



Celebrating Sanctuary
in the Life Sciences
Alexandria Real Estate
Equities, Inc. Annual Report

ALEXANDRIA 2001

World Class
Space for
World Class
Science™

COVER: THE ANCIENT LIBRARY OF ALEXANDRIA, EGYPT WAS THE INTELLECTUAL CENTER OF HELLENISTIC CIVILIZATION. IT WAS DESTROYED 1,600 YEARS AGO IN A FIRE DURING THE SIEGE OF ALEXANDRIA BY JULIUS CAESAR. THE NEW ALEXANDRIA LIBRARY OCCUPIES THE SAME SITE AS ITS NAMESAKE ON THE SHORES OF THE MEDITERRANEAN SEA.



ARE 250.2%

S&P 500 INDEX 143.6%

NAREIT INDEX 135.5%

Performance of Alexandria Real Estate Equities, Inc., compared to the NAREIT and S&P 500 Indices (total return performance from initial public offering on May 28, 1997, to December 31, 2001, assuming reinvestment of all dividends)

Alexandria Real Estate Equities, Inc. (NYSE: ARE) is the first and only publicly traded real estate operating company principally focused on the ownership, operation, management, acquisition, expansion and selective redevelopment and development of properties containing office/laboratory space. Alexandria is the Landlord of Choice to the Life Science IndustrySM, providing highquality office/laboratory space and services to the broad and diverse life science sector. Alexandria's national operating platform is based on the principle of "clustering," with assets and operations strategically located in key life science hub markets.

TO FELLOW ALEXANDRIA REAL ESTATE EQUITIES, INC. OWNERS: 2001 was a very important year of stability, consistency and growth for us. We achieved these results despite the macroeconomic climate, which was volatile and uncertain as our country faced very significant and serious challenges. Solid double-digit returns inured to the benefit of our shareholders, and our stock was a safe haven during this year's tumultuous market conditions. We are proud of our status as the Landlord of Choice to the Life Science IndustrySM, a position that we prize and work hard to maintain. All of us at Alexandria are very gratified by our accomplishments during 2001.



JOEL S. MARCUS
CHIEF EXECUTIVE OFFICER

JERRY M. SUDARSKY
CHAIRMAN OF THE BOARD



Throughout a challenging 2001, Alexandria has provided a place of refuge and protection for our shareholders, client tenants and employees. In essence, Alexandria has become a sanctuary in a difficult climate by carving out a unique niche with high barriers to entry, and providing consistent growth through the strategic focus of our strong management.

Sanctuary / sanc-tu-ary / Pronunciation: 'sa[ng] (k)-chə-''wer-E /
Function: noun / 1 : a place of refuge and protection

SANCTUARY



UNIQUE NICHE

THE ISLAND OF BORA BORA, IN THE LEEWARD GROUP OF THE SOCIETY ISLANDS IN THE SOUTH PACIFIC, SITS UNIQUELY POSITIONED ATOP AN EXTINCT VOLCANO. UNDERWATER BARRIER REEFS AND A LARGE LAGOON HAVE LONG PROVIDED A PROTECTED ENCLAVE FOR FISHERMAN AND SAILORS FROM THE DESTRUCTIVE POWER OF OCEAN STORMS.

Alexandria is the first and only publicly traded real estate operating company principally focused on the unique office/laboratory niche serving the broad and diverse life science industry.

Alexandria's differentiated strategy is based on the principle of "clustering," with assets and operations strategically located in key life science cluster markets. Funding for the life science industry is based on long-term investment in research and development, which is generally not impacted by short-term economic cycles.

Taking the human genome project one step further, the new research discipline of “proteomics” has emerged in a quest for a better understanding of basic biochemical mechanisms underlying our health.

Having sequenced the human genome, many scientists in the life science industry have now turned to the investigation of proteins as a potential clue to human complexity in contrast to other living organisms. It is believed that, through studies of protein functions and interactions, scientists will discover novel disease markers and drug targets, which will enable the development of new products that will address significant unmet medical needs.

A 2D gel electrophoresis image showing a grid of protein spots. The spots are arranged in a regular pattern, with some spots appearing darker than others. Numerous spots are highlighted with yellow circles, indicating they have been identified or analyzed. The background is a light gray color.

NOVEL SCIENCE

An aerial photograph of the Great Wall of China, showing its iconic crenelated top and stone structure as it snakes across a series of rugged, forested mountains. The trees are in various shades of green, yellow, and red, suggesting an autumn setting. The wall's path is clearly visible as it follows the ridges and valleys of the terrain. In the foreground, a section of the wall is more prominent, showing the detailed masonry and the battlements. A few small figures of people can be seen walking along the wall, providing a sense of scale. The overall scene is one of historical grandeur and natural beauty.

HIGH BARRIERS

THE GREAT WALL OF CHINA WAS BUILT TO PROTECT ANCIENT CHINA FROM ITS ENEMIES. STRETCHING OVER 4,000 MILES, THE GREAT WALL DATES FROM THE SECOND CENTURY BC AND IS THE ONLY MAN-MADE CONSTRUCTION VISIBLE FROM SPACE.

The life science real estate niche is one with high barriers to entry, concentrated in markets that cluster around centers of scientific excellence.

Alexandria is uniquely positioned to fulfill the complex life science space and infrastructure needs of organizations that employ the best minds to discover scientific breakthroughs to help humankind.

Since the founding of the first pharmaceutical company in 1668, significant emphasis has been placed on advancing medical technology and science to develop life-saving and therapeutically beneficial medicines.

Today, Alexandria's number one tenant, Pfizer Inc., is the largest pharmaceutical company in the world. Pfizer's scale and global infrastructure provide for the innovative research and development, manufacturing, distribution and marketing capabilities that are necessary to ensure that medicines reach patients throughout the world.



GLOBALSCALE

THE GLOBAL MARKETPLACE AND REACH OF THE PHARMACEUTICAL INDUSTRY EXTENDS TO ALL CORNERS OF THE WORLD AS DEPICTED BY THIS GRAPHIC ILLUSTRATION OF THE COUNTRIES SERVICED BY A TOP-TIER PHARMACEUTICAL COMPANY HEADQUARTERED IN NEW YORK.



CONSISTENT GROWTH

CONCENTRIC TREE RINGS, EVENLY SPACED, REVEAL THE CONSISTENT SEASONAL GROWTH AND STRONG CLIMACTIC ENVIRONMENT THAT THIS TREE ENJOYED THROUGHOUT ITS AGE.

OPPOSITE PAGE: CHART DETAIL GENERATED BY A HIGH-SPEED DNA SEQUENCER. THE DNA SEQUENCER ORGANIZES DNA DATA INTO THESE VERTICAL LANES. EACH LANE DEPICTS A VARIETY OF HORIZONTAL STRIPES, OR BANDS, THAT ARE COLOR-CODED C=BLUE, A=GREEN, G=BLACK, T=RED, WITH EACH BAND REPRESENTING ONE DNA BASE.

Alexandria has consistently grown its funds from operations per share, its market capitalization, asset base and operations every quarter since the initial public offering in May 1997.

Alexandria's growth has been driven by the unique real estate and life science industry niche strategy that management has executed with its experience and expertise.

As we enter the 21st century, the aging of the population will provide challenges as well as opportunities in the life science industry. Effective and affordable diagnostics and therapeutic treatments are essential for our wellness and quality of life.

Demand for high-performance medical products will continue to grow, enabling physicians to accurately diagnose diseases and effectively treat and monitor patients. Additionally, novel research tools and instruments that empower scientists in genomic research are now becoming an integral part of the drug discovery engine that will generate cures for many heretofore untreatable diseases.



INCREASING DEMAND

STRONG MANAGEMENT

SUCCESSFULLY LED BY MUSIC DIRECTOR WOLFGANG SAWALLISCH FOR THE LAST TEN YEARS, THE PHILADELPHIA ORCHESTRA HAS DISTINGUISHED ITSELF AS ONE OF THE LEADING ORCHESTRAS IN THE WORLD THROUGH A CENTURY OF ACCLAIMED PERFORMANCES, HISTORIC INTERNATIONAL TOURS, AND BEST-SELLING RECORDINGS.

Alexandria's management team and board of directors are highly experienced, with multifaceted expertise in both the real estate and life science industries.

Management is uniquely qualified to drive and execute Alexandria's business strategy in this critically important and leading-edge sector, and has consistently achieved solid growth while continually maintaining financial flexibility.

Bold leadership in the public sector is not only a key driver of our economy, national policy and civil liberties, but also a guardian and promoter of public health and security.

