal Counsel

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

Auditors

Ernst & Young LLP
Los Angeles, California

Annual Meeting

The Annual Meeting of Shareholders will
be held at 9:00am, May 15, 1998 at the
Doubletree Hotel, Pasadena, California

SEC Form 10-K

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

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

Common Stock Data

The common stock of Alexandria Real Estate Equities, Inc. began trading on the New York Stock Exchange ("NYSE") on May 28, 1997 under the symbol "ARE". As of March 27, 1998, there were approximately 168 holders of record of the Company's common stock (excluding beneficial owners whose shares are held in the name of CEDE & Co.). The following table sets forth the quarterly high and low sales prices per share of common stock reported on the NYSE and the distributions paid by the Company with respect to each such period.

Period ⁽¹⁾	High	Low	Per Share Distribution
May 28, 1997 to June 30, 1997	22 3/4	20 3/4	\$0.1275
July 1, 1997 to September 30, 1997	28 3/4	21 3/4	\$0.40
October 1, 1997 to December 31, 1997	31 3/4	26 3/4	\$0.40

(1) Prior to the Company's initial public offering and the stock split, the Company paid the following dividends on its common stock: (1) March 26, 1996, distribution of warrants, pro rata, to purchase 117,362 shares of common stock of Corixa Corporation; (2) September 30, 1996, \$183.30 per share; (3) February 3, 1997, \$1,549.82 per share; (4) March 31, 1997, \$750.01 per share; and (5) June 5, 1997, \$475.00 per share.

