

Alexandria Real Estate Equities, Inc. is the first and only publicly traded real estate operating company focused principally 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 high-quality 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.

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World Class Space for World Class ScienceSM

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Letter to Shareholders



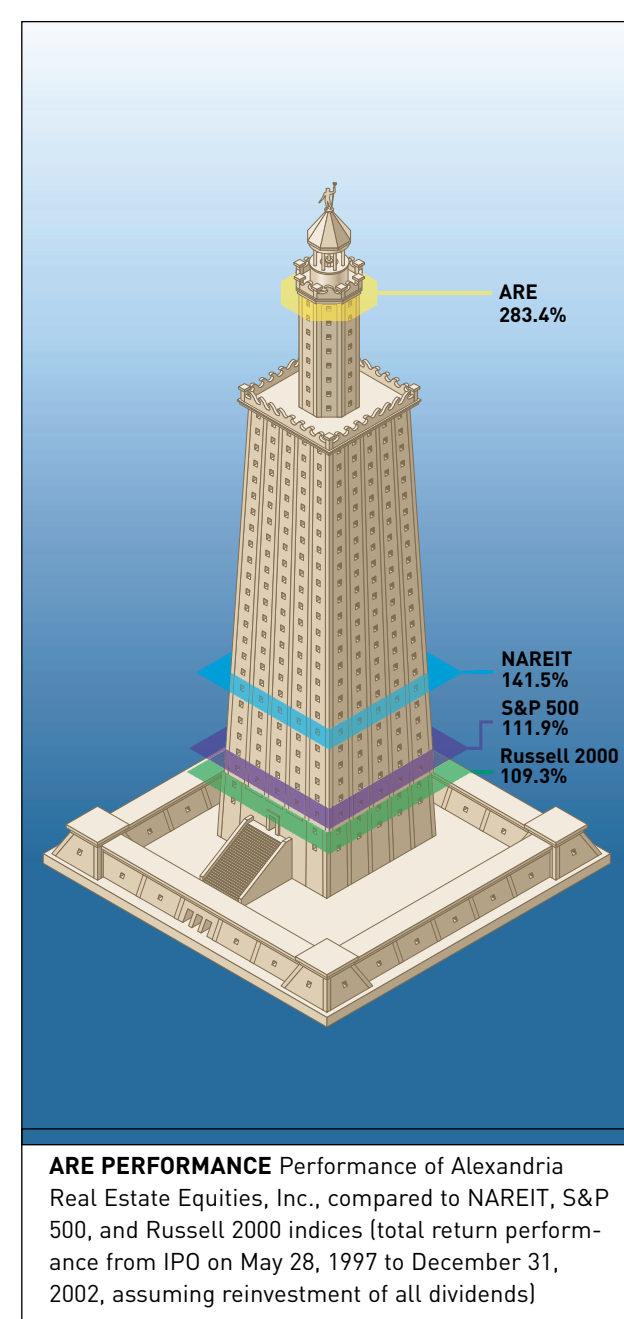
ALEXANDRIA®

2002

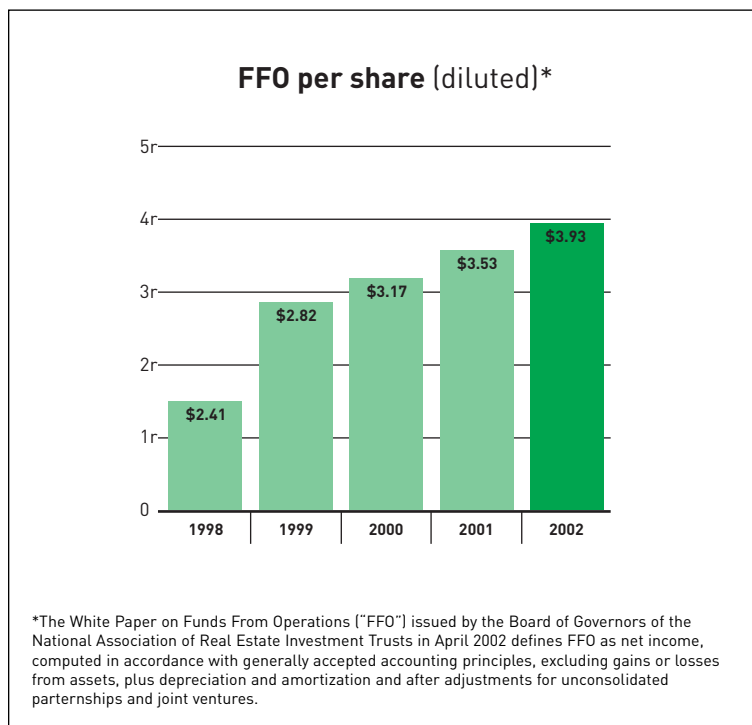
Fellow Alexandria Real Estate Equities, Inc. Owners: Alexandria is a very special company with a unique focus and an enviable track record of consistency in its operations, finances, and governance. The daily practice of our core business values continues to benefit our shareholders, tenant clients, and employees. Every day, since our initial public offering five years ago, we have continued to execute our unique niche strategy and, in doing so, have clearly set ourselves apart from the rest of the office REIT peer group. We are immensely proud that Alexandria, as the only publicly traded real estate operating company principally focused on the office/laboratory niche, has generated a compounded annual growth rate from our initial public offering on May 28, 1997, through December 31, 2002, of more than 18% (assuming reinvestment of all dividends). We are the Landlord of Choice to the Life Science IndustrySM, providing World Class Space for World Class ScienceSM, a coveted position that we intend to maintain. All of us at Alexandria are particularly gratified by our accomplishments during 2002 and for the more than five years since we have been a public company.

During 2002, we continued to maintain a well-balanced client tenant base, representing a broad and diverse cross section of the life science industry. We were pleased to welcome Cardinal Health, Inc., Smith & Nephew, Inc., The Institute for Genomic Research, ZymoGenetics, Inc., and Quest Diagnostics, Inc. as significant new 2002 additions to the Alexandria family.

We are proud to congratulate Dr. Sydney Brenner on his receipt of the 2002 Nobel Prize in Physiology or Medicine. Dr. Brenner, who is featured in this Annual Report, is the principal founder of one of Alexandria's newest client tenants. We are honored to provide World Class Space for World Class ScienceSM to Dr. Brenner and his colleagues and their pioneering scientific discoveries. 2002 marks the third consecutive year in which a founder of one of Alexandria's client tenants has been awarded the Nobel Prize in Physiology or Medicine.



Two principal attributes make the Alexandria brand powerful from a business perspective. We are unique and relevant. Uniqueness is the quality that determines our ability to differentiate our mission, relationships, and the World Class Lab SpaceSM that is our hallmark. To be commercially powerful, our brand must be, and is, both relevant and important to our life science constituency.



Our focus is clear, our expertise and experience substantial, and our strategy carefully crafted and executed. During 2002, and every quarter since our initial public offering, we have reported consistent, stable, and broad-based double-digit growth in funds from operations per share (diluted). This growth has been driven by the successful day-to-day execution of our differentiated strategy, unique business model, and strategic operating platform focused on our key life science cluster markets. Our diversified geographic and life science client tenant mix is

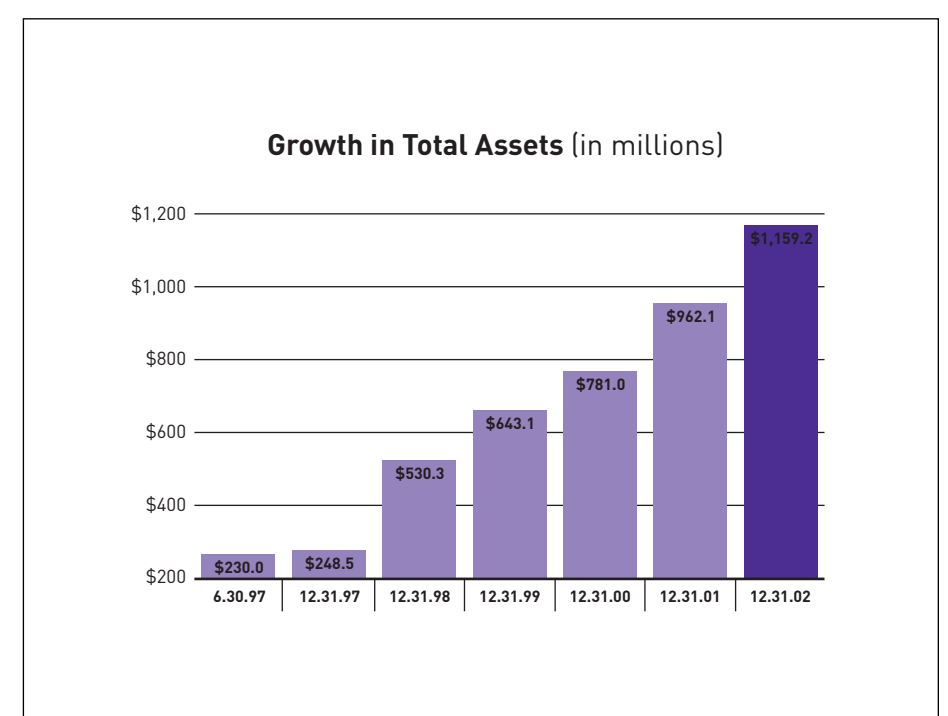
intended to create a stable and consistent base of operations, which should enable continued growth during both good and difficult economic environments.

Our total shareholder return (assuming reinvestment of all dividends) from our initial public offering in May 1997 through December 31, 2002, approximated 283%, significantly outperforming the NAREIT Index, which increased approximately 142%, the S&P 500 Index, which increased approximately 112%, and the Russell 2000 Index, which increased approximately 109%. We believe that our performance has been consistently strong during substantially varying business cycles. Our growth has been achieved without compromising our strong and flexible capital base. We take pride in the achievement of these significant metrics and in our quest to continually create and increase shareholder value. Our constant and consistent commitment to Alexandria's business principles has enabled us to successfully execute our strategy and to attract the best tenant clients and employees.

THE LIFE SCIENCE INDUSTRY

The life science industry will advance the frontiers of medical science by continuing to rapidly develop new life-saving, cost-effective medicines, vaccines, and other therapies to predict, prevent, diagnose, treat, and cure disease. New discoveries will be made that will enable patients to lead longer, healthier, happier, and more productive lives. As a consequence, our broad and diverse life science cluster market participants have experienced relative stability during this highly volatile and uncertain economic and business environment. Life science research and development spending is mainly based on long-term budgets and not dependent on the short-term direction of the economy. We are comfortable with the sustainability of life science industry research and its economic drivers, and are optimistic about its long-term future space requirements. It is important to note that the life science industry will become an increasingly significant component and beneficiary of our country's bioterrorism research and development programs.

It is estimated that pharmaceutical research and development expenditures have exceeded approximately (CONTINUED ON PAGE 7)



Governance

ARE Corporate Governance Practices Alexandria is proud that it operates on a solid foundation of sound corporate governance. This philosophy, which predates Alexandria's initial public offering in May 1997 as well as recent corporate governance reform legislation, reflects our "best practices" approach which we implement both in form and substance on a day-to-day basis. Key tenets of our corporate governance practices and philosophies are highlighted below.

1 2 3 4 5

CEO/Chairman of the Board Separation

Since Alexandria's inception, these critically important roles have been segregated. Regulators have recently focused on the wisdom of separating the roles and functions of the Chief Executive Officer from that of Chairman of the Board. We are proud of the leadership, experience and judgment brought to us by Jerry M. Sudarsky, Chairman of the Board. Mr. Sudarsky's active role brings prudent and rational governance into practice for Alexandria and its shareholders.