Governmental and civilian leadership was tested in 2001 as the tragic events of September 11th negatively impacted our nation and economy in a significant manner. This tragedy demonstrated that strong leadership requires thoughtful, steady and visionary individuals during turbulent times.

BOLD LEADERSHIP

AT 9:30AM ON SEPTEMBER 17, 2001, THE U.S. EQUITY MARKETS REOPENED FOR BUSINESS AS THE OPENING BELL RANG FOR THE FIRST TIME FOLLOWING THE TRAGIC EVENTS OF SEPTEMBER 11. TREMENDOUS COOPERATION BETWEEN THE PUBLIC AND PRIVATE SECTORS DEMONSTRATED STRENGTH AND RESOLVE IN THE FACE OF GREAT ADVERSITY.

A detailed view of the Carina Nebula, a colorful nebula with a keyhole structure. The image shows a vast expanse of gas and dust in shades of blue, green, yellow, and red, with numerous bright stars scattered throughout. The central part of the nebula features a prominent keyhole-shaped structure, which is a result of a massive star's radiation and wind carving out a cavity in the surrounding gas.

STRATEGIC FOCUS

CAPTURED BY NASA'S HUBBLE SPACE TELESCOPE, A DETAILED VIEW OF THE CARINA NEBULA NGC 3372, ABOUT 8,000 LIGHT-YEARS FROM EARTH, REVEALS A MYSTERIOUS STRUCTURE CALLED THE KEYHOLE NEBULA.

Alexandria's consistent financial and operating results are attributable to a highly focused strategy on life science entities and their cluster markets.

Alexandria's focus as the first and only real estate operating company specializing exclusively on serving the life science industry has enabled the company to deliver stable and consistent growth during varying economic cycles.

Academic institutions are pillars of the scientific community, providing scientists with an environment in which to nurture technological breakthroughs, and in which the physicians and scientific research talent of tomorrow can flourish.

Leland H. Hartwell, Ph.D., President and Director of the Fred Hutchinson Cancer Research Center, a client tenant of Alexandria, was awarded the 2001 Nobel Prize in Medicine or Physiology. Dr. Hartwell's work expands the understanding of how normal cells divide and the mechanisms behind the uncontrolled growth of cancer cells. His work, like that of so many other prominent academic researchers, sets the standard for scientific excellence.

A scanning electron micrograph (SEM) showing several yeast cells in various stages of budding. The cells are spherical and have a textured, granular surface. One central cell is in the process of budding, with a smaller cell attached to its side. The background is dark, making the cells stand out.

RENOWNED RESEARCH



2001 Financials

Block calls Alexandria Real Estate Equities “a virtually recession-resistant property.” The company owns five million square feet of properties, mostly in key California cities, eastern Massachusetts and North Carolina – markets where much of the health-care development takes place.

Selected Financial Data

Alexandria Real Estate Equities, Inc. and subsidiaries

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

For the Year Ended December 31
(dollars in thousands, except per share amounts)

	2001	2000	1999	1998	1997
Operating Data:					
Total revenue	\$ 127,790	\$ 106,910	\$ 86,262	\$ 61,016	\$ 34,846
Total expenses	97,513	80,901	64,209	41,613	37,643
Net income (loss)	\$ 30,277	\$ 26,009	\$ 22,053	\$ 19,403	\$ (2,797)
Net income (loss) per share of common stock (pro forma for 1997)					
– Basic	\$ 1.67	\$ 1.55	\$ 1.48	\$ 1.60	\$ (0.35)
– Diluted	\$ 1.64	\$ 1.52	\$ 1.46	\$ 1.58	\$ (0.35)
Weighted average shares of common stock outstanding (pro forma for 1997) ⁽¹⁾					
– Basic	15,953,459	14,460,711	13,525,840	12,098,959	8,075,864
– Diluted	16,208,178	14,699,478	13,670,568	12,306,470	8,075,864
Cash dividends declared per share of common stock (pro forma for 1997)	\$ 1.84	\$ 1.72	\$ 1.69	\$ 1.60	\$ 1.60
Balance Sheet Data (at year end):					
Rental properties – net of accumulated depreciation	\$ 796,626	\$ 679,653	\$ 554,706	\$ 471,907	\$ 227,076
Total assets	\$ 962,146	\$ 780,984	\$ 643,118	\$ 530,296	\$ 248,454
Secured notes payable, unsecured line of credit and term loan	\$ 573,161	\$ 431,256	\$ 350,512	\$ 309,829	\$ 70,817
Total liabilities	\$ 629,508	\$ 461,832	\$ 380,535	\$ 330,527	\$ 81,537
Stockholders' equity	\$ 332,638	\$ 319,152	\$ 262,583	\$ 199,769	\$ 166,917

(dollars in thousands, except per share amounts)

Other Data:

	2001	2000	1999	1998	1997
Net income (loss)	\$ 30,277	\$ 26,009	\$ 22,053	\$ 19,403	\$ (2,797)
Less:					
Dividends on preferred stock	(3,666)	(3,666)	(2,036)	–	–
Add:					
Depreciation and amortization	30,578	24,251	18,532	10,296	4,866
Funds from operations ⁽²⁾	\$ 57,189	\$ 46,594	\$ 38,549	\$ 29,699	\$ 2,069
Cash flows from operating activities	\$ 60,340	\$ 32,931	\$ 46,011	\$ 26,111	\$ 3,883
Cash flows from investing activities	\$ (192,179)	\$ (132,480)	\$ (113,549)	\$ (246,753)	\$ (87,620)
Cash flows from financing activities	\$ 131,439	\$ 98,879	\$ 69,430	\$ 220,136	\$ 84,101
Number of properties owned at year end	82	75	58	51	22
Rentable square feet of properties owned at year end	5,319,945	4,856,650	4,046,126	3,588,154	1,747,837
Occupancy of properties owned at year end	89% ⁽³⁾	91% ⁽³⁾	92% ⁽³⁾	93% ⁽³⁾	97%

(1) Pro forma shares of common stock outstanding for the year ended December 31, 1997, includes all shares outstanding after giving effect to the initial public offering (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.

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

(3) Includes properties under redevelopment. Excluding properties under redevelopment, our properties were approximately 99%, 98%, 96% and 96% leased as of December 31, 2001, 2000, 1999 and 1998, respectively.

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

Alexandria Real Estate Equities, Inc. and subsidiaries

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

Overview

We are a publicly traded real estate operating company focused principally on the ownership, operation, management, acquisition, expansion and selective redevelopment and development of high quality, strategically located properties containing office/laboratory space leased principally to tenants in the life science industry (we refer to these properties as “life science facilities”).

In 2001, we:

- Sold 500,000 shares of common stock in one transaction, resulting in aggregate proceeds of approximately \$16.8 million, net of underwriting discounts and commissions and other offering costs.
- Expanded our borrowings by obtaining an unsecured \$50 million term loan.
- Acquired five properties with an aggregate of approximately 345,000 rentable square feet. In addition, we completed the development of two properties with approximately 108,000 rentable square feet.

Our primary source of revenue is rental income and tenant recoveries from leases at the properties we own. Of the 82 properties we owned as of December 31, 2001, four were acquired in 1994, eight in 1996, ten in 1997, 29 in 1998 (the “1998 Properties”), six in 1999, 12 in 2000 and five in 2001. In addition, we completed the development of one property in 1999 (together with the six properties acquired in 1999, the “1999 Properties”), five properties in 2000 (together with the 12 properties acquired in 2000, the “2000 Properties”) and two properties in 2001 (together with the five properties acquired in 2001, the “2001 Properties”). As a result of these acquisition and development activities, there have been significant continuing increases in total revenues and expenses, including significant increases in total revenues and expenses for 2001 as compared to 2000, and for 2000 as compared to 1999.

Results of Operations

Comparison of the Year Ended December 31, 2001 to the Year Ended December 31, 2000

Rental revenue increased by \$16.7 million, or 20%, to \$99.2 million for 2001 compared to \$82.5 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full period and the addition of the 2001 Properties. Rental revenue from properties operating for a full year during 2000 and 2001 (the “2001 Same Properties”) increased by \$3.7 million, or 6.4%, due to increases in rental rates and occupancy.

Tenant recoveries increased by \$4.5 million, or 21%, to \$25.4 million for 2001 compared to \$20.9 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full period and the addition of the 2001 Properties. Tenant recoveries for the 2001 Same Properties increased by \$516,000, or 3.2%, primarily due to increases in certain recoverable operating expenses.

Interest and other income decreased by \$238,000, or 7%, to \$3.3 million for 2001 compared to \$3.5 million for 2000, primarily due to a decrease in interest income resulting from a decline in interest rates and a decline in service fee income.