Independent Board of Directors

Alexandria's Board of Directors is currently comprised of seven individuals, five of whom are independent. A critical hallmark of sound corporate governance is the independence and objectivity of its board of directors. Alexandria's Board committees have always consisted solely of Directors who meet the technical requirements of independence as defined by The New York Stock Exchange and federal regulators. Our directors are independently minded, drawing on their vast and varied expertise and experience to add valuable oversight to the management of Alexandria.

Code of Ethics/Business Integrity Policy

Alexandria conducts its business adhering to the highest moral and ethical standards, including the recent requirements of the Sarbanes-Oxley Act of 2002. Alexandria's principles and standards are enumerated in our "Business Integrity Policy," which applies to all employees, officers and directors. This policy documents our compliance with these important guiding principles.

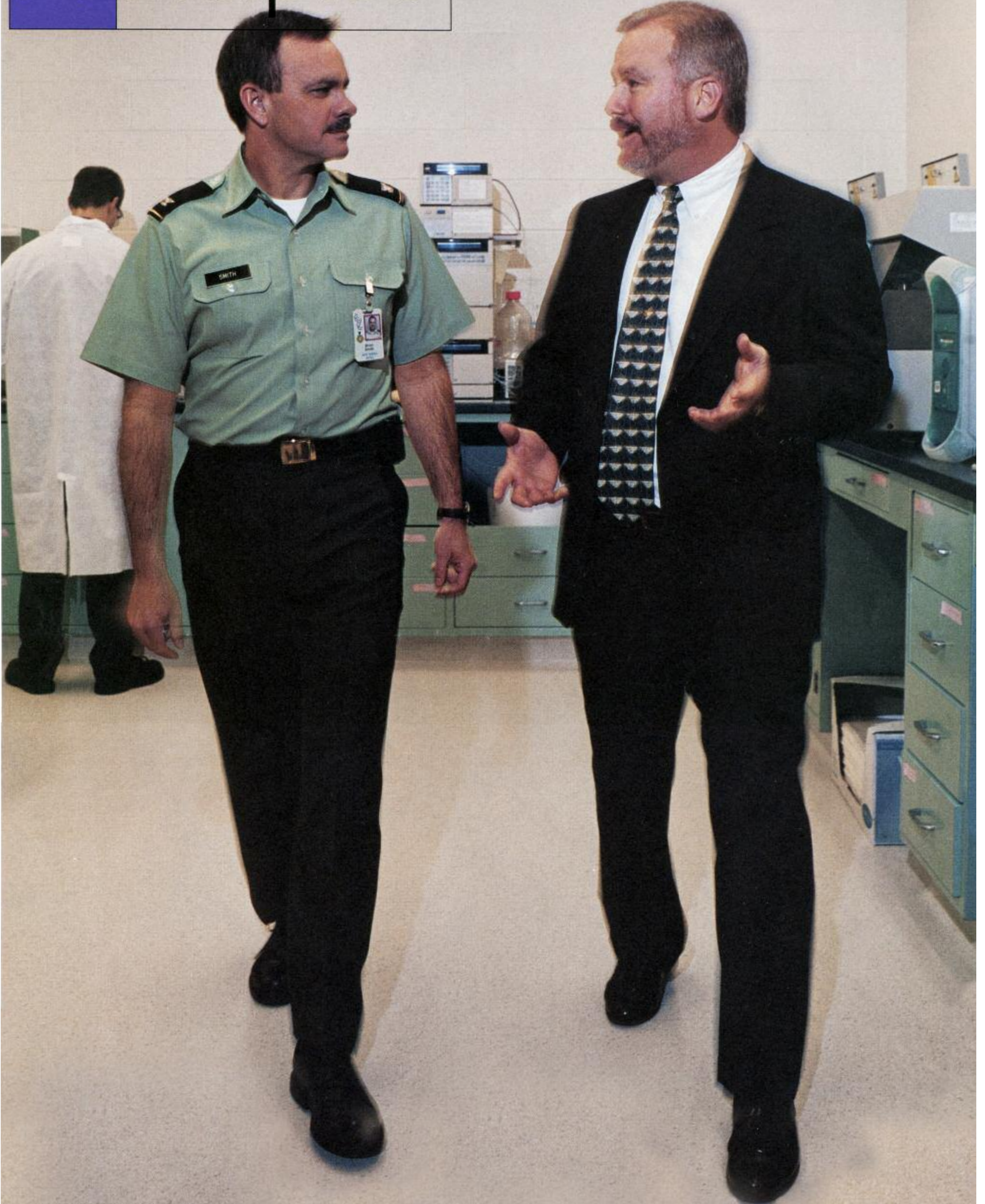
Disclosure and Internal Controls

Alexandria has always maintained a robust system of disclosure and internal controls to ensure that operating, financial and non-financial information is appropriately collected, monitored and properly reported. This system includes a high degree of hands-on, day-to-day management and interaction by our senior officers, including the Chief Executive Officer and the Chief Financial Officer. The certifications provided by Alexandria's senior management are based on a substantive, meaningful and thorough handling and review of operations.

No Conflicts/No Real Property Operating Partnerships

Alexandria does not have a historical low basis real property operating partnership structure nor the attendant inherent conflicts. Our objectives are properly aligned with that of our shareholders. Many public companies have conflicts of interest that may not be readily apparent. Many REITs' structures incorporate one or more historical operating partnerships of their developer-founders. Legacy owners of REITs may be discouraged from entering into, or even considering, certain corporate transactions which may otherwise be in the best interest of their shareholders.

Principles



Our SHAREHOLDERS

We tirelessly pursue the best interests of our shareholders by continually focusing on our operations, finances and governance. Our consistent track record of achievement of broad-based growth has inured to the significant benefit of our shareholders.

Our TENANT CLIENTS

We are proud of our broad and diverse life science client tenant base, which includes some of the pre-eminent pharmaceutical, biotechnology, life science product and service companies, scientific research institutions and related government agencies.

Our PEOPLE

Our people are very talented, motivated and enormously resourceful. We strive to constantly provide our team with a positive, rewarding, and challenging working environment. Our focus affords meaningful growth to both the individual and Company.

Our REPUTATION

We seek to continually enhance our reputation as The Landlord of Choice to the Life Science IndustrySM. Our unique business model and brand have allowed us to create substantial franchise value within our important life science niche.

Our CAPITAL

We exercise prudence and diligence with respect to the investment of our debt and equity capital. This capital is not treated as a renewable resource but is handled with vigilance both as it is raised and as it is "match fund" invested. Our track record demonstrates the careful approach we take to accretive investing.

Our ASSETS

Our properties contain technical office/laboratory space that is improved and maintained with the utmost pride and care as we provide World Class Space for World Class ScienceSM.

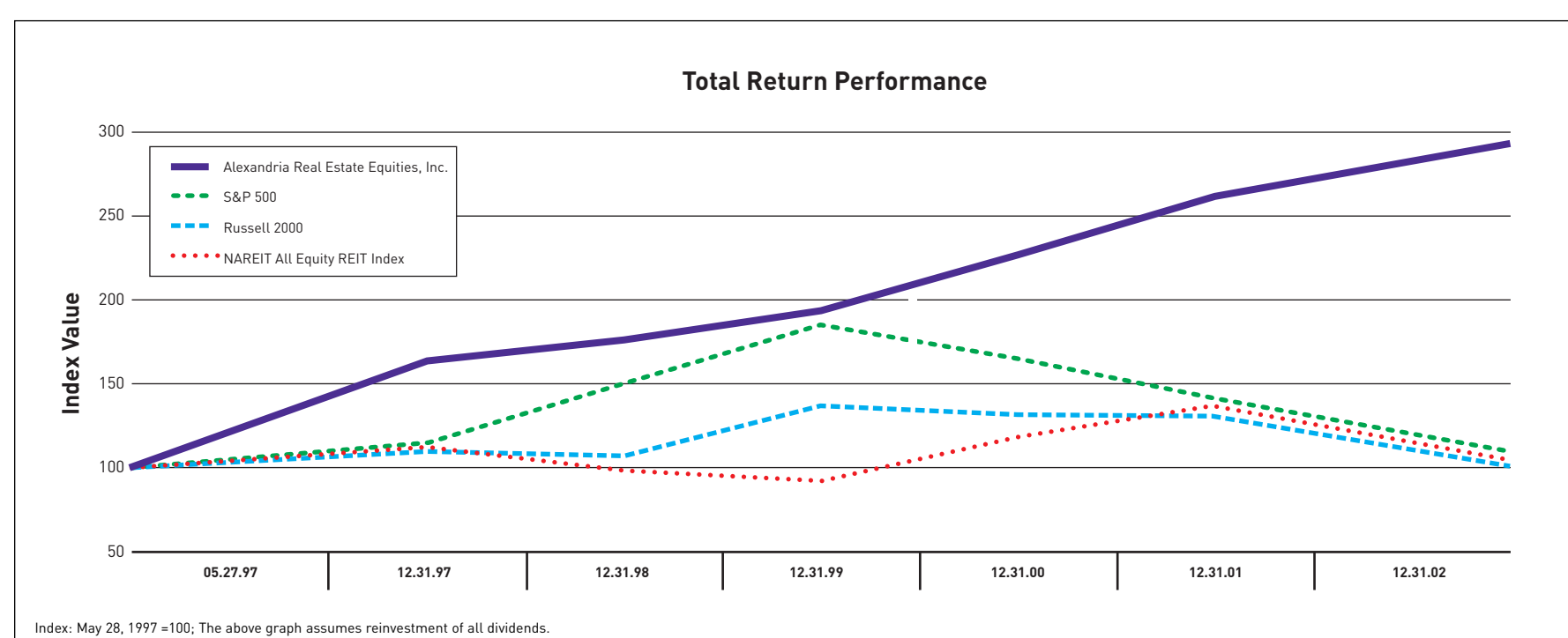
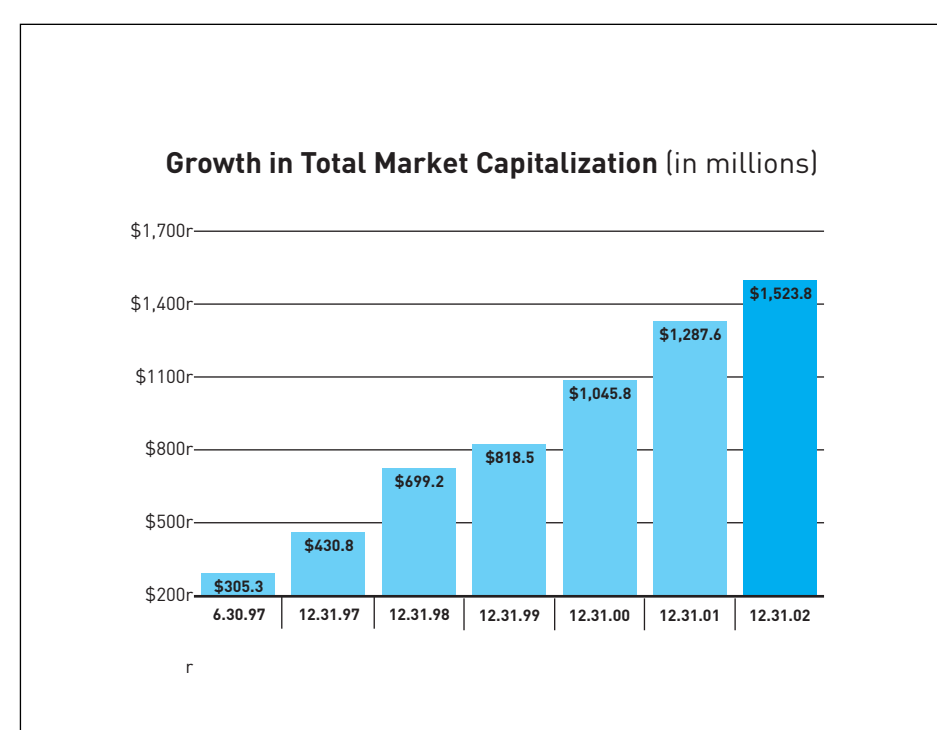
\$30 billion in 2001, an increase of more than 10% over the previous year. Biotechnology research spending exceeded \$12 billion in 2001. The budget for the National Institutes of Health has doubled over the last five years. Although the rate of future growth will decrease, it may likely stabilize with respectable mid-single digit increases. Separate life science related government expenditures, including those of the National Science Foundation, approximated \$5 billion in fiscal year 2002. In addition, new proposed government legislation regarding biowarfare seeks to provide approximately \$1 billion in the near term. A much larger permanent, indefinite funding authority is expected for research and procurement of defensive agents for chemical, biological, and radiological weapons.