Rental operating expenses increased by \$4.2 million, or 19%, to \$26.1 million for 2001 compared to \$21.9 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full period and the addition of the 2001 Properties. Operating expenses for the 2001 Same Properties increased by \$983,000, or 5.9%, primarily due to an increase in utilities and tenant related expenses (substantially all of which are recoverable from our tenants through tenant recoveries).

The following is a comparison of property operating data for the 2001 Same Properties computed under generally accepted accounting principles (“GAAP Basis”) and under generally accepted accounting principles, adjusted to exclude the effect of straight-line rent adjustments required by GAAP (“Cash Basis”) (dollars in thousands):

For the Year Ended December 31	2001	2000	Change
GAAP Basis:			
Revenue	\$ 79,400	\$ 75,600	5.0%
Rental operating expenses	17,693	16,710	5.9%
Net operating income	\$ 61,707	\$ 58,890	4.8%
Cash Basis:			
Revenue	\$ 78,155	\$ 73,945	5.7%
Rental operating expenses	17,693	16,710	5.9%
Net operating income	\$ 60,462	\$ 57,235	5.6%

General and administrative expenses increased by \$2.7 million, or 30%, to \$11.7 million for 2001 compared to \$9.0 million for 2000 due to the continued increase in the scope of our operations.

Interest expense increased by \$3.3 million, or 13%, to \$29.1 million for 2001 compared to \$25.8 million for 2000. The increase resulted from (a) indebtedness incurred to acquire the 2000 and 2001 Properties and (b) indebtedness incurred to finance the development and redevelopment of properties which have now been completed. The increase in interest expense caused by these factors was partially offset by a decrease in the floating interest rate on our unsecured line of credit. The weighted average interest rate on our borrowings (not including the effect of swap agreements) decreased from 8.32% as of December 31, 2000 to 3.92% as of December 31, 2001. We have entered into certain swap agreements to hedge our borrowings at variable interest rates (see “Liquidity and Capital Resources – Unsecured Line of Credit and Unsecured Term Loan”).

Depreciation and amortization increased by \$6.3 million, or 26%, to \$30.6 million for 2001 compared to \$24.3 million for 2000. The increase resulted primarily from depreciation associated with the 2000 Properties being owned for a full period and the addition of the 2001 Properties.

As a result of the foregoing, net income was \$30.3 million for 2001 compared to \$26.0 million for 2000.

Comparison of the Year Ended December 31, 2000 to the Year Ended December 31, 1999

Rental revenue increased by \$14.1 million, or 21%, to \$82.5 million for 2000 compared to \$68.4 million for 1999. The increase resulted primarily from the 1999 Properties being owned for a full period and the addition of the 2000 Properties. Rental revenue from properties operating for a full year during 1999 and 2000 (the "2000 Same Properties") increased by \$1.7 million, or 3.0%, due to increases in rental rates and occupancy.

Tenant recoveries increased by \$4.6 million, or 28%, to \$20.9 million for 2000 compared to \$16.3 million for 1999. The increase resulted primarily from the 1999 Properties being owned for a full period and the addition of the 2000 Properties. Tenant recoveries for the 2000 Same Properties increased by \$2.3 million, or 17.1%, generally due to an increase in certain recoverable operating expenses.

Interest and other income increased by \$2.0 million, or 129%, to \$3.5 million for 2000 compared to \$1.5 million for 1999, resulting primarily from \$1.4 million of investment income and \$424,000 in service fee income.

Rental operating expenses increased by \$2.9 million, or 15%, to \$21.9 million for 2000 compared to \$19.0 million for 1999. The increase resulted primarily from the 1999 Properties being owned for a full period and the addition of the 2000 Properties. Operating expenses for the 2000 Same Properties increased by \$1.0 million, or 5.9%, primarily due to the increase in tenant related expenses (substantially all of which are recoverable from our tenants through tenant recoveries) partially offset by the fact that third party management fees are no longer incurred at certain properties.

The following is a comparison of property operating data computed on a GAAP Basis and on a Cash Basis for the 2000 Same Properties (dollars in thousands):

For the Year Ended December 31

GAAP Basis:

	2000	1999	Change
Revenue	\$74,620	\$70,210	6.3%
Rental operating expenses	17,070	16,116	5.9%
Net operating income	\$57,550	\$54,094	6.4%

Cash Basis:

	2000	1999	Change
Revenue	\$73,097	\$68,065	7.4%
Rental operating expenses	17,070	16,116	5.9%
Net operating income	\$56,027	\$51,949	7.9%

General and administrative expenses increased by \$2.0 million, or 29%, to \$9.0 million for 2000 compared to \$7.0 million for 1999 due to the continued increase in the scope of our operations.

Interest expense increased by \$6.1 million, or 31%, to \$25.8 million for 2000 compared to \$19.7 million for 1999. The increase resulted primarily from (a) indebtedness we incurred to acquire the 1999 and 2000 Properties, (b) indebtedness incurred to finance the development of properties which have been completed and (c) an increase in the floating interest rate on our line of credit. The weighted average effective interest rate on our borrowings (not including the effect of swap agreements) increased from 7.33% as of December 31, 1999 to 8.32% as of December 31, 2000.

Depreciation and amortization increased by \$5.8 million, or 31%, to \$24.3 million for 2000 compared to \$18.5 million for 1999. The increase resulted primarily from depreciation associated with the 1999 Properties being owned for a full period and the addition of the 2000 Properties.

As a result of the foregoing, net income was \$26.0 million for 2000 compared to \$22.1 million for 1999.

Liquidity and Capital Resources

Cash Flows

Net cash provided by operating activities for 2001 increased by \$27.4 million to \$60.3 million compared to \$32.9 million for 2000. The increase resulted primarily from increases in cash flows from operating life science facilities, an increase in accrued liabilities related to construction costs and the liability associated with our interest rate swap agreements.

Net cash used in investing activities increased by \$59.7 million to \$192.2 million for 2001 compared to \$132.5 million for 2000. This increase was due to a higher level of property development and redevelopment costs incurred, as well as a higher level of property acquisition costs.

Net cash provided by financing activities increased by \$32.5 million to \$131.4 million for 2001 compared to \$98.9 million for 2000. Cash provided by financing activities for 2001 and 2000 primarily consisted of net proceeds from our unsecured line of credit, unsecured term loan, secured debt and issuances of common stock and exercise of stock options, partially offset by principal reductions on our secured debt and distributions to stockholders.

Commitments

As of December 31, 2001, we were committed under the terms of certain leases to complete the construction of buildings and certain related improvements at a remaining aggregate cost of \$12.9 million.

As of December 31, 2001, we were also committed to fund an aggregate of approximately \$39.1 million for the construction of building infrastructure improvements under the terms of various leases and for certain investments.

Restricted Cash

Restricted cash consists of the following (in thousands):

As of December 31	2001	2000
Funds held in trust as additional security required under the terms of certain secured notes payable	\$ 5,583	\$ 5,103
Security deposit funds based on the terms of certain lease agreements	1,647	1,892
Funds held in escrow to complete the development of an office/laboratory facility	4,298	–
	\$ 11,528	\$ 6,995

Secured Debt

Secured debt as of December 31, 2001, consists of the following (dollars in thousands):

Collateral	Balance at December 31 2001	Stated Interest Rate	Maturity Date
Worcester, MA ⁽¹⁾	\$ 10,799	8.75%	January 2006
Durham, NC (two properties)	12,182	8.68%	December 2006
Gaithersburg, MD (three properties)	9,907	8.25%	August 2007
Cambridge, MA ⁽²⁾	19,158	9.125%	October 2007
Chantilly, VA and Seattle, WA	35,264	7.22%	May 2008
Worcester, MA and San Diego, CA	18,676	8.71%	January 2010
Gaithersburg, MD (two properties)	24,508	8.33%	November 2010
San Diego, CA (six properties)	24,030	7.75%	July 2011
San Diego, CA	11,912	7.50%	August 2011
Gaithersburg, MD (three properties)	28,250	7.40%	January 2012
Alameda, CA	4,811	7.165%	January 2014
San Diego, CA (two properties)	7,882	9.00%	December 2014
Seattle, WA	18,842	7.75%	June 2016
San Francisco, CA (two properties) ⁽³⁾	18,940	LIBOR+1.70%	June 2003
	\$ 245,161		

(1) The balance shown includes an unamortized premium of \$494,000; the effective rate of the loan is 7.25%.

(2) The balance shown includes an unamortized premium of \$1,619,000; the effective rate of the loan is 7.25%.