OPERATIONAL REVIEW AND FINANCIAL HIGHLIGHTS

Our full-year growth in GAAP net operating income for our static pool of “same properties” approximated 3.2%, and cash net operating income for these properties grew approximately 5.1%. These internal growth metrics represent broad-based solid performance in our markets. Approximately 93% of our leases have annual rental rate increases, generally with minimum annual increases approximating 3 to 4%. Rental rate increases on a GAAP basis for the rollover of leases in our portfolio approximated 13%, helping to drive our internal growth. During 2002, Alexandria signed a total of 57 leases for approximately 926,000 square feet of space, with double-digit rental rate increases on average. As of December 31, 2002, we reached total occupancy of approximately 95.9%, excluding our properties under redevelopment.

At year-end, we had 12 properties in our value creation redevelopment pipeline, comprising a total of approximately 429,000 square feet of space, which we are currently redeveloping. We have also identified approximately 265,000 square feet of additional redevelopment space embedded in our existing portfolio. In a very cost-conscious environment, we have continued to focus on effectively controlling the costs of our operations and have maintained strong operating margins, which approximated a very healthy 79% during 2002. We have also maintained strong year-end interest and fixed charge coverage ratios of 3.81 and 3.09, respectively.

During 2002, we also benefited from external growth with the closing of approximately \$100 million in stabilized acquisitions, adding approximately 329,000 square feet to our portfolio. We completed and delivered one development project during the year, adding approximately 98,000 square feet to our portfolio. In addition, at year-end, we had a development land bank, together with ex-



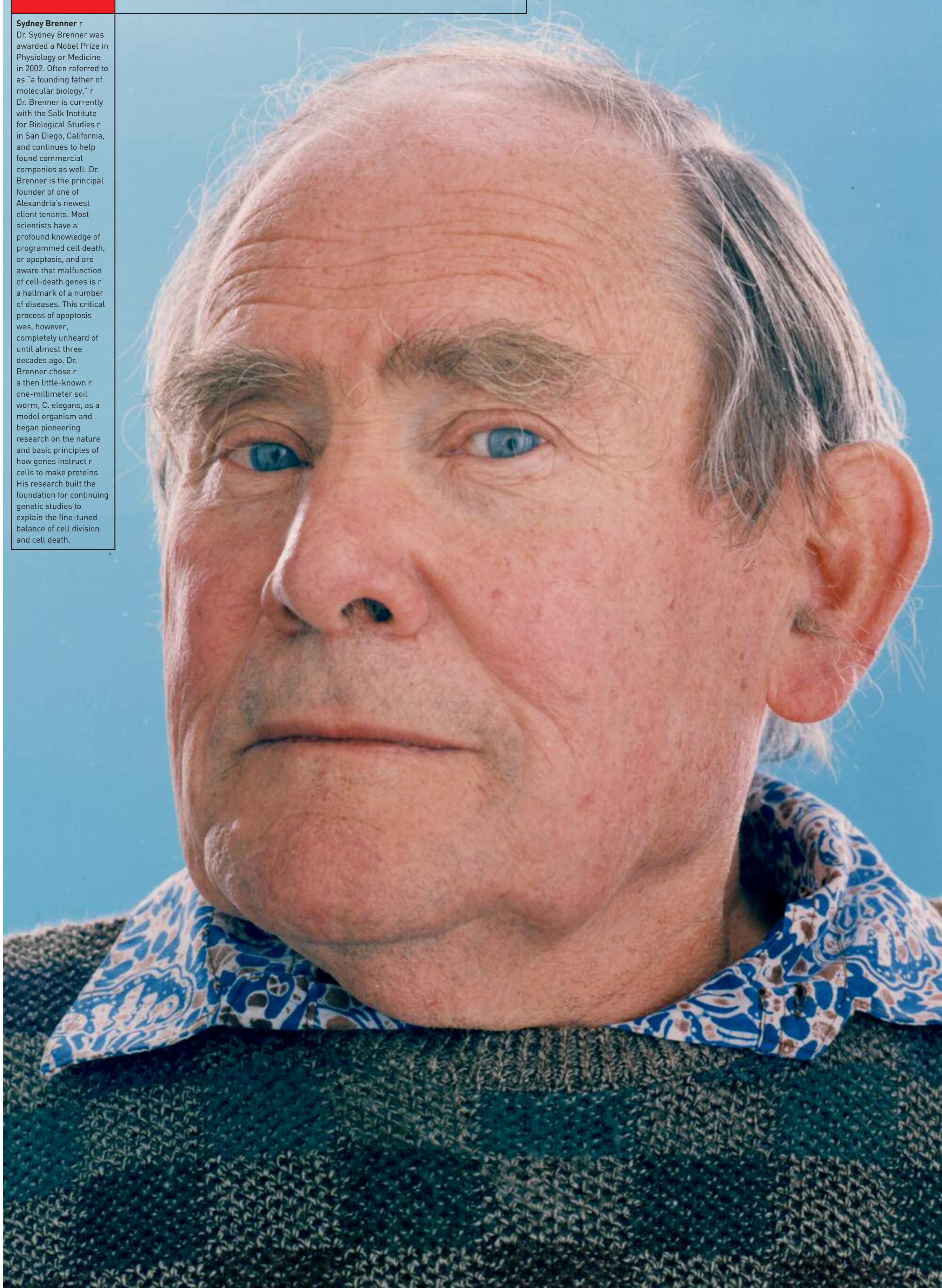
pansion opportunities embedded in our portfolio, approximating 1,246,000 square feet. Our external growth strategies, once again, remained highly selective and focused on our key life science cluster markets as we continued to expand and

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Discoveries

Sydney Brenner

Dr. Sydney Brenner was awarded a Nobel Prize in Physiology or Medicine in 2002. Often referred to as "a founding father of molecular biology," Dr. Brenner is currently with the Salk Institute for Biological Studies in San Diego, California, and continues to help found commercial companies as well. Dr. Brenner is the principal founder of one of Alexandria's newest client tenants. Most scientists have a profound knowledge of programmed cell death, or apoptosis, and are aware that malfunction of cell-death genes is a hallmark of a number of diseases. This critical process of apoptosis was, however, completely unheard of until almost three decades ago. Dr. Brenner chose a then little-known one-millimeter soil worm, *C. elegans*, as a model organism and began pioneering research on the nature and basic principles of how genes instruct cells to make proteins. His research built the foundation for continuing genetic studies to explain the fine-tuned balance of cell division and cell death.





RNA interference (RNAi) r
This revolutionary discovery was heralded as "2002's Breakthrough of the Year" by *Science* magazine. In 2002, to advance breakthrough RNAi technology, Nobel Prize winner Dr. Philip Sharp, and his colleagues

at the Massachusetts Institute of Technology, founded a commercial company focused on RNAi which is a new client tenant of Alexandria. Prominent scientists have recently discovered a new post-transcriptional gene control mechanism. "RNA

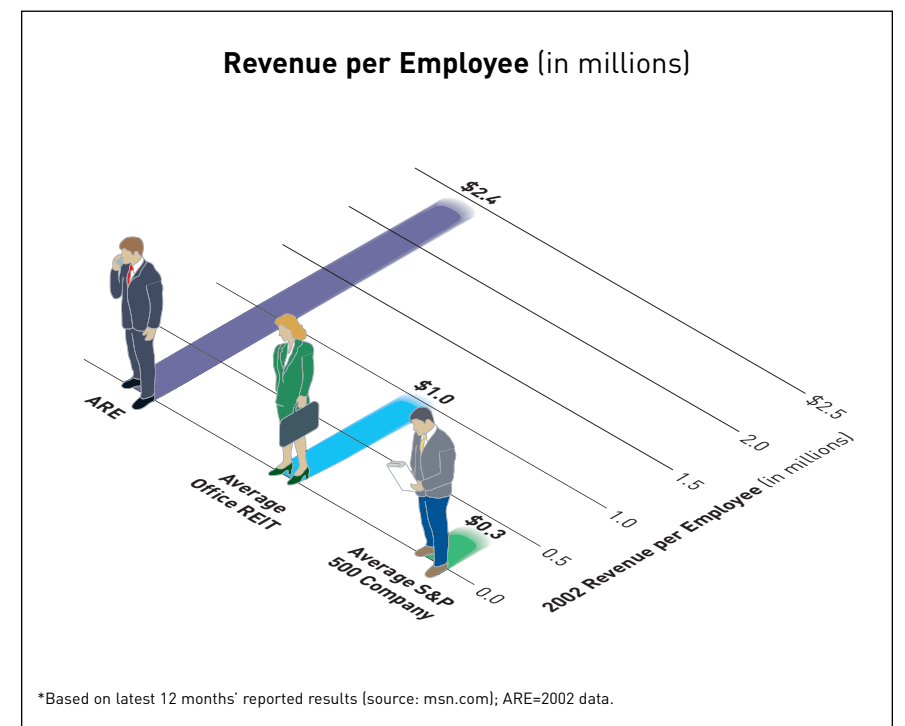
interference," or "RNAi," is a natural process in which some genes make RNAs that specialize in silencing other genes. Scientists are developing elegant and powerful techniques to utilize the RNAi mechanism for drug target discovery and validation. This

important technology may also lead to the development of first-in-class pharmaceutical products made of small interfering RNAs, or "siRNAs," to treat many types of deadly diseases that are not adequately addressed by existing medicines.

strengthen our strategic franchise.

Throughout 2002, Alexandria has experienced solid growth while steadfastly maintaining balance sheet strength and flexibility. Funds From Operations (“FFO”) for 2002 were approximately \$70.2 million on revenues of approximately \$144.7 million. Our debt to total market capitalization at year-end approximated 40%. A conservative dividend payout ratio was maintained during 2002 in order to utilize a substantial portion of our internally generated cash to fund future growth.

We continued to execute our strategy of maintaining a strong, conservative, flexible, simple, and transparent capital structure while identifying accretive opportunities to selectively expand our operating platform through strategic “match funding.” Minimization of dilution to our shareholders has always been a significant priority in our execution of this strategy.



THE FUTURE

Alexandria has demonstrated that, despite difficult economic and business conditions, we can grow our life science industry focused business. We believe we can continue to do so and deliver sustainable growth. We are positioned to successfully execute our unique niche strategy in the future because we benefit from client tenants who work at the leading edge of life science innovation.

The quality of our World Class Lab SpaceSM has earned the faith and trust of our life science industry constituency. So too, the integrity of our business practices has earned the faith and trust of our shareholders, client tenants, employees, and vendors. We are an efficient and cost-conscious business culture managed by a team that possesses highly focused expertise, experience, strength, and depth. Our unparalleled and unique business model and brand give us a clear and sustainable competitive advantage. Our human capital base is important and significant. We are proud of our entire team for their outstanding collective accomplishments this past year.

In closing, we thank our shareholders for choosing to invest in Alexandria, our client tenants for choosing to work with us, and our people for leading our exceptional performance throughout 2002.

JOEL S. MARCUS
Chief Executive Officer

JERRY M. SUDARSKY
Chairman of the Board

Financials

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.