(3) The balance shown represents the amount drawn on a construction loan that provides for borrowings of up to \$25,175,000.

The following is a summary of the scheduled principal payments for our secured debt as of December 31, 2001 (in thousands):

Year	Amount
2002	\$ 5,638
2003	25,062
2004	5,901
2005	5,713
2006	24,764
Thereafter	175,970
Subtotal	243,048
Unamortized premium	2,113
	\$ 245,161

Unsecured Line of Credit and Unsecured Term Loan

We have an unsecured line of credit that provides for borrowings of up to \$325 million. Borrowings under the line of credit bear interest at a floating rate based on our election of either a LIBOR based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR based advance, we must elect to fix the rate for a period of one, two, three or six months.

The line of credit contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. The line of credit expires February 2003 and provides for an extension (provided there is no default) for an additional one-year period upon notice by the company and consent of the participating banks. As of December 31, 2001, borrowings under the line of credit carried a weighted average interest rate of 3.92%.

In October 2001, we obtained a \$50 million unsecured term loan which bears interest at a floating rate based on our election of either a LIBOR based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR based advance, we must elect to fix the rate for a period of one, two, three or six months. The term loan contains financial covenants substantially similar to those on our line of credit. As of December 31, 2001, the term loan carried a weighted average interest rate of 3.98%.

Aggregate borrowings under the line of credit and the term loan are limited to an amount based on the net operating income derived from a pool of unencumbered assets. Accordingly, as we acquire or complete the development or redevelopment of additional unencumbered properties, aggregate borrowings available under the line of credit and the term loan will increase up to the maximum of \$375 million. Under these provisions, as of December 31, 2001,

aggregate borrowings under the line of credit and the term loan were limited to \$360 million.

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

The following table summarizes our interest rate swap agreements (dollars in thousands):

Transaction Date	Effective Date	Notional Amount	Interest Pay Rate	Termination Date	Fair Value
April 2000	May 20, 2000	\$50,000	6.995%	January 2, 2003	\$ (2,385)
July 2000	May 31, 2001	50,000	7.070%	May 31, 2003	(3,033)
January 2001	January 31, 2001	50,000	6.350%	December 31, 2002	(2,035)
					\$ (7,453)

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. Specifically, SFAS 133 requires us to reflect our interest rate swap agreements on the balance sheet at their estimated fair value. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value, and such value may never be realized. As of January 1, 2001, the adoption of SFAS 133, as amended, resulted in qualifying interest rate swap agreements reported on the balance sheet as a liability of approximately \$3.5 million, with a corresponding reduction to accumulated other comprehensive income, a separate component of stockholders' equity.

All of our interest rate swap agreements meet the criteria to be deemed "effective" under SFAS 133 in reducing our exposure to variable interest rates. Accordingly, we have categorized these instruments as cash flow hedges. While we intend to continue to meet the conditions for hedge accounting, if hedges did not qualify as highly effective, the changes in the fair value of the derivatives used as hedges would be reflected in earnings.

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate swap agreements, as the counterparties are established, well-capitalized financial institutions. In addition, we have entered into master derivative agreements to minimize those risks.

On January 22, 2001, we terminated an interest rate swap agreement with a notional amount of \$50 million, an interest pay rate of 7.25% and a maturity of December 31, 2001. The terminated interest rate swap agreement was replaced with the 6.350% interest rate swap agreement as

shown in the table above. The fair value of the terminated interest rate swap agreement at the date of termination (a liability of \$950,000) was transferred to the replacement 6.350% interest rate swap agreement. During 2001, approximately \$475,000 was reclassified from other comprehensive income to interest expense. Approximately \$475,000 will be credited against interest expense during 2002. These adjustments result in an effective interest pay rate for the 6.350% interest rate swap agreement of 7.30% for 2001 and 5.40% for 2002.

As of December 31, 2001, our interest rate swap agreements have been reported in the accompanying balance sheet at their fair value as other liabilities of approximately \$7.5 million. The offsetting adjustments were reflected as deferred losses in accumulated other comprehensive income of \$7.0 million. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made.

Valuation of Investments

We hold equity investments in certain publicly traded companies and privately held entities. In determining if and when a decline in the market value of these investments below amortized cost is other than temporary, we evaluate the market conditions, offering prices, trends of earnings and other key measures. When such a decline in value is deemed to be other than temporary, we recognize an impairment loss in the current period operating results to the extent of the decline.

Other Resources and Liquidity Requirements

In April 2001, we sold 500,000 shares of common stock to institutional investors. The shares were issued at a price of \$36.44 per share, resulting in aggregate proceeds of approximately \$16.8 million, net of offering costs.

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

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

Exposure to Environmental Liabilities

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

Capital Expenditures, Tenant Improvements and Leasing Costs

The following table shows total and weighted average per square foot capital expenditures, tenant improvements and leasing costs (all of which are added to the basis of the properties) related to our life science facilities (excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue-enhancing or related to properties that have undergone redevelopment) for the years ended December 31, 2001, 2000, 1999, 1998 and 1997, attributable to leases that commenced at our properties after our acquisition.

Total / Weighted Average	2001	2000	1999	1998	1997	
Capital expenditures:						
Weighted average square feet in portfolio	17,637,461	5,131,176	4,448,916	3,823,290	2,891,863	1,342,216
Property related capital expenditures	\$ 3,374,000	\$ 1,230,000	\$ 778,000	\$ 478,000	\$ 341,000	\$ 547,000
Per weighted average square foot in portfolio	\$ 0.19	\$ 0.24	\$ 0.17	\$ 0.13	\$ 0.12	\$ 0.41
Tenant improvements and leasing costs:						
<i>Retenanted space ⁽¹⁾</i>						
Retenanted square feet	612,978	151,161	112,286	220,397	88,181	40,953
Tenant improvements and leasing costs	\$ 3,358,000	\$ 466,000	\$ 796,000	\$ 1,454,000	\$ 478,000	\$ 164,000
Per square foot leased	\$ 5.48	\$ 3.08	\$ 7.09	\$ 6.60	\$ 5.42	\$ 4.00
<i>Renewal Space</i>						
Renewal square feet	837,671	432,717	233,017	93,667	77,038	1,232
Tenant improvements and leasing costs	\$ 793,000	\$ 451,000	\$ 124,000	\$ 149,000	\$ 69,000	\$ -
Per square foot leased	\$ 0.95	\$ 1.04	\$ 0.53	\$ 1.59	\$ 0.90	\$ -

(1) Excludes space that has undergone redevelopment before retenanting. If redevelopment space was included as retenanted space, retenanted square feet for 2001 and 2000 would be 221,778 and 266,163, respectively, tenant improvements and leasing costs would be \$2,507,000 and \$5,375,000, respectively, and costs per square foot would be \$11.30 and \$20.19, respectively.

Capital expenditures fluctuate in any given period due to the nature, extent and timing of improvements required and the extent to which they are recoverable from our tenants. Approximately 87% of our leases provide for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing). In addition, we maintain an active preventative maintenance program at each of our properties to minimize capital expenditures required.

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

Inflation

As of December 31, 2001, approximately 82% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses (including increases thereto). In addition, approximately 13% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 92% of our leases (on a square footage basis) contain effective annual rent escalations that are either fixed (generally ranging from 3% to 4%) or indexed based on the consumer price index or another index. Accordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk of inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including our unsecured line of credit and unsecured term loan.

Funds from Operations

We believe that funds from operations ("FFO") is helpful to investors as an additional measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of our ability to incur and service debt, to make capital expenditures and to make distributions. We compute FFO in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in its October 1999 White Paper (the "White Paper"), which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for our discretionary use because a portion of FFO is needed for capital replacement or expansion, debt service obligations or other commitments and uncertainties. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. (See "Cash Flows" for information regarding these measures of cash flow.)