Year Ended December 31, (dollars in thousands, except per share amounts)	2002	2001	2000	1999	1998
Operating Data:					
Total revenue	\$ 144,672	\$ 123,036	\$ 102,226	\$ 81,622	\$ 60,320
Total expenses	104,262	94,408	77,780	61,095	41,138
Income from continuing operations	40,410	28,628	24,446	20,527	19,182
Income from discontinued operations, net	624	1,649	1,563	1,526	221
Income before extraordinary item	41,034	30,277	26,009	22,053	19,403
Extraordinary item - loss on early extinguishment of debt	1,002	-	-	-	-
Net income	40,032	30,277	26,009	22,053	19,403
Dividends on preferred stock	8,579	3,666	3,666	2,036	-
Net income available to common stockholders	\$ 31,453	\$ 26,611	\$ 22,343	\$ 20,017	\$ 19,403
Basic income per common share					
Income from continuing operations	\$ 2.30	\$ 1.79	\$ 1.69	\$ 1.52	\$ 1.59
Income from discontinued operations, net	0.04	0.10	0.11	0.11	0.02
Income before extraordinary item	2.33	1.90	1.80	1.63	1.60
Extraordinary item - loss on early extinguishment of debt	0.06	-	-	-	-
Net income	2.28	1.90	1.80	1.63	1.60
Net income available to common stockholders	\$ 1.79	\$ 1.67	\$ 1.55	\$ 1.48	\$ 1.60
Diluted income per common share					
Income from continuing operations	\$ 2.26	\$ 1.77	\$ 1.66	\$ 1.50	\$ 1.56
Income from discontinued operations, net	0.03	0.10	0.11	0.11	0.02
Income before extraordinary item	2.30	1.87	1.77	1.61	1.58
Extraordinary item - loss on early extinguishment of debt	0.06	-	-	-	-
Net income	2.24	1.87	1.77	1.61	1.58
Net income available to common stockholders	\$ 1.76	\$ 1.64	\$ 1.52	\$ 1.46	\$ 1.58
Weighted average shares of common stock outstanding					
Basic	17,594,228	15,953,459	14,460,711	13,525,840	12,098,959
Diluted	17,859,787	16,208,178	14,699,478	13,670,568	12,306,470
Cash dividends declared per share of common stock	\$ 2.00	\$ 1.84	\$ 1.72	\$ 1.69	\$ 1.60

Balance Sheet Data (at year end):

Rental properties - net of accumulated depreciation	\$ 976,422	\$ 796,626	\$ 679,653	\$ 554,706	\$ 471,907
Total assets	\$ 1,159,243	\$ 962,146	\$ 780,984	\$ 643,118	\$ 530,296
Secured notes payable, unsecured line of credit and term loan	\$ 614,878	\$ 573,161	\$ 431,256	\$ 350,512	\$ 309,829
Total liabilities	\$ 673,390	\$ 629,508	\$ 461,832	\$ 380,535	\$ 330,527
Stockholders' equity	\$ 485,853	\$ 332,638	\$ 319,152	\$ 262,583	\$ 199,769

Other Data:

Income before extraordinary item	\$ 41,034	\$ 30,277	\$ 26,009	\$ 22,053	\$ 19,403
Less:					
Dividends on preferred stock	(8,579)	(3,666)	(3,666)	(2,036)	-
Add:					
Depreciation and amortization ⁽¹⁾	34,071	30,578	24,251	18,532	10,296
Non-cash impairment charges ⁽²⁾	3,695	-	-	-	-
Funds from operations ⁽³⁾	\$ 70,221	\$ 57,189	\$ 46,594	\$ 38,549	\$ 29,699
Cash flows from operating activities	\$ 67,050	\$ 60,340	\$ 32,931	\$ 46,011	\$ 26,111
Cash flows from investing activities	\$ (227,840)	\$ (192,179)	\$ (132,480)	\$ (113,549)	\$ (246,753)
Cash flows from financing activities	\$ 162,204	\$ 131,439	\$ 98,879	\$ 69,430	\$ 220,136
Number of properties owned at year end	89	83	76	59	52
Rentable square feet of properties owned at year end	5,746,664	5,319,587	4,866,497	4,037,245	3,591,130
Occupancy of properties owned at year end	89%	89%	91%	92%	93%
Occupancy of properties owned at year end, excluding properties under redevelopment	96%	99%	98%	96%	96%

(1) Includes depreciation and amortization on assets held for sale reflected as discontinued operations.

(2) Non-cash impairment charges consist of a \$1,150,000 impairment charge related to an asset held for sale in the San Francisco Bay market which could not be redeveloped pursuant to its original strategic objectives and a \$2,545,000 impairment charge on investments.

(3) We compute funds from operations ("FFO") in accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper ("White Paper"). The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from assets, 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. 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 a combination of office and laboratory space leased principally to tenants in the life science industry. We refer to these properties as "life science facilities".

In 2002, we:

- Acquired four properties with an aggregate of approximately 329,000 rentable square feet. In addition, we completed the development of two properties with an aggregate of approximately 98,000 rentable square feet.
- Completed a public offering of 2,300,000 shares of our 9.10% Series B cumulative redeemable preferred stock, resulting in aggregate proceeds of approximately \$55.1 million, net of underwriting discounts and commissions and other offering costs.
- Sold 419,000 and 2,000,000 shares of common stock in two separate transactions, resulting in aggregate proceeds of approximately \$97.5 million, net of underwriting discounts and commissions and other offering costs.
- Expanded our unsecured line of credit from \$325 million to \$425 million and extended the term to July 2005, which may be further extended at our sole option for an additional one-year period.

Our primary source of revenue is rental income and tenant recoveries from leases at the properties we own. Of the 89 properties we owned as of December 31, 2002, four were acquired in 1994, nine in 1996, ten in 1997, 29 in 1998, six in 1999, 12 in 2000, five in 2001 and four in 2002. In addition, we completed the development of one property in 1999, five properties in 2000 (together with the 12 properties acquired in 2000, the "2000 Properties"), two properties in 2001 (together with the five properties acquired in 2001, the "2001 Properties") and two properties in 2002 (together with the four properties acquired in 2002, the "2002 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 2002 as compared to 2001, and for 2001 as compared to 2000.

Critical Accounting Policies

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

REIT Compliance

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

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

Rental Properties and Properties Under Development

Rental properties and properties under development are stated at cost. 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.

Capitalization of Costs

We capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and indirect project costs, including payroll and other costs directly associated with the acquisition, devel-

opment or construction of a project. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Costs previously capitalized related to abandoned acquisition or development opportunities are written off. Should development activity decrease, a portion of interest, property taxes, insurance and certain costs would no longer be eligible for capitalization, and would be expensed as incurred.

We also capitalize leasing costs, including broker fees and certain costs related to our leasing personnel. These costs are amortized on a straight-line basis over the terms of the related leases. Costs previously capitalized related to unsuccessful leasing opportunities are written-off.

Valuation of Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. If a decline in the fair value of an investment below its carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash charge to current earnings. The factors that we consider in our valuation assessments includes, but is not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements.

Interest Rate Swap Agreements

We utilize interest rate swap agreements to hedge a portion of 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 the interest received is reflected as an adjustment to interest expense.

We 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.

All of our interest rate swap agreements meet the criteria to be deemed "effective" under Statement of Financial Accounting Standards No. 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.

Revenue Recognition

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 terms. We maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and deferred rent.

Discontinued Operations

The determination of when a property qualifies as an asset held for sale and should be classified as discontinued operations requires an evaluation of certain criteria, some of which require the use of judgment. A property is classified as held for sale when all of the following criteria for a plan of sale have been met: 1) management, having the authority to approve the action, commits to a plan to sell the property, 2) the property is available for immediate sale in its present condition, subject only to the terms that are usual and customary, 3) an active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated, 4) the sale of the property is probable and is expected to be completed within one year, 5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value and 6) actions necessary to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all criteria have been met, the property is classified as held for sale and its operations are classified as discontinued operations. Amounts from prior periods are reclassified from continuing operations to discontinued operations. A loss is recognized for any initial adjustment of the asset's carrying amount to fair value less costs to sell in the period the asset qualifies as held for sale.

Results of Operations

Comparison of the Year Ended December 31, 2002 to the Year Ended December 31, 2001

Rental revenue increased by \$18.2 million, or 19%, to \$113.4 million for 2002 compared to \$95.2 million for 2001. The increase resulted primarily from the 2001 Properties being owned for a full year and the addition of the 2002 Properties. Rental revenue from properties operating for a full year during 2001 and 2002 (the "2002 Same Properties") increased by \$2.7 million, or 3.7%, due to increases in rental rates and offset by a slight decrease in occupancy. The occupancy level of the 2002 Same Store Properties was 97.6% as of December 31, 2002, compared to 98.2% as of December 31, 2001.

Tenant recoveries increased by \$5.0 million, or 20%, to \$29.7 million for 2002 compared to \$24.6 million for 2001. The increase resulted primarily from the 2001 Properties being owned for a full year and the addition of the 2002 Properties. Tenant recoveries for the 2002 Same Properties increased by \$915,000, or 4.6%, primarily due to increases in certain recoverable operating expenses.

Interest and other income decreased by \$1.6 million, or 49%, to \$1.6 million for 2002 compared to \$3.2 million for 2001, primarily due to a decrease in interest income resulting from a decline in interest rates, the repayment of a \$6 million secured note receivable in March 2002 and a decrease in realized gains on investments.

Rental operating expenses increased by \$4.6 million, or 18%, to \$30.0 million for 2002 compared to \$25.4 million for 2001. The increase resulted primarily from the 2001 Properties being owned for a full year and the addition of the 2002 Properties. Operating expenses for the 2002 Same Properties increased by \$1.2 million, or 6.4%, primarily due to an increase in property insurance and property taxes (substantially all of which are recoverable from our tenants through tenant recoveries).

The following is a comparison of property operating data for the 2002 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):

Year Ended December 31,	2002	2001	Change
GAAP Basis:			
Revenue	\$ 99,553	\$ 95,877	3.8%
Rental operating expenses	20,408	19,174	6.4%
Net operating income	\$ 79,145	\$ 76,703	3.2%
Cash Basis:			
Revenue	\$ 96,667	\$ 91,705	5.4%
Rental operating expenses	20,408	19,174	6.4%
Net operating income	\$ 76,259	\$ 72,531	5.1%

General and administrative expenses increased by \$1.7 million, or 15%, to \$13.4 million for 2002 compared to \$11.7 million for 2001 primarily due to the continued increase in the scope of our operations. From January 1, 2001 to December 31, 2002, we have expanded our scope of operations to include an additional 13 properties containing approximately 880,000 rentable square feet for a total of 89 properties located in nine states was approximately 5.7 million rentable square feet. To assist in managing this increase in the size of our operating portfolio, we have added personnel and offices in certain of the markets where we have properties.

Interest expense decreased by \$2.7 million, or 10%, to \$25.0 million for 2002 compared to \$27.7 million for 2001. The decrease resulted primarily from a reduction 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 3.92% as of December 31, 2001 to 3.07% as of December 31, 2002. We have entered into certain swap agreements to hedge our borrowings at variable interest rates (see "Liquidity and Capital Resources - Unsecured Line of Credit"). The decrease in interest expense caused by this factor was partially offset by an increase in indebtedness incurred to acquire the 2001 and 2002 Properties and indebtedness incurred to finance the development and redevelopment of properties.

Depreciation and amortization increased by \$3.7 million, or 12%, to \$33.3 million for 2002 compared to \$29.6 million for 2001. The increase resulted primarily from depreciation associated with the 2001 Properties being owned for a full year and the addition of the 2002 Properties.

During 2002, we recognized a non-cash impairment charge of \$2.5 million associated with a decline in the value of certain investments below their carrying value determined to be other than temporary.

Income from discontinued operations of \$624,000 for 2002 reflects the results of operations of two properties that have been designated as held for sale. In connection with these prospective sales, we recorded a non-cash impairment charge of \$1,150,000 related to a property in the San Francisco Bay market which cannot be redeveloped pursuant to its original strategic objectives. This charge has been included in discontinued operations for 2002.