The following table presents our FFO for the years ended December 31, 2001, 2000 and 1999 (in thousands):

For the Year Ended December 31	2001	2000	1999
Net income	\$ 30,277	\$ 26,009	\$ 22,053
Less:			
Dividends on preferred stock	(3,666)	(3,666)	(2,036)
Add:			
Depreciation and amortization	30,578	24,251	18,532
Funds from operations	\$ 57,189	\$ 46,594	\$ 38,549

Property and Lease Information

The following table is a summary of our property portfolio as of December 31, 2001 (dollars in thousands):

	Number of Properties	Rentable Square Feet	Annualized Base Rent	Occupancy Percentage
Suburban Washington D.C.	19	1,613,529	\$ 25,248	⁽¹⁾ 97.8%
California – San Diego	21	949,328	26,942	100.0%
California – San Francisco Bay	7	412,172	12,385	100.0%
Southeast	3	183,473	3,307	⁽¹⁾ 97.5%
New Jersey/Suburban Philadelphia	6	344,390	5,977	100.0%
Eastern Massachusetts	6	445,474	14,059	100.0%
Washington – Seattle	2	118,393	4,110	100.0%
Subtotal	64	4,066,759	92,028	99.0%
Redevelopment Properties	18	1,253,186	17,246	54.9%
Total	82	5,319,945	\$109,274	88.6%

The following table shows certain information with respect to the lease expirations of our properties as of December 31, 2001:

Year of Lease Expiration	Number of Expiring Leases	Square Footage of Expiring Leases	Square Footage as a Percentage of Leased Portfolio	Annualized Base Rent of Expiring Leases (Per Square Foot)
2002	52	476,422	10.1%	\$ 21.45
2003	27	483,343	10.3%	\$ 19.03
2004	25	423,550	9.0%	\$ 21.01
2005	16	319,426	6.8%	\$ 25.90
2006	29	665,796	14.1%	\$ 22.51
Thereafter	45	2,346,596	49.7%	\$ 24.59

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

The following table is a summary of our lease activity for the year ended December 31, 2001, computed on a GAAP Basis and on a Cash Basis:

	Number of Leases	Square Footage	Expiring Rate	New Rate	Rental Rate Increase	Tl's/Lease Commissions Per Foot	Average Lease Term
Lease Activity – Expired Leases							
Lease Expirations							
Cash Rent	61	964,329	\$19.21	–	–	–	–
GAAP Rent	61	964,329	\$19.07	–	–	–	–
Renewed / Released Space							
Cash Rent	40	654,495	\$21.05	\$22.85	8.6%	\$ 4.52	4.1 Years
GAAP Rent	40	654,495	\$20.86	\$24.05	15.3%	\$ 4.52	4.1 Years
Month-to-Month Leases							
Cash Rent	14	72,599	\$12.16	\$ 16.79	38.1%	–	–
GAAP Rent	14	72,599	\$11.88	\$ 16.79	41.3%	–	–
Total Leasing							
Cash Rent	54	727,094	\$20.16	\$22.24	10.3%	–	–
GAAP Rent	54	727,094	\$19.96	\$23.32	16.8%	–	–
Vacant Space Leased							
Cash Rent	27	287,235	–	\$27.45	–	\$21.02	6.4 Years
GAAP Rent	27	287,235	–	\$30.96	–	\$21.02	6.4 Years
All Lease Activity							
Cash Rent	81	1,014,329	–	\$23.72	–	–	–
GAAP Rent	81	1,014,329	–	\$25.49	–	–	–

Quantitative and Qualitative Disclosures About Market Risk

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

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

Our future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, due to the purchase of our interest rate swap agreements, the current effects of interest rate changes are reduced. Based on interest rates at, and our swap agreements in effect on, December 31, 2001, a 1% increase in interest rates on our line of credit and term loan would decrease annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$1.8 million. A 1% decrease in interest rates on our line of credit and term loan would increase annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$1.8 million. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their fair value by approximately \$16.9 million. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their fair value by approximately \$18.1 million. A 1% increase or decrease in interest rates on our secured note receivable would not have a material impact on its fair value.

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

Consolidated Balance Sheets

Alexandria Real Estate Equities, Inc. and subsidiaries

As of December 31 (dollars in thousands, except per share amounts)

Assets

	2001	2000
Rental properties, net	\$ 796,626	\$679,653
Property under development	65,250	26,092
Cash and cash equivalents	2,376	2,776
Tenant security deposits and other restricted cash	11,528	6,995
Secured note receivable	6,000	6,000
Tenant receivables	3,123	2,835
Deferred rent	20,593	14,945
Other assets	56,650	41,688
Total assets	\$962,146	\$780,984

Liabilities and Stockholders' Equity

Secured notes payable	\$ 245,161	\$200,256
Unsecured line of credit and unsecured term loan	328,000	231,000
Accounts payable, accrued expenses and tenant security deposits	48,057	23,123
Dividends payable	8,290	7,453
	629,508	461,832

Commitments and contingencies

Stockholders' equity:

9.50% Series A cumulative redeemable preferred stock, \$0.01 par value per share, 1,610,000 shares authorized; 1,543,500 shares issued and outstanding at December 31, 2001 and 2000; \$25.00 liquidation value	38,588	38,588
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 16,354,541 and 15,548,356 shares issued and outstanding at December 31, 2001 and 2000, respectively	163	155
Additional paid-in capital	301,818	278,868
Deferred compensation	(1,782)	(296)
Retained earnings	–	–
Accumulated other comprehensive income	(6,149)	1,837
Total stockholders' equity	332,638	319,152
Total liabilities and stockholders' equity	\$962,146	\$780,984

See accompanying notes.

Consolidated Statements of Income

Alexandria Real Estate Equities, Inc. and subsidiaries

For the Year Ended December 31 (dollars in thousands, except per share amounts)

Revenues

	2001	2000	1999
Rental	\$ 99,171	\$ 82,499	\$ 68,425
Tenant recoveries	25,351	20,905	16,305
Interest and other income	3,268	3,506	1,532
	127,790	106,910	86,262

Expenses

Rental operations	26,115	21,873	19,003
General and administrative	11,694	8,986	6,977
Interest	29,126	25,791	19,697
Depreciation and amortization	30,578	24,251	18,532
	97,513	80,901	64,209

Net income	\$ 30,277	\$ 26,009	\$ 22,053
Dividends on preferred stock	\$ 3,666	\$ 3,666	\$ 2,036

Net income allocated to common stockholders	\$ 26,611	\$ 22,343	\$ 20,017
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Net income per share of common stock:

– Basic	\$ 1.67	\$ 1.55	\$ 1.48
– Diluted	\$ 1.64	\$ 1.52	\$ 1.46

Weighted average shares of common stock outstanding:

– Basic	15,953,459	14,460,711	13,525,840
– Diluted	16,208,178	14,699,478	13,670,568

See accompanying notes.

Consolidated Statements of Cash Flows

Alexandria Real Estate Equities, Inc. and subsidiaries

For the Year Ended December 31 (in thousands)

Operating Activities

	2001	2000	1999
Net income	\$ 30,277	\$ 26,009	\$ 22,053
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	30,578	24,251	18,532
Amortization of loan fees and costs	1,275	1,021	748
Amortization of premiums on secured notes	(343)	(331)	(310)
Stock compensation expense	2,841	1,831	1,658
Changes in operating assets and liabilities:			
Tenant security deposits and other restricted cash	(4,534)	(2,314)	2,810
Tenant receivables	(288)	597	(548)
Deferred rent	(5,648)	(5,931)	(3,419)
Other assets	(11,774)	(11,976)	(3,199)
Accounts payable, accrued expenses and tenant security deposits	17,955	(226)	7,686
Net cash provided by operating activities	60,340	32,931	46,011
Investing Activities			
Purchase of rental properties	(55,746)	(48,584)	(63,896)
Additions to rental properties	(69,530)	(40,539)	(16,807)
Additions to property under development	(57,390)	(29,813)	(29,130)
Additions to investments, net	(9,513)	(13,544)	(3,716)
Net cash used in investing activities	(192,179)	(132,480)	(113,549)

See accompanying notes.

For the Year Ended December 31 (in thousands)

Financing Activities

	2001	2000	1999
Proceeds from secured notes payable	57,293	38,061	34,163
Net proceeds from issuances of common stock	16,751	52,117	29,829
Net proceeds from issuance of preferred stock	–	–	36,876
Exercise of stock options	5,200	4,115	874
Net borrowings from (principal reductions to) unsecured line of credit and unsecured term loan	97,000	39,000	(2,000)
Principal reductions on secured notes payable	(12,042)	(6,026)	(3,303)
Dividends paid on common stock	(29,097)	(24,722)	(22,278)
Dividends paid on preferred stock	(3,666)	(3,666)	(1,272)
Repurchase of common stock	–	–	(3,459)
Net cash provided by financing activities	131,439	98,879	69,430
Net (decrease) increase in cash and cash equivalents	(400)	(670)	1,892
Cash and cash equivalents at beginning of year	2,776	3,446	1,554
Cash and cash equivalents at end of year	\$ 2,376	\$ 2,776	\$ 3,446
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for interest, net of interest capitalized	\$ 29,447	\$ 25,315	\$ 23,512

Consolidated Statements of Stockholders' Equity

Alexandria Real Estate Equities, Inc. and subsidiaries

(dollars in thousands)	Series A Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1998	\$ —	12,586,263	\$ 126	\$ 199,643	\$ —	\$ —	\$ —	\$ 199,769
Net income	—	—	—	—	—	22,053	—	22,053
Unrealized gain on marketable securities	—	—	—	—	—	—	172	172
Comprehensive income	—	—	—	—	—	—	—	22,225
Issuance of common stock, net of offering costs	—	1,150,000	11	29,818	—	—	—	29,829
Repurchase of common stock	—	(145,343)	(1)	(3,458)	—	—	—	(3,459)
Issuance of preferred stock, net of offering costs	38,588	—	—	(1,712)	—	—	—	36,876
Stock compensation expense	—	105,800	1	3,151	(3,152)	—	—	—
Amortization of stock compensation expense	—	—	—	—	1,658	—	—	1,658
Exercise of stock options	—	48,902	—	874	—	—	—	874
Dividends declared on preferred stock	—	—	—	—	—	(2,036)	—	(2,036)
Dividends declared on common stock	—	—	—	(3,136)	—	(20,017)	—	(23,153)
Balance at December 31, 1999	38,588	13,745,622	137	225,180	(1,494)	—	172	262,583
Net income	—	—	—	—	—	26,009	—	26,009
Unrealized gain on marketable securities	—	—	—	—	—	—	1,665	1,665
Comprehensive income	—	—	—	—	—	—	—	27,674
Issuances of common stock, net of offering costs	—	1,625,000	16	52,101	—	—	—	52,117
Stock compensation expense	—	18,400	—	633	(633)	—	—	—
Amortization of stock compensation expense	—	—	—	—	1,831	—	—	1,831
Exercise of stock options	—	159,334	2	4,113	—	—	—	4,115
Dividends declared on preferred stock	—	—	—	—	—	(3,666)	—	(3,666)
Dividends declared on common stock	—	—	—	(3,159)	—	(22,343)	—	(25,502)
Balance at December 31, 2000	38,588	15,548,356	155	278,868	(296)	—	1,837	319,152
FAS 133 transition adjustment	—	—	—	—	—	—	(3,461)	(3,461)
Net income	—	—	—	—	—	30,277	—	30,277
Unrealized loss on marketable securities	—	—	—	—	—	—	(1,008)	(1,008)
Unrealized loss on swap agreements	—	—	—	—	—	—	(3,517)	(3,517)
Comprehensive income	—	—	—	—	—	—	—	25,752
Issuance of common stock, net of offering costs	—	500,000	5	16,746	—	—	—	16,751
Stock compensation expense	—	122,555	1	4,326	(4,327)	—	—	—
Amortization of stock compensation expense	—	—	—	—	2,841	—	—	2,841
Exercise of stock options	—	183,630	2	5,198	—	—	—	5,200
Dividends declared on preferred stock	—	—	—	—	—	(3,666)	—	(3,666)
Dividends declared on common stock	—	—	—	(3,320)	—	(26,611)	—	(29,931)
Balance at December 31, 2001	\$ 38,588	16,354,541	\$ 163	\$ 301,818	\$ (1,782)	\$ —	\$ (6,149)	\$ 332,638

See accompanying notes.

Notes to Consolidated Financial Statements

Alexandria Real Estate Equities, Inc. and subsidiaries

Note 1

Background

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We are engaged primarily in the ownership, operation, management, acquisition, expansion and selective redevelopment and development of properties containing a combination of office and laboratory space. We refer to these properties as "life science facilities." Our life science facilities are designed and improved for lease primarily to pharmaceutical, biotechnology, life science product and service companies, not-for-profit scientific research institutions, universities and related government agencies. As of December 31, 2001, our portfolio consisted of 82 properties in nine states with approximately 5,320,000 rentable square feet, compared to 75 properties in nine states with approximately 4,857,000 rentable square feet as of December 31, 2000.

Note 2

Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Cash Equivalents

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

Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following (in thousands):

As of December 31	2001	2000
Unrealized gain on marketable securities	\$ 829	\$1,837
Unrealized loss on interest rate swap agreements	(6,978)	-
	\$(6,149)	\$1,837

Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. All of our investments in publicly traded companies are considered "available for sale" under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and have been included at fair value in other assets in the accompanying balance sheets. Fair value has been determined by the most recently traded price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity. The cost of investments sold is determined by the specific identification method, with realized gains and losses included in interest and other income.

The following table summarizes our available-for-sale securities (in thousands):

As of December 31	2001	2000
Cost of available-for-sale securities	\$3,192	\$ 2,311
Gross unrealized gains	1,527	2,249
Gross unrealized losses	(698)	(412)
Fair value of available-for-sale securities	\$4,021	\$ 4,148

Investments in privately held entities as of December 31, 2001 and 2000, totaled \$24,417,000 and \$14,777,000, respectively. These investments are accounted for under the cost method and are included in other assets in the accompanying balance sheets.

Investment income, which is included in interest and other income in the accompanying statements of income, consists of the following (in thousands):

For the Year Ended December 31	2001	2000
Gross realized gains	\$2,408	\$1,575
Gross realized losses	(860)	(129)
Investment income	\$1,548	\$1,446

Rental Properties and Property Under Development

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

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

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

Restricted Cash

Restricted cash consists of the following (in thousands):

As of December 31	2001	2000
Funds held in trust as additional security required under the terms of certain secured notes payable	\$ 5,583	\$ 5,103
Security deposit funds based on the terms of certain lease agreements	1,647	1,892
Funds held in escrow to complete the development of an office/laboratory facility	4,298	–
	\$11,528	\$ 6,995

Loan Fees and Costs

Fees and costs incurred in obtaining long-term financing are amortized over the terms of the related loans and included in interest expense. Loan fees and costs, net of related amortization, totaled \$6,815,000 and \$5,810,000 as of December 31, 2001 and 2000, respectively, and are included in other assets on our balance sheets.

Rental Income

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

Interest Income

Interest income was \$923,000, \$1,025,000 and \$1,013,000 in 2001, 2000, and 1999, respectively, and is included in interest and other income in the accompanying statements of income.

Leasing Costs

Leasing costs are amortized on a straight-line basis over the term of the related lease. Leasing costs, net of related amortization, totaled \$14,559,000 and \$11,652,000 as of December 31, 2001 and 2000, respectively, and are included on other assets in our balance sheets.

Fair Value of Financial Instruments

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

The fair value of our secured notes payable was estimated using discounted cash flows analyses based on borrowing rates we believe we could obtain with similar terms and maturities. As of December 31, 2001 and 2000, the fair value of our secured notes payable was approximately \$290,886,000 and \$204,786,000, respectively.

Net Income Per Share

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

For the Year Ended December 31 (dollars in thousands, except per share amounts)	2001	2000	1999
Net income available to common stockholders	\$ 26,611	\$ 22,343	\$ 20,017
Weighted average shares of common stock outstanding – basic	15,953,459	14,460,711	13,525,840
Add: dilutive effect of stock options	254,719	238,767	144,728
Weighted average shares of common stock outstanding – diluted	16,208,178	14,699,478	13,670,568
Net income per common share – basic	\$ 1.67	\$ 1.55	\$ 1.48
Net income per common share – diluted	\$ 1.64	\$ 1.52	\$ 1.46
Common dividends declared per share	\$ 1.84	\$ 1.72	\$ 1.69

Operating Segments

We view our operations as principally one segment and the financial information disclosed herein represents all of the financial information related to our principal operating segment.

Income Taxes

As a REIT, we are not subject to federal income taxation as long as we meet a number of organizational and operational requirements and distribute all of our taxable income to our stockholders. Since we believe we have met these requirements and our distributions exceeded taxable income, no federal income tax provision has been reflected in the accompanying consolidated financial statements for the years ended December 31, 2001, 2000 and 1999. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate tax rates.

During 2001, 2000 and 1999, we declared dividends on our common stock of \$1.84, \$1.72 and \$1.69 per share, respectively. During 2001, 2000, and 1999 we declared dividends on our Series A preferred stock of \$2.375, \$2.375 and \$1.4184 per share, respectively.

Note 3

Rental Properties

Rental properties consist of the following (in thousands):

As of December 31	2001	2000
Land	\$ 121,005	\$ 99,373
Building and improvements	667,435	575,212
Tenant and other improvements	92,276	62,622
	880,716	737,207
Less accumulated depreciation	(84,090)	(57,554)
	\$ 796,626	\$ 679,653

Twenty-nine of our rental properties are encumbered by deeds of trust and assignments of rents and leases associated with the properties (see Note 6). The net book value of these properties as of December 31, 2001 is \$345,200,000.

We lease space under noncancelable leases with remaining terms of one to 15 years.