Extraordinary loss on early extinguishment of debt of \$1 million for 2002 was incurred as a result of an early retirement of a \$7.2 million secured loan in connection with a refinancing of an asset. This extraordinary loss is related to prepayment penalties and the write-off of loan costs.

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

Rental revenue increased by \$16.7 million, or 21%, to \$95.2 million for 2001 compared to \$78.6 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full year 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 offset by a slight decrease in occupancy. The occupancy level of the 2001 Same Properties was 96.8% as of December 31, 2001, compared to 97.7% as of December 31, 2000.

Tenant recoveries increased by \$4.4 million, or 22%, to \$24.6 million for 2001 compared to \$20.3 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full year and the addition of the 2001 Properties. Tenant recoveries for the 2001 Same Properties increased by \$516,000, or 3.2%, generally due to an increase in certain recoverable operating expenses.

Interest and other income decreased by \$233,000, or 7%, to \$3.2 million for 2001 compared to \$3.4 million for 2000, resulting primarily from a decline in interest rates and a decline in service fee income. Service fee income is earned when we supervise construction projects for third parties.

Rental operating expenses increased by \$4.2 million, or 20%, to \$25.4 million for 2001 compared to \$21.2 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full year 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 computed on a GAAP Basis and on a Cash Basis for the 2001 Same Properties (dollars in thousands):

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. From January 1, 2000 to December 31, 2001, we have expanded our scope of operations to include an additional 24 properties containing approximately 1.3 million rentable square feet for a total of 83 properties located in nine states with approximately 5.3 million rentable square feet. To assist in managing this increase in the size of the operating portfolio, we added personnel and offices in certain of the markets where we have properties.

Interest expense increased by \$3.4 million, or 14%, to \$27.7 million for 2001 compared to \$24.3 million for 2000. The increase resulted primarily from indebtedness we incurred to acquire the 2000 and 2001 Properties and indebtedness incurred to finance the development and redevelopment of properties. 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 effective 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").

Depreciation and amortization increased by \$6.3 million, or 27%, to \$29.6 million for 2001 compared to \$23.3 million for 2000. The increase resulted primarily from depreciation associated with the 2000 Properties being owned for a full year and the addition of the 2001 Properties.

Income from discontinued operations increased by \$86,000, or 6%, to \$1.6 million for 2001 compared to \$1.5 million for 2000. The increase resulted primarily from a decrease in interest expense for one of the properties held for sale.

Liquidity and Capital Resources

Cash Flows

Net cash provided by operating activities for 2002 increased by \$6.7 million to \$67.1 million compared to \$60.3 million for 2001. The increase resulted primarily from increases in cash flows from our portfolio of operating properties, partially offset by a decline in accounts payable, accrued expenses and tenant security deposits.

Net cash used in investing activities increased by \$35.7 million to \$227.8 million for 2002 compared to \$192.2 million for 2001. This increase was primarily due to a higher level of property acquisition costs.

Net cash provided by financing activities increased by \$30.8 million to \$162.2 million for 2002 compared to \$131.4 million for 2001. Cash provided by financing activities for 2002 and 2001 primarily consisted of net proceeds from our unsecured line of credit, unsecured term loan, secured debt and issuances of common and preferred stock and exercise of stock options, partially offset by principal reductions on our secured debt and distributions to stockholders.

Off-Balance Sheet Arrangements

As of December 31, 2002, we have no off-balance sheet arrangements.

Contractual Obligations and Commitments

Contractual obligations as of December 31, 2002, consists of the following (dollars in thousands):

	Total	Payments by Period			
		2003	2004-2005	2006-2007	Thereafter
Secured notes payable ⁽¹⁾	\$ 275,125	\$ 5,597	\$ 32,193	\$ 55,393	\$ 181,942
Ground lease obligations	26,202	790	1,460	1,461	22,491
Other obligations	789	472	317	-	-
Total	\$ 302,116	\$ 6,859	\$ 33,970	\$ 56,854	\$ 204,433

(1) Excludes unamortized premium of two secured notes payable.

Secured notes payable as of December 31, 2002 includes 14 notes secured by 32 properties.

Ground lease obligations as of December 31, 2002 includes leases at five of our properties and one land development parcel. These lease obligations have remaining lease terms of 14 to 53 years, exclusive of extension options.

As of December 31, 2002, we were committed under the terms of construction contracts and certain leases to complete the development of buildings and related improvements at a remaining aggregate cost of \$6.0 million.

As of December 31, 2002, we were also committed to fund approximately \$51.4 million for the construction of building infrastructure improvements and for certain investments.

Tenant Security Deposits and Restricted Cash

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

As of December 31,	2002	2001
Funds held in trust under the terms of certain secured notes payable	\$ 5,692	\$ 5,583
Security deposit funds based on the terms of certain lease agreements	1,967	1,647
Funds held in escrow to complete the development of an office/laboratory facility	361	4,298
	\$ 8,020	\$ 11,528

Secured Debt

Secured debt as of December 31, 2002, consists of the following (dollars in thousands):

Collateral	Balance at December 31, 2002	Stated Interest Rate	Maturity Date
Worcester, MA ⁽¹⁾	\$ 10,286	8.75%	January 2006
Durham, NC (two properties)	12,038	8.68%	December 2006
Gaithersburg, MD (three properties)	9,808	8.25%	August 2007
Cambridge, MA ⁽²⁾	18,777	9.125%	October 2007
Chantilly, VA and Seattle, WA	34,852	7.22%	May 2008
San Diego, CA (four properties)	41,259	6.95%	July 2009
Worcester, MA and San Diego, CA	18,542	8.71%	January 2010
Gaithersburg, MD (two properties)	24,327	8.33%	November 2010
San Diego, CA (six properties)	23,839	7.75%	July 2011
San Diego, CA	11,637	7.50%	August 2011
Gaithersburg, MD (three properties)	28,031	7.40%	January 2012
Alameda, CA	3,520	7.165%	January 2014
Seattle, WA (two properties)	18,109	7.75%	June 2016
San Francisco, CA (two properties)	21,853	LIBOR + 1.70%	⁽³⁾ January 2005
	\$276,878		

(1) The balance shown includes an unamortized premium of \$374,000; the effective rate of the loan is 7.25%.

(2) The balance shown includes an unamortized premium of \$1,379,000; the effective rate of the loan is 7.25%.

(3) The loan may be extended, at our option, for an additional year.

The following is a summary of the scheduled principal payments for our secured debt as of December 31, 2002 (in thousands):

Year	Amount
2003	\$ 5,597
2004	5,304
2005	26,889
2006	24,710
2007	30,683
Thereafter	181,942
Subtotal	275,125
Unamortized premium	1,753
	\$ 276,878

Unsecured Line of Credit

In July 2002, we expanded and extended our unsecured line of credit. Our new line of credit amends our \$325 million unsecured line of credit that was scheduled to mature in February 2003 and has been used to pay off our \$50 million unsecured term loan. The maximum permitted amount of borrowings under the amended line of credit is \$425 million. The amended line of credit has a maturity date of July 2005, which may be extended at our sole option for an additional one-year period. Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months.

Our 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. As of December 31, 2002, borrowings outstanding on the line of credit carried a weighted average interest rate of 3.07%.

Aggregate borrowings under the line of credit may be limited to an amount based on the net operating income derived from a pool of unencumbered properties. As of December 31, 2002, the amount calculated under these provisions exceeded the maximum permitted borrowings of \$425 million.

We utilize interest rate swap agreements to hedge a portion of 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 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	7.00%	January 2, 2003	\$ (23)
January 2001	January 31, 2001	50,000	6.35%	December 31, 2002	-
July 2000	May 31, 2001	50,000	7.07%	May 31, 2003	(1,204)
March 2002	December 31, 2002	50,000	5.36%	December 31, 2004	(3,531)
July 2002	January 1, 2003	25,000	3.86%	June 30, 2005	(1,099)
July 2002	January 1, 2003	25,000	3.87%	June 30, 2005	(1,106)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
November 2002	June 1, 2003	25,000	3.12%	December 31, 2005	(392)
November 2002	June 1, 2003	25,000	3.16%	December 31, 2005	(417)
					\$ (9,038)

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 that we are exposed to more than a nominal amount of credit risk in our interest rate swap agree-

ments as the counterparties are established, well-capitalized financial institutions. In addition, we have entered into master derivative agreements with each counterparty. These master derivative agreements (all of which are on the standard International Swaps & Derivatives Association, Inc. ("ISDA") form) define certain terms between us and each counterparty to address and minimize certain risks associated with our swap agreements, including a default by a counterparty.

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 6.35% 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 6.35% interest rate swap agreement. During 2001, approximately \$475,000 was reclassified from other comprehensive income to interest expense. Approximately \$475,000 was credited against interest expense during 2002. These adjustments resulted in an effective interest pay rate for the 6.35% interest rate swap agreement of 7.30% for 2001 and 5.40% for 2002.

As of December 31, 2002 and 2001, our interest rate swap agreements have been reported in the accompanying balance sheet at their fair value as other liabilities of approximately \$9.0 million and \$7.5 million, respectively. The offsetting adjustments were reflected as deferred losses in accumulated other comprehensive income of \$9.0 million and \$7.0 million, respectively. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made.

Other Resources and Liquidity Requirements

In January 2002, we completed a public offering of 2,300,000 shares of our 9.10% Series B cumulative redeemable preferred stock. The shares were issued at a price of \$25.00 per share, resulting in aggregate proceeds of approximately \$55.1 million, net of offering costs. 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 \$16.1 million, net of offering costs. In July 2002, we sold 2,000,000 shares of our common stock. The shares were issued at a price of \$41.07 per share, resulting in aggregate proceeds of approximately \$81.4 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 legal liability insurance covering exposure to certain environmental losses at all of our properties.

Capital Expenditures, Tenant Improvements and Leasing Costs

The following table shows total and weighted average per square foot property related capital expenditures, tenant improvements and leasing costs (all of which are added to the basis of the properties) related to our life science 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, 2002, 2001, 2000, 1999 and 1998, attributable to leases that commenced at our properties after our acquisition.

	Total/Weighted Average	2002	2001	2000	1999	1998
Capital expenditures:						
Major capital expenditures ⁽¹⁾	\$ 1,584,000	\$ 921,000	\$ 524,000	\$ 139,000	\$ -	\$ -
Recurring capital expenditures	3,674,000	1,510,000 ⁽²⁾	706,000	639,000	478,000	341,000
Weighted average square feet in portfolio	21,794,905	5,499,660	5,131,176	4,448,916	3,823,290	2,891,863
Per weighted average square foot in portfolio						
Major capital expenditures ⁽¹⁾	\$ 0.07	\$ 0.17	\$ 0.10	\$ 0.03	\$ -	\$ -
Recurring expenditures capital	\$ 0.17	\$ 0.27 ⁽²⁾	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.12

Tenant improvements and leasing costs:

		2002	2001	2000	1999	1998
<i>Retenanted space</i> ⁽³⁾						
Tenant improvements and leasing costs	\$ 3,692,000	\$ 498,000	\$ 466,000	\$ 796,000	\$ 1,454,000	\$ 478,000
Retenanted square feet	890,667	318,642	151,161 ⁽³⁾	112,286 ⁽³⁾	220,397	88,181
Per square foot leased of retenanted space	\$ 4.15	\$ 1.56	\$ 3.08	\$ 7.09	\$ 6.60	\$ 5.42
<i>Renewal space</i>						
Tenant improvements and leasing costs	\$ 1,319,000	\$ 526,000	\$ 451,000	\$ 124,000	\$ 149,000	\$ 69,000
Renewal square feet	1,092,417	255,978	432,717	233,017	93,667	77,038
Per square foot leased of renewal space	\$ 1.21	\$ 2.05	\$ 1.04	\$ 0.53	\$ 1.59	\$ 0.90

(1) Major capital expenditures consist of roof replacements and HVAC systems which are typically identified and considered at the time a property is acquired.

(2) Recurring capital expenditures for 2002 includes \$552,000 (\$0.10 per square foot in portfolio) related to a fully leased property in San Diego, California that underwent substantial renovation in 2002.

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

Capital expenditures fluctuate in any given period due to the nature, extent and timing of improvements required and the extent to which they are recoverable from our tenants. Approximately 88% 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 age, location and characteristics, the type of lease (renewal tenant or retenanted space), the involvement of external leasing agents and overall competitive market conditions.

Inflation

As of December 31, 2002, approximately 86% 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 9% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 93% 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.

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. 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 April 2002 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. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from assets, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. While FFO is a relevant and widely used measure of operating performance of REITs, it 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, 2002, 2001 and 2000 (in thousands):

Year Ended December 31,	2002	2001	2000
Income before extraordinary item	\$ 41,034	\$ 30,277	\$ 26,009
Less:			
Dividends on preferred stock	(8,579)	(3,666)	(3,666)
Add:			
Depreciation and amortization	34,071	30,578	24,251
Non-cash impairment charges ⁽¹⁾	3,695	-	-
Funds from operations	\$ 70,221	\$ 57,189	\$ 46,594

(1) Non-cash impairment charges consist of a \$1,150,000 impairment charge related to an asset held for sale in the San Francisco Bay market which could not be redeveloped pursuant to its original strategic objectives and a \$2,545,000 impairment charge on investments.

Property and Lease Information

The following table is a summary of our property portfolio as of December 31, 2002 (dollars in thousands):

	Number of Properties	Rentable Square Feet	Annualized Base Rent	Occupancy Percentage
California - Pasadena	1	31,343	\$ 602	95.7%
California - San Diego	20	818,711	23,555	97.4%
California - San Francisco Bay	11	635,971	19,633	96.6%
Eastern Massachusetts	10	695,394	23,221	⁽¹⁾ 87.1%
New Jersey/Suburban Philadelphia	6	346,919	6,211	100.0%
Southeast	4	220,553	3,520	⁽²⁾ 86.1%
Suburban Washington D.C.	20	1,666,993	27,244	97.9%
Washington - Seattle	5	440,284	16,074	100.0%
Subtotal	77	4,856,168	120,060	95.9%
Redevelopment Properties	12	890,496	11,217	51.9%
Total	89	5,746,664	\$131,277	89.1%

(1) A significant portion of the vacant space in Eastern Massachusetts (76,789 square feet of the 90,025 vacant square feet) is located in Worcester and Randolph, which submarkets have exhibited significant weakness.

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

The following table summarizes certain information with respect to the lease expirations of our properties as of December 31, 2002:

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)
2003	55	591,523	11.6%	\$ 23.30
2004	32	480,440	9.4%	\$ 20.42
2005	17	270,716	5.3%	\$ 27.66
2006	31	765,627	15.0%	\$ 23.86
2007	16	354,436	6.9%	\$ 24.39
Thereafter	49	2,656,240	51.8%	\$ 27.21

The following table is a summary of our lease activity for the year ended December 31, 2002, computed on a GAAP Basis and on a Cash Basis:

	Number of Leases	Square Footage	Expiring Rate	New Rate	Rental Rate Increase	TI's/Lease Commissions Per Foot	Average Lease Term
Lease Activity-Expired Leases							
Lease Expirations							
Cash Basis	70	895,137	\$ 21.24	-	-	-	-
GAAP Basis	70	895,137	\$ 20.31	-	-	-	-
Renewed / Released Space							
Cash Basis	31	574,620	\$ 21.46	\$ 23.01	7.2% ⁽¹⁾	\$ 1.78	3.5 Years
GAAP Basis	31	574,620	\$ 21.02	\$ 23.74	12.9% ⁽¹⁾	\$ 1.78	3.5 Years
Month-to-Month Leases							
Cash Basis	16	64,256	\$ 24.54	\$ 18.86	-23.1% ⁽²⁾	-	-
GAAP Basis	16	64,256	\$ 24.40	\$ 18.86	-21.7% ⁽²⁾	-	-
Total Leasing							
Cash Basis	47	638,876	\$ 21.77	\$ 22.59	3.8% ⁽³⁾	-	-
GAAP Basis	47	638,876	\$ 21.36	\$ 23.25	8.8% ⁽³⁾	-	-
Redeveloped/Developed/Vacant Space Leased							
Cash Basis	26	351,509	-	\$ 33.70	-	\$ 11.43	7.2 Years
GAAP Basis	26	351,509	-	\$ 36.64	-	\$ 11.43	7.2 Years
All Lease Activity							
Cash Basis	73	990,385	-	\$ 26.53	-	-	-
GAAP Basis	73	990,385	-	\$ 28.00	-	-	-

(1) Excluding a lease for 8,424 square feet in the San Francisco Bay market, rental rates for renewed or released space were on average 9.0% higher than expiring rates on a Cash Basis and 14.5% higher than expiring rates on a GAAP basis.

(2) Excluding a month-to-month lease for 13,700 square feet in the San Francisco Bay market for a property targeted for redevelopment in 2003, rental rates for month-to-month leases were on average 2.7% higher than expiring rates on a Cash Basis and 3.7% higher than expiring rates on a GAAP basis.

(3) Excluding the leases in the San Francisco Bay market identified in (1) and (2) above, rental rates for all lease activity for expired leases were on average 8.6% higher than expiring rates on a Cash Basis and 13.7% higher than expiring rates on a GAAP basis.

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 may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

In order to modify and manage the interest rate characteristics of our outstanding debt and to limit the effects of interest rates risks on our operations, we may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts. The use of these types of instruments to hedge 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, our interest rate swap agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our swap agreements in effect on, December 31, 2002, we estimate that a 1% increase in interest rates on our line of credit, after considering the effect of our interest rate swap agreements, would decrease annual future earnings and cash flows by approximately \$1.4 million. We further estimate that a 1% decrease in interest rates on our line of credit, after considering the effect of our interest rate swap agreements in effect December 31, 2002, would increase annual future earnings and cash flows by approximately \$1.4

million. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their aggregate fair value by approximately \$18.4 million. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their aggregate fair value by approximately \$19.3 million.

These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on December 31, 2002. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

We have exposure to market equity price risk because of our equity investments in certain publicly traded companies and privately held entities. We classify investments in publicly traded companies as available-for-sale and, consequently, record them on the balance sheet at fair value with unrealized gains or losses reported as a component of comprehensive income or loss. Investments in privately held entities are generally accounted for under the cost method, as we do not influence any of the investees' operating or financial policies. For all investments, we recognize other than temporary declines in value against earnings in the same period the decline in value was deemed to have occurred. In 2002, we recorded non-cash impairment charges of \$2,545,000 to write down certain investments for which we deemed the decline in fair value to be other than temporary. We have no assurance that future declines in value will not have a material adverse impact on our future results of operations. By way of example, a 10% decrease in the fair value of our equity investments would decrease their fair value by approximately \$4 million.

Controls and Procedures

As of December 31, 2002, we performed an evaluation, under the supervision of our chief executive officer ("CEO") and chief financial officer ("CFO"), of the effectiveness of the design and operation of our controls and procedures. Based on that evaluation, the CEO and CFO concluded that our controls and procedures were effective as of December 31, 2002. There have been no significant changes in these controls or in other factors that could significantly affect these controls subsequent to December 31, 2002.

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, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Los Angeles, California

February 13, 2003

Consolidated Balance Sheets

Alexandria Real Estate Equities, Inc. and subsidiaries

As of December 31, (dollars in thousands, except per share amounts)	2002	2001
Assets		
Rental properties, net	\$ 976,422	\$ 796,626
Properties under development	68,386	65,250
Cash and cash equivalents	3,790	2,376
Tenant security deposits and other restricted cash	8,020	11,528
Tenant receivables	2,641	3,123
Deferred rent	26,063	20,593
Other assets	73,921	62,650
Total assets	\$ 1,159,243	\$ 962,146
Liabilities and Stockholders' Equity		
Secured notes payable	\$ 276,878	\$ 245,161
Unsecured line of credit and unsecured term loan	338,000	328,000
Accounts payable, accrued expenses and tenant security deposits	47,118	48,057
Dividends payable	11,394	8,290
	673,390	629,508
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, 2002 and 2001; \$25.00 liquidation value	38,588	38,588
9.10% Series B cumulative redeemable preferred stock, \$0.01 par value per share, 2,300,000 shares authorized; 2,300,000 shares issued and outstanding at December 31, 2002; \$25.00 liquidation value	57,500	-
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 18,973,957 and 16,354,541 shares issued and outstanding at December 31, 2002 and 2001, respectively	190	163
Additional paid-in capital	399,831	301,818
Deferred compensation	(1,432)	(1,782)
Retained earnings	-	-
Accumulated other comprehensive income	(8,824)	(6,149)
Total stockholders' equity	485,853	332,638
Total liabilities and stockholders' equity	\$ 1,159,243	\$ 962,146

See accompanying notes.

Consolidated Statements of Income

Alexandria Real Estate Equities, Inc. and subsidiaries

Year Ended December 31, (dollars in thousands, except per share amounts)	2002	2001	2000
Revenues			
Rental	\$ 113,387	\$ 95,223	\$ 78,551
Tenant recoveries	29,675	24,648	20,277
Interest and other income	1,610	3,165	3,398
	144,672	123,036	102,226
Expenses			
Rental operations	30,040	25,442	21,210
General and administrative	13,436	11,694	8,986
Interest	24,984	27,666	24,307
Depreciation and amortization	33,257	29,606	23,277
Impairment on investments	2,545	-	-
	104,262	94,408	77,780
Income from continuing operations	40,410	28,628	24,446
Income from discontinued operations, net	624	1,649	1,563
Income before extraordinary item	41,034	30,277	26,009
Extraordinary item - loss on early extinguishment of debt	1,002	-	-
Net income	\$ 40,032	\$ 30,277	\$ 26,009
Dividends on preferred stock	\$ 8,579	\$ 3,666	\$ 3,666
Net income allocated to common stockholders	\$ 31,453	\$ 26,611	\$ 22,343
Basic income per common share:			
Income from continuing operations	\$ 2.30	\$ 1.79	\$ 1.69
Income from discontinued operations	\$ 0.04	\$ 0.10	\$ 0.11
Income before extraordinary item	\$ 2.33	\$ 1.90	\$ 1.80
Extraordinary item - loss on early extinguishment of debt	\$ 0.06	\$ -	\$ -
Net income	\$ 2.28	\$ 1.90	\$ 1.80
Net income available to common stockholders	\$ 1.79	\$ 1.67	\$ 1.55
Diluted income per common share:			
Income from continuing operations	\$ 2.26	\$ 1.77	\$ 1.66
Income from discontinued operations	\$ 0.03	\$ 0.10	\$ 0.11
Income before extraordinary item	\$ 2.30	\$ 1.87	\$ 1.77
Extraordinary item - loss on early extinguishment of debt	\$ 0.06	\$ -	\$ -
Net income	\$ 2.24	\$ 1.87	\$ 1.77
Net income available to common stockholders	\$ 1.76	\$ 1.64	\$ 1.52
Weighted average shares of common stock outstanding:			
Basic	17,594,228	15,953,459	14,460,711
Diluted	17,859,787	16,208,178	14,699,478

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Alexandria Real Estate Equities, Inc. and subsidiaries