As of December 31, 2001, approximately 82% of our leases (on a square footage basis) require that the lessee pay substantially all taxes, maintenance, insurance and certain other operating expenses applicable to the leased properties.

We capitalize interest to properties under development or redevelopment during the period the asset is undergoing activities to prepare it for its intended use. Total interest capitalized for the years ended December 31, 2001, 2000 and 1999 was \$11,371,000, \$7,710,000 and \$3,784,000, respectively. Total interest incurred for the years ended December 31, 2001, 2000 and 1999 was \$40,840,000, \$33,832,000 and \$23,792,000, respectively.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 2001, are as follows (in thousands):

Year	Amount
2002	\$ 98,525
2003	89,941
2004	82,988
2005	75,412
2006	65,849
Thereafter	245,756
	\$ 658,471

Note 4

Secured Note Receivable

In connection with the acquisition of a life science facility in San Diego, California, in March 1998, we made a \$6,000,000 loan to the sole tenant of the property, fully secured by a first deed of trust on certain improvements at the property. The loan bears interest at a rate of 11% per year, payable monthly, and is due March 25, 2002. The loan is cross-defaulted to the lease with the sole tenant.

Note 5

Unsecured Line of Credit and Unsecured Term Loan

We have an unsecured line of credit that provides for borrowings of up to \$325 million. Borrowings under the line of credit bear interest at a floating rate based on our election of either a LIBOR based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR based advance, we must elect to fix the rate for a period of one, two, three or six months.

The line of credit contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. The line of credit expires February 2003 and provides for an extension (provided there is no default) for an additional one-year period upon notice by the company and consent of the participating banks. As of December 31, 2001, borrowings outstanding on the line of credit carried a weighted average interest rate of 3.92%.

In October 2001, we obtained a \$50 million unsecured term loan which bears interest at a floating rate based on our election of either a LIBOR based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR based advance, we must elect to fix the rate for a period of one, two, three or six months. The term loan contains financial covenants substantially similar to those on our line of credit. As of December 31, 2001, the term loan carried a weighted average interest rate of 3.98%.

Aggregate borrowings under the line of credit and the term loan are limited to an amount based on the net operating income derived from a pool of unencumbered assets. Accordingly, as we acquire or complete the development or redevelopment of additional unencumbered properties, aggregate borrowings available under the line of credit and the term loan will increase up to the maximum of \$375 million. Under these provisions, as of December 31, 2001, aggregate borrowings under the line of credit and the term loan were limited to \$360 million.

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

Note 6

The following table summarizes our interest rate swap agreements (dollars in thousands):

Transaction Date	Effective Date	Notional Amount	Interest Pay Rate	Termination Date	Fair Value
April 2000	May 20, 2000	\$50,000	6.995%	January 2, 2003	\$ (2,385)
July 2000	May 31, 2001	50,000	7.070%	May 31, 2003	(3,033)
January 2001	January 31, 2001	50,000	6.350%	December 31, 2002	(2,035)
					\$ (7,453)

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. Specifically, SFAS 133 requires us to reflect our interest rate swap agreements on the balance sheet at their estimated fair value. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value, and such value may never be realized. As of January 1, 2001, the adoption of SFAS 133, as amended, resulted in qualifying interest rate swap agreements reported on the balance sheet as a liability of approximately \$3.5 million, with a corresponding reduction to accumulated other comprehensive income, a separate component of stockholders' equity.

All of our interest rate swap agreements meet the criteria to be deemed "effective" under SFAS 133 in reducing our exposure to variable interest rates. Accordingly, we have categorized these instruments as cash flow hedges.

On January 22, 2001, we terminated an interest rate swap agreement with a notional amount of \$50 million, an interest pay rate of 7.25% and a maturity of December 31, 2001. The terminated interest rate swap agreement was replaced with the 6.350% interest rate swap agreement as shown in the table above. The fair value of the terminated interest rate swap agreement at the date of termination (a liability of \$950,000) was transferred to the replacement 6.350% interest rate swap agreement. During 2001, approximately \$475,000 was reclassified from other comprehensive income to interest expense. Approximately \$475,000 will be credited against interest expense during 2002. These adjustments result in an effective interest pay rate for the 6.350% interest rate swap agreement of 7.30% for 2001 and 5.40% for 2002.

As of December 31, 2001, our interest rate swap agreements have been reported in the accompanying balance sheet at their fair value as other liabilities of approximately \$7.5 million. The offsetting adjustments were reflected as deferred losses in accumulated other comprehensive income of \$7.0 million. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made.

Secured Notes Payable

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

As of December 31	2001	2000
8.75% note, due January 2006, with an effective interest rate of 7.25% (includes unamortized premium of \$494 and \$611 at December 31, 2001 and 2000, respectively), secured by one property in Worcester, MA	\$ 10,799	\$ 11,276
8.68% note, due December 2006, secured by two properties in Durham, NC	12,182	12,314
8.25% note, due August 2007, secured by three properties in Gaithersburg, MD	9,907	9,998
9.125% note, due October 2007, with an effective interest rate of 7.25% (includes unamortized premium of \$1,619 and \$1,845 at December 31, 2001 and 2000, respectively), secured by one property in Cambridge, MA	19,158	19,513
7.22% note, due May 2008, secured by two properties, one in Chantilly, VA and the other in Seattle, WA	35,264	35,646
8.71% note, due January 2010, secured by two properties, one in Worcester, MA and the other in San Diego, CA	18,676	18,798
8.33% note, due November 2010, secured by two properties in Gaithersburg, MD	24,508	24,675
7.75% note, due July 2011, secured by six properties in San Diego, CA	24,030	—
7.50% note, due August 2011, secured by one property in San Diego, CA	11,912	—
7.40% note, due January 2012, secured by three properties in Gaithersburg, MD	28,250	—
7.165% note, due January 2014, secured by one property in Alameda, CA	4,811	6,018
9.00% note, due December 2014, secured by two properties in San Diego, CA	7,882	16,499
7.75% note, due June 2016, secured by one property in Seattle, WA	18,842	19,520
Construction loan at LIBOR plus 1.75%, due January 2002, providing for borrowings of up to \$19,000,000, secured by one property in Gaithersburg, MD	—	18,981
Construction loan at LIBOR plus 1.70%, due June 2003, providing for borrowings of up to \$25,175,000, secured by two properties in San Francisco, CA	18,940	7,018
	\$ 245,161	\$ 200,256

As of December 31, 2001, all of our secured notes payable, except for the 7.165% note and the construction loan secured by the two properties in San Francisco, CA, require monthly payments of principal and interest. The 7.165% note requires monthly payments of interest and semi-annual payments of principal. The construction loan secured by the two properties in San Francisco, CA, requires monthly payments of interest only.

Future principal payments due on secured notes payable as of December 31, 2001, are as follows (in thousands):

Year	Amount
2002	\$ 5,638
2003	25,062
2004	5,901
2005	5,713
2006	24,764
Thereafter	175,970
Subtotal	243,048
Unamortized premium	2,113
	\$245,161

Note 7

Issuance of Common Stock

In April 2001, we sold 500,000 shares of common stock to institutional investors. The shares were issued at a price of \$36.44 per share, resulting in aggregate proceeds of approximately \$16.8 million, net of offering costs.

Note 8

Non-Cash Transactions

In connection with the acquisition of a property in San Diego, California, in 2001 and three properties in Gaithersburg, Maryland, in 2000, we assumed secured notes payable. The following table summarizes these transactions (in thousands):

	2001	2000
Aggregate purchase price	\$ 20,350	\$ 18,000
Secured notes payable assumed	12,000	10,040
Cash paid for the properties	\$ 8,350	\$ 7,960

In 2001 and 2000, we incurred \$2,841,000 and \$1,831,000, respectively, in non-cash stock compensation expense.

Note 9

Preferred Stock and Excess Stock

Series A Cumulative Redeemable Preferred Stock

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

Preferred Stock and Excess Stock Authorizations

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock, of which 1,543,500 shares were issued and outstanding as of December 31, 2001. In addition, 200,000,000 shares of "excess stock" (as defined) are authorized, none of which were issued and outstanding at December 31, 2001.

Note 10

Commitments and Contingencies

Employee Retirement Savings Plan

Effective January 1, 1997, we adopted a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code ("Code") whereby our employees may contribute a portion of their compensation to their respective retirement accounts, in an amount not to exceed the maximum allowed under the Code. The plan provides that we contribute eight percent of our employees' salary (subject to statutory limitations), which amounted to \$353,000, \$254,000 and \$185,000, respectively, for the years ended December 31, 2001, 2000 and 1999. Employees who participate in the plan are immediately vested in their contributions and in the contributions of the company.