(dollars in thousands)	Series A Preferred Stock	Series B 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, 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
Net income	-	-	-	-	-	-	40,032	-	40,032
Reclassification adjustment	-	-	-	-	-	-	-	96	96
Unrealized loss on marketable securities	-	-	-	-	-	-	-	(712)	(712)
Unrealized loss on swap agreements	-	-	-	-	-	-	-	(2,059)	(2,059)
Comprehensive income	-	-	-	-	-	-	-	-	37,357
Issuance of common stock, net of offering costs	-	-	2,418,970	25	97,521	-	-	-	97,546
Issuance of Series B preferred stock, net of offering costs	-	57,500	-	-	(2,371)	-	-	-	55,129
Stock compensation expense	-	-	76,075	1	3,642	(3,643)	-	-	-
Amortization of stock compensation expense	-	-	-	-	-	3,993	-	-	3,993
Exercise of stock options	-	-	124,371	1	3,693	-	-	-	3,694
Dividends declared on preferred stock	-	-	-	-	-	-	(8,625)	-	(8,625)
Dividends declared on common stock	-	-	-	-	(4,472)	-	(31,407)	-	(35,879)
Balance at December 31, 2002	\$ 38,588	\$ 57,500	18,973,957	\$ 190	\$ 399,831	\$ (1,432)	\$ -	\$ (8,824)	\$ 485,853

Consolidated Statements of Cash Flows

Alexandria Real Estate Equities, Inc. and subsidiaries

Year Ended December 31, (in thousands)	2002	2001	2000
Operating Activities			
Net income	\$ 40,032	\$ 30,277	\$ 26,009
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary loss on early extinguishment of debt	1,002	-	-
Non-cash impairment charges	3,695	-	-
Depreciation and amortization	34,071	30,578	24,251
Amortization of loan fees and costs	2,379	1,275	1,021
Amortization of premiums on secured notes	(360)	(343)	(331)
Stock compensation expense	3,651	2,841	1,831
Changes in operating assets and liabilities:			
Tenant security deposits and other restricted cash	3,508	(4,533)	(2,314)
Tenant receivables	482	(288)	597
Deferred rent	(5,470)	(5,648)	(5,931)
Other assets	(12,942)	(11,774)	(11,976)
Accounts payable, accrued expenses and tenant security deposits	(2,998)	17,955	(226)
Net cash provided by operating activities	67,050	60,340	32,931
Investing Activities			
Purchase of rental properties	(103,295)	(55,746)	(48,584)
Additions to rental properties	(61,695)	(69,530)	(40,539)
Additions to properties under development	(48,479)	(57,390)	(29,813)
Additions to investments, net	(14,371)	(9,513)	(13,544)
Net cash used in investing activities	(227,840)	(192,179)	(132,480)
Financing Activities			
Proceeds from secured notes payable	44,663	57,293	38,061
Net proceeds from issuances of common stock	97,546	16,751	52,117
Net proceeds from issuance of preferred stock	55,129	-	-
Exercise of stock options	3,693	5,200	4,115
Net borrowings from unsecured line of credit and unsecured term loan	10,000	97,000	39,000
Principal reductions on secured notes payable	(13,427)	(12,042)	(6,026)
Proceeds from repayment of note receivable	6,000	-	-
Dividends paid on common stock	(33,912)	(29,097)	(24,722)
Dividends paid on preferred stock	(7,488)	(3,666)	(3,666)
Net cash provided by financing activities	162,204	131,439	98,879
Net increase (decrease) in cash and cash equivalents	1,414	(400)	(670)
Cash and cash equivalents at beginning of year	2,376	2,776	3,446
Cash and cash equivalents at end of year	\$ 3,790	\$ 2,376	\$ 2,776
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for interest, net of interest capitalized	\$ 28,130	\$ 29,447	\$ 25,315

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, 2002, our portfolio consisted of 89 properties in nine states with approximately 5,747,000 rentable square feet, compared to 83 properties in nine states with approximately 5,320,000 rentable square feet as of December 31, 2001.

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 inter-company 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.

Reclassifications

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

Accumulated Other Comprehensive Income

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

As of December 31,	2002	2001
Unrealized gain on marketable securities	\$ 213	\$ 829
Unrealized loss on interest rate swap agreements	(9,037)	(6,978)
	\$ (8,824)	\$ (6,149)

The following table provides a reconciliation of comprehensive income (in thousands):

Year Ended December 31,	2002	2001
Net income	\$ 40,032	\$ 30,277
Reclassification adjustment	96	-
Unrealized loss on marketable securities	(712)	(1,008)
Unrealized loss on interest rate swap agreements	(2,059)	(3,517)
Comprehensive income	\$ 37,357	\$ 25,752

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" ("SFAS 115"), and are recorded at fair value and included in other assets in the accompanying balance sheets. Fair value has been determined by the closing trading price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity. The classification of investments under SFAS 115 is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of investments sold is determined by the specific identification method, with realized gains and losses included in interest and other income.

Investments in privately held entities are included in other assets and accounted for under the provisions of Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". As we do not influence any of the investees' operating or financial policies, investments in privately held entities are accounted for under the cost method.

For all of our investments, if a decline in the fair value of an investment below its carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash charge to current earnings.

The factors that we consider in making these assessments includes, but is not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements. As a result of these assessments, during 2002 we recognized aggregate non-cash impairment charges of \$2,545,000 for other than temporary declines in the fair value of investments.

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

As of December 31,	2002	2001
Cost of available-for-sale securities	\$ 3,210	\$ 3,192
Non-cash impairment charges	(1,334)	-
Gross unrealized gains	214	1,527
Gross unrealized losses	-	(698)
Fair value of available-for-sale securities	\$ 2,090	\$ 4,021

Investments in privately held entities as of December 31, 2002 and 2001, totaled \$37,560,000 and \$24,417,000, respectively. These investments are accounted for under the cost method and are included in other assets in the accompanying balance sheets. During 2002, we recognized an impairment charge of \$1,211,000 for other than temporary declines in the fair value of our investments in privately held entities.

In 2002 and 2001, we recognized none and \$1.5 million, respectively, of net realized gains, which is included in interest and other income in the accompanying statements of income.

Rental Properties and Properties Under Development

Rental properties and properties under development are stated at cost. 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.

As of December 31, 2002, we designated two properties as "held for sale" under the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). See Note 12, Discontinued Operations.

Costs related to the acquisition, predevelopment, development, construction and improvement of properties are capitalized. Interest, real estate taxes, insurance and other development related costs including certain direct and indirect costs incurred during the construction period are capitalized.

Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Costs previously capitalized related to abandoned acquisition or development opportunities are written off. The cost of maintenance and repairs is expensed as incurred.

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 terms of the respective leases for tenant improvements.

Tenant Security Deposits and Restricted Cash

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

As of December 31,	2002	2001
Funds held in trust under the terms of certain secured notes payable	\$ 5,692	\$ 5,583
Security deposit funds based on the terms of certain lease agreements	1,967	1,647
Funds held in escrow to complete the development of an office/laboratory facility	361	4,298
	\$ 8,020	\$ 11,528

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 \$8,545,000 and \$6,815,000 as of December 31, 2002 and 2001, 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 terms. 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 \$298,000, \$923,000 and \$1,025,000 in 2002, 2001 and 2000, 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 terms of the related leases. Leasing costs, net of related amortization, totaled \$16,189,000 and \$14,559,000 as of December 31, 2002 and 2001, respectively, and are included in other assets on our balance sheets.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value.

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, 2002 and 2001, the fair value of our secured notes payable was approximately \$292,745,000 and \$290,886,000, 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:

Year Ended December 31, (dollars in thousands, except per share amounts)	2002	2001	2000
Net income available to common stockholders	\$ 31,453	\$ 26,611	\$ 22,343
Weighted average shares of common stock outstanding - basic	17,594,228	15,953,459	14,460,711
Add: dilutive effect of stock options and grants	265,559	254,719	238,767
Weighted average shares of common stock outstanding - diluted	17,859,787	16,208,178	14,699,478
Net income per common share - basic	\$ 1.79	\$ 1.67	\$ 1.55
Net income per common share - diluted	\$ 1.76	\$ 1.64	\$ 1.52
Common dividends declared per share	\$ 2.00	\$ 1.84	\$ 1.72

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, 2002, 2001 and 2000. 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 2002, 2001 and 2000, we declared dividends on our common stock of \$2.00, \$1.84 and \$1.72 per share, respectively. During 2002, 2001 and 2000, we declared dividends on our Series A preferred stock of \$2.375, \$2.375 and \$2.375 per share, respectively. During 2002, we declared dividends on our Series B preferred stock of \$1.662 per share.

Impact of Recently Issued Accounting Standards

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), which addresses alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. Effective January 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), prospectively to all employee awards granted, modified or settled after January 1, 2003. The cost related to stock-based employee compensation included in the determination of net income for 2002 and 2001 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective dates of SFAS 123. See Note 10, Stock Option Plans and Stock Grants.

In April 2002, FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"), which requires any gain or loss on early extinguishment of debt that was classified as an extraordinary item that does not meet certain criteria, be reclassified from extraordinary item to continuing operations. In accordance with SFAS 145, the extraordinary loss on early extinguishment of debt recognized in 2002 will be reclassified to continuing operations in 2003.

In August 2001, FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations" for a disposal of a segment of business. We adopted SFAS 144 on January 1, 2002. See Note 12, Discontinued Operations.

In June 2001, FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. It also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations. SFAS 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. The adoption of SFAS 141 and 142 did not have a material impact on our liquidity, financial position or results of operations.

Note

3

Rental Properties and Properties Under Development

Rental properties consist of the following (in thousands):

As of December 31,	2002	2001
Land	\$ 151,297	\$ 121,005
Building and improvements	829,739	667,435
Tenant and other improvements	108,863	92,276
	1,089,899	880,716
Less accumulated depreciation	(113,477)	(84,090)
	\$ 976,422	\$ 796,626

As of December 31, 2002, 32 of our rental properties are encumbered by deeds of trust and assignments of rents and leases associated with the properties (see Note 5). The net book value of encumbered properties as of December 31, 2002 and 2001 is \$354,895,000 and \$345,200,000, respectively.

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

As of December 31, 2002, approximately 86% 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. Costs related to properties under redevelopment are included in rental properties in the accompanying balance sheet. Total interest capitalized for the years ended December 31, 2002, 2001 and 2000 was \$13,519,000, \$11,371,000 and \$7,710,000, respectively. Total interest incurred for the years ended December 31, 2002, 2001 and 2000 was \$40,294,000, \$40,840,000 and \$33,832,000, respectively.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 2002, are as follows (in thousands):

Year	Amount
2003	\$ 119,723
2004	110,866
2005	103,611
2006	96,343
2007	80,730
Thereafter	350,681
	\$ 861,954

Note

4

Unsecured Line of Credit

In July 2002, we expanded and extended our unsecured line of credit. Our new line of credit amends our \$325 million unsecured line of credit that was scheduled to mature in February 2003 and has been used to pay off our \$50 million unsecured term loan. The maximum permitted amount of borrowings under the amended line of credit is \$425 million. The amended line of credit has a maturity date of July 2005, which may be extended at our sole option for an additional one-year period. Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months.

Our 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. As of December 31, 2002, borrowings outstanding on the line of credit carried a weighted average interest rate of 3.07%.

Aggregate borrowings under the line of credit may be limited to an amount based on the net operating income derived from a pool of unencumbered properties. As of December 31, 2002, the amount calculated under these provisions exceeded the maximum permitted borrowings of \$425 million.

We utilize interest rate swap agreements to hedge a portion of 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 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	7.00%	January 2, 2003	\$ (23)
January 2001	January 31, 2001	50,000	6.35%	December 31, 2002	-
July 2000	May 31, 2001	50,000	7.07%	May 31, 2003	(1,204)
March 2002	December 31, 2002	50,000	5.36%	December 31, 2004	(3,531)
July 2002	January 1, 2003	25,000	3.86%	June 30, 2005	(1,099)
July 2002	January 1, 2003	25,000	3.87%	June 30, 2005	(1,106)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
November 2002	June 1, 2003	25,000	3.12%	December 31, 2005	(392)
November 2002	June 1, 2003	25,000	3.16%	December 31, 2005	(417)
					\$ (9,038)

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.

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 6.35% 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 6.35% interest rate swap agreement. During 2001, approximately \$475,000 was reclassified from other comprehensive income to interest expense. Approximately \$475,000 was credited against interest expense during 2002. These adjustments resulted in an effective interest pay rate for the 6.35% interest rate swap agreement of 7.30% for 2001 and 5.40% for 2002.

As of December 31, 2002 and 2001, our interest rate swap agreements have been reported in the accompanying balance sheet at their fair value as other liabilities of approximately \$9.0 million and \$7.5 million, respectively. The offsetting adjustments were reflected as deferred losses in accumulated other comprehensive income of \$9.0 million and \$7.0 million, respectively. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made.

Note

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Secured Notes Payable

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

As of December 31,	2002	2001
8.75% note, due January 2006, with an effective interest rate of 7.25% (includes unamortized premium of \$374 and \$494 at December 31, 2002 and 2001, respectively), secured by one property in Worcester, MA	\$ 10,286	\$ 10,799
8.68% note, due December 2006, secured by two properties in Durham, NC	12,038	12,182
8.25% note, due August 2007, secured by three properties in Gaithersburg, MD	9,808	9,907
9.125% note, due October 2007, with an effective interest rate of 7.25% (includes unamortized premium of \$1,379 and \$1,619 at December 31, 2002 and 2001, respectively), secured by one property in Cambridge, MA	18,777	19,158
7.22% note, due May 2008, secured by two properties, one in Chantilly, VA and the other in Seattle, WA	34,852	35,264
6.95% note, due July 2009, secured by four properties in San Diego, CA	41,259	-
8.71% note, due January 2010, secured by two properties, one in Worcester, MA and the other in San Diego, CA	18,542	18,676
8.33% note, due November 2010, secured by two properties in Gaithersburg, MD	24,327	24,508
7.75% note, due July 2011, secured by six properties in San Diego, CA	23,839	24,030
7.50% note, due August 2011, secured by one property in San Diego, CA	11,637	11,912
7.40% note, due January 2012, secured by three properties in Gaithersburg, MD	28,031	28,250
7.165% note, due January 2014, secured by one property in Alameda, CA	3,520	4,811
9.00% note, due December 2014, secured by two properties in San Diego, CA	-	7,882
7.75% note, due June 2016, secured by two properties in Seattle, WA	18,109	18,842
Loan at LIBOR plus 1.7%, due January 2005, secured by two properties in San Francisco, CA	21,853	18,940
	\$ 276,878	\$ 245,161

As of December 31, 2002, all of our secured notes payable, except for the 7.165% note and the LIBOR-based loan, require monthly payments of principal and interest. The 7.165% note requires monthly payments of interest and semi-annual payments of principal. The LIBOR-based 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, 2002, are as follows (in thousands):

2003	\$ 5,597
2004	5,304
2005	26,889
2006	24,710
2007	30,683
Thereafter	181,942
Subtotal	275,125
Unamortized premium	1,753
	\$ 276,878

Note

6

Issuances of Common Stock

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 \$16.1 million (after deducting underwriting discounts and other offering costs).

In July 2002, we sold 2,000,000 shares of our common stock. The shares were issued at a price of \$41.07 per share, resulting in aggregate proceeds of approximately \$81.4 million (after deducting underwriting discounts and other offering costs).

Note

7

Non-Cash Transactions

In connection with the acquisition of a property in San Diego, California in 2001, we assumed a secured note payable. The following table summarizes this transaction (in thousands):

	2001
Aggregate purchase price	\$ 20,350
Secured note payable assumed	12,000
Cash paid for the property	\$ 8,350

In 2002 and 2001, we incurred \$3,993,000 and \$2,841,000, respectively, in non-cash stock compensation expense.

Note

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Preferred Stock and Excess Stock

Series A Cumulative Redeemable Preferred Stock

There are 1,543,500 shares of our 9.50% Series A cumulative redeemable preferred stock outstanding. The shares were issued in 1999 at a price of \$25.00 per share. 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.

Series B Cumulative Redeemable Preferred Stock

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.

Preferred Stock and Excess Stock Authorizations

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock, of which 3,843,500 shares were issued and outstanding as of December 31, 2002. In addition, 200,000,000 shares of "excess stock" (as defined) are authorized, none of which were issued and outstanding at December 31, 2002.

Note

9

Commitments and Contingencies

Employee Retirement Savings Plan

We have 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. We have elected to provide discretionary profit sharing contributions (subject to statutory limitations), which amounted to \$428,000, \$353,000 and \$254,000, respectively, for the years ended December 31, 2002, 2001 and 2000. 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, 2002, we held leases with a total of 173 tenants and 51 of our 89 properties were each leased to a single tenant. At December 31, 2002, our three largest tenants accounted for approximately 14.0% 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 held \$15.7 million in irrevocable letters of credit available from certain tenants as security deposits for 47 leases as of December 31, 2002.

Commitments

As of December 31, 2002, we were committed under the terms of construction contracts and certain leases to complete the development of buildings and related improvements at a remaining aggregate cost of \$6.0 million.

As of December 31, 2002, we were also committed to fund approximately \$51.4 million for the construction of building infrastructure improvements and for certain investments.

As of December 31, 2002, we were committed under the terms of ground leases at five of our properties and one land development parcel. The ground leases have remaining lease terms of 14 to 53 years (exclusive of extension options), with aggregate remaining ground lease payments of approximately \$26.2 million.

Note

10

Stock Option Plans and Stock Grants

1997 Stock Plan

In 1997, we adopted a stock option and incentive plan (the "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, 2002, a total of 362,211 shares were reserved for the granting of future options and share awards under the 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 Stock Plan expire at various dates through November 2011.

In addition, the 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. Shares issued generally vest over a one-year period and the sale of the shares is restricted prior to the date of vesting. During 2002, we awarded 76,075 shares of common stock. These shares were recorded at fair value with a corresponding charge to stockholders' equity. The unearned portion is amortized as stock compensation expense on a straight-line basis over the vesting period.

For 2002 and all prior years, 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. Effective January 1, 2003, the Company has adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), prospectively to all employee awards granted, modified or settled after January 1, 2003. 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 SFAS 123. This information has been determined as if we had accounted for our stock options under the fair value method under SFAS 123. The fair value of the options issued under the Stock Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2002, 2001 and 2000:

Year Ended December 31,	2002	2001	2000
Risk-free interest rate	2.69%	4.68%	5.15%
Dividend yield	4.04%	4.49%	4.78%
Volatility factor of the expected market price	22.04%	22.37%	23.20%
Weighted average expected life of the options	4.8 years	5.2 years	4.7 years

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

Year Ended December 31,	2002	2001	2000
Pro forma net income available to common stockholders	\$ 30,279	\$ 25,690	\$ 21,532
Pro forma net income per common share:			
- Basic	\$ 1.72	\$ 1.61	\$ 1.49
- Diluted	\$ 1.70	\$ 1.59	\$ 1.46

A summary of the stock option activity under our Stock Plan and related information for the years ended December 31, 2002, 2001 and 2000 follows:

	2002		2001		2000	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding-beginning of year	849,870	\$ 29.68	901,000	\$ 27.73	785,000	\$ 25.37
Granted	337,000	44.44	193,500	38.27	316,000	33.78
Exercised	(124,371)	29.70	(183,630)	27.58	(145,334)	26.38
Forfeited	(51,333)	33.75	(61,000)	34.48	(54,666)	32.45
Outstanding-end of year	1,011,166	\$ 34.39	849,870	\$ 29.68	901,000	\$ 27.73
Exercisable at end of year	514,169	\$ 26.89	497,040	\$ 25.29	519,001	\$ 23.94
Weighted average fair value of options granted		\$ 6.05		\$ 6.19		\$ 5.51

The following table summarizes information about stock options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Contractual Life	Weighted Average Exercise Price	Weighted Number Exercisable	Weighted Average Exercise Price
\$20.00-\$30.00	327,666	4.61	\$ 21.91	322,666	\$ 21.79
\$30.31-\$39.40	349,500	7.66	\$ 36.46	189,503	\$ 35.44
\$39.41-\$47.69	334,000	9.38	\$ 44.45	2,000	\$ 39.41

Note 11

Quarterly Financial Data (Unaudited)

Following is a summary of consolidated financial information on a quarterly basis for 2002 and 2001:

(In thousands, except per share amounts)	Quarter			
	First	Second	Third	Fourth
2002				
Revenues	\$ 33,672	\$ 34,841	\$ 36,864	\$ 39,295
Net income available to common stockholders	\$ 7,698	\$ 7,995	\$ 8,530	\$ 7,229
Basic income per common share				
Income from continuing operations	\$ 0.56	\$ 0.59	\$ 0.62	\$ 0.53
Income (loss) from discontinued operations, net	0.03	0.02	0.02	(0.03)
Income before extraordinary item	0.59	0.61	0.64	0.50
Extraordinary item - loss on early extinguishment of debt	-	-	0.05	-
Net income	0.59	0.61	0.59	0.50
Net income available to common stockholders	\$ 0.47	\$ 0.48	\$ 0.47	\$ 0.38
Diluted income per common share				
Income from continuing operations	\$ 0.55	\$ 0.57	\$ 0.61	\$ 0.53
Income (loss) from discontinued operations, net	0.02	0.02	0.02	(0.03)
Income before extraordinary item	0.57	0.60	0.63	0.50
Extraordinary item - loss on early extinguishment of debt	-	-	0.05	-
Net income	0.57	0.60	0.58	0.50
Net income available to common stockholders	\$ 0.46	\$ 0.47	\$ 0.46	\$ 0.38

2001				
Revenues	\$ 29,823	\$ 29,224	\$ 31,536	\$ 32,453
Net income available to common stockholders	\$ 6,390	\$ 6,408	\$ 6,535	\$ 7,280
Basic income per common share				
Income from continuing operations	\$ 0.45	\$ 0.43	\$ 0.44	\$ 0.48
Income from discontinued operations, net	0.03	0.03	0.03	0.03
Income before extraordinary item	0.47	0.46	0.46	0.51
Extraordinary item - loss on early extinguishment of debt	-	-	-	-
Net income	0.47	0.46	0.46	0.51
Net income available to common stockholders	\$ 0.41	\$ 0.40	\$ 0.41	\$ 0.45
Diluted income per common share				
Income from continuing operations	\$ 0.44	\$ 0.43	\$ 0.43	\$ 0.47
Income from discontinued operations, net	0.03	0.02	0.03	0.03
Income before extraordinary item	0.47	0.45	0.45	0.50
Extraordinary item - loss on early extinguishment of debt	-	-	-	-
Net income	0.47	0.45	0.45	0.50
Net income available to common stockholders	\$ 0.41	\$ 0.39	\$ 0.40	\$ 0.44

Private Securities Litigation Reform Act of 1995

Alexandria Real Estate Equities, Inc. and subsidiaries

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.

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 a.m., May 2, 2003, The Lodge at Rancho Mirage, Rancho Mirage, 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

Note 12

Discontinued Operations

On January 1, 2002, Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”) became effective. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Under SFAS 144, a property is classified as held for sale when all of the following criteria for a plan of sale have been met: 1) management, having the authority to approve the action, commits to a plan to sell the property, 2) the property is available for immediate sale in its present condition, subject only to the terms that are usual and customary, 3) an active program to locate a buyer, and other actions required to complete the plan to sell have been initiated, 4) the sale of the property is probable and is expected to be completed within one year, 5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value and 6) actions necessary to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all criteria have been met, the property is classified as held for sale and its operations are classified as discontinued operations. Amounts from prior periods are reclassified from continuing operations to discontinued operations. A loss is recognized for any initial adjustment of the asset’s carrying amount to fair value less costs to sell