Concentration of Credit Risk

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

We are dependent on rental income from relatively few tenants in the life science industry. The inability of any single tenant to make its lease payments could adversely affect our operations. As of December 31, 2001, we had 194 leases with a total of 167 tenants and 45 of our 82 properties were each leased to a single tenant. At December 31, 2001, our three largest tenants accounted for approximately 14.1% of our aggregate annualized base rent.

We generally do not require collateral or other security from our tenants, other than security deposits. In addition to security deposits held in cash, we hold \$10.8 million in irrevocable letters of credit available from certain tenants as security deposits for 37 leases as of December 31, 2001.

Commitments

As of December 31, 2001, we were committed under the terms of certain leases to complete the construction of buildings and certain related improvements at a remaining aggregate cost of \$12.9 million.

As of December 31, 2001, we were also committed to fund approximately \$39.1 million for the construction of building infrastructure improvements under the terms of various leases and for certain investments.

Note 11

Stock Option Plans and Stock Grants

1997 Stock Plan

In 1997, we adopted a stock option and incentive plan (the "1997 Stock Plan") for the purpose of attracting and retaining the highest quality personnel, providing for additional incentives and promoting the success of the company by providing employees the opportunity to acquire common stock pursuant to (i) options to purchase common stock; and (ii) share awards. As of December 31, 2001, a total of 409,623 shares were reserved for the granting of future options and share awards under the 1997 Stock Plan.

Options under our plan have been granted at prices that are equal to the market value of the stock on the date of grant and expire ten years after the date of grant. Employee options vest ratably in three annual installments from the date of grant. Non-employee director options vest immediately on the date of grant. The options outstanding under the 1997 Stock Plan expire at various dates through November 2011.

In addition, the 1997 Stock Plan permits us to issue share awards to our employees and non-employee directors. A share award is an award of common stock which (i) may be fully vested upon issuance or (ii) may be subject to the risk of forfeiture under Section 83 of the Internal Revenue Code. For employees, these shares generally vest over a one-year period and the sale of the shares is restricted prior to the date of vesting. For non-employee directors, these shares are generally fully vested upon issuance and the sale of the shares is not restricted. During 2001, we awarded 122,555 shares of common stock. These shares were recorded at fair value with a corresponding charge to stockholders' equity. The unearned portion is amortized as compensation expense on a straight-line basis over the vesting period.

We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for our employee and non-employee director stock options, stock grants and stock appreciation rights. Under APB 25, because the exercise price of the options we granted equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized. Although we have elected to follow APB 25, pro forma information regarding net income and net income per share is required by Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation." This information has been determined as if we had accounted for our stock options under the fair value method under Statement 123. The fair value of the options issued under the 1997 Stock Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2001, 2000 and 1999:

For the Year Ended December 31	2001	2000	1999
Risk-free interest rate	4.68%	5.15%	6.48%
Dividend yield	4.49%	4.78%	5.66%
Volatility factor of the expected market price	22.37%	23.20%	24.60%
Weighted average expected life of the options	5.2 years	4.7 years	5.8 years

Note 12

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

For the Year Ended December 31	2001	2000	1999
Pro forma net income available to common stockholders	\$ 25,690	\$ 21,532	\$ 19,083
Pro forma net income per common share:			
– Basic	\$ 1.61	\$ 1.49	\$ 1.41
– Diluted	\$ 1.59	\$ 1.46	\$ 1.40

A summary of the stock option activity under our 1997 Stock Plan and related information for the years ended December 31, 2001, 2000 and 1999 follows:

	2001		2000		1999	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding—beginning of year	901,000	\$ 27.73	785,000	\$ 25.37	821,500	\$ 24.49
Granted	193,500	38.27	316,000	33.78	70,500	29.56
Exercised	(183,630)	27.58	(145,334)	26.38	(75,000)	20.11
Forfeited	(61,000)	34.48	(54,666)	32.45	(32,000)	23.98
Outstanding—end of year	849,870	\$ 29.68	901,000	\$ 27.73	785,000	\$ 25.37
Exercisable at end of year	497,040	\$ 25.29	519,001	\$ 23.94	426,003	\$ 24.36
Weighted average fair value of options granted		\$ 6.19		\$ 5.51		\$ 5.28

Exercise prices for options outstanding as of December 31, 2001 range from \$20.00 to \$39.41. The weighted average contractual life of options outstanding is 7.3 years.

Quarterly Financial Data (Unaudited)

Following is a summary of consolidated financial information on a quarterly basis for 2001 and 2000:

(In thousands, except per share amounts)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2001				
Revenues	\$ 30,995	\$ 30,399	\$ 32,730	\$ 33,666
Net income available to common stockholders	\$ 6,390	\$ 6,408	\$ 6,535	\$ 7,280
Net income per share:				
– Basic	\$ 0.41	\$ 0.40	\$ 0.41	\$ 0.45
– Diluted	\$ 0.41	\$ 0.39	\$ 0.40	\$ 0.44
2000				
Revenues	\$ 23,962	\$ 24,910	\$ 28,475	\$ 29,563
Net income available to common stockholders	\$ 4,821	\$ 5,425	\$ 5,615	\$ 6,484
Net income per share:				
– Basic	\$ 0.35	\$ 0.38	\$ 0.39	\$ 0.42
– Diluted	\$ 0.35	\$ 0.38	\$ 0.38	\$ 0.41

Report of Independent Auditors

Alexandria Real Estate Equities, Inc. and subsidiaries

Note 13

Subsequent Event (Unaudited)

In January 2002, we completed a public offering of 2,300,000 shares of our 9.10% Series B cumulative redeemable preferred stock (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of \$25.00 per share, resulting in aggregate proceeds of approximately \$55.1 million, net of underwriters' discounts and other offering costs. The dividends on our Series B preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of \$2.275 per share. Our Series B preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to January 22 2007, except in order to preserve our status as a REIT. Investors in our Series B preferred stock generally have no voting rights. On or after January 22, 2007, we may, at our option, redeem our Series B preferred stock, in whole or in part, at any time for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends.

In February 2002, we sold 418,970 shares of our common stock. The shares were issued at a price of \$39.46 per share, resulting in aggregate proceeds of approximately \$16.4 million (after deducting underwriting discounts and other offering costs).

Private Securities Litigation Reform Act of 1995

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

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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alexandria Real Estate Equities, Inc. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Los Angeles, California
January 25, 2002

Directors and Officers

Alexandria Real Estate Equities, Inc. and subsidiaries

Board of Directors

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

Joel S. Marcus
Chief Executive Officer,
Alexandria Real Estate Equities, Inc.

James H. Richardson
President,
Alexandria Real Estate Equities, Inc.

Richard B. Jennings
President,
Realty Capital International, Inc.

David M. Petrone
Chairman of the Board,
Housing Capital Corporation

Anthony M. Solomon
Chairman, The Blackstone Alternate Asset
Management Advisory Board

Alan G. Walton, Ph.D., D.Sc.
General Partner,
Oxford BioScience Partners

Senior Officers

Joel S. Marcus
Chief Executive Officer

James H. Richardson
President

Peter J. Nelson
Chief Financial Officer,
Senior Vice President,
Operations, Treasurer and Secretary

Vincent R. Ciruzzi
Senior Vice President,
Construction and Development

Corporate Information

Alexandria Real Estate Equities, Inc. and subsidiaries

Common Stock

Listed on the New York Stock Exchange
Symbol ARE

Corporate Offices

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

Transfer Agent

American Stock Transfer and Trust Company
59 Maiden Lane
New York, NY 10038
(212) 936-5100

Legal Counsel

Mayer, Brown, Rowe & Maw
Los Angeles, California

Auditors

Ernst & Young LLP
Los Angeles, California

Annual Meeting

The Annual Meeting of Shareholders will
be held at 11:00 a.m., April 29, 2002, 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

Market for the Registrant's Common Equity and Related Stockholder Matters

The common stock of Alexandria Real Estate Equities, Inc. trades on the New York Stock Exchange (NYSE) under the symbol ARE. As of December 31, 2001, there were approximately 230 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 as reported on the NYSE and the distributions paid by the Company for the year ended December 31, 2001.

Period	High	Low	Per Share Distribution
January 1, 2001 to March 31, 2001	\$37.43	\$34.19	\$0.46
April 1, 2001 to June 30, 2001	\$38.44	\$34.64	\$0.46
July 1, 2001 to September 30, 2001	\$41.00	\$36.16	\$0.46
October 1, 2001 to December 31, 2001	\$41.53	\$36.93	\$0.46

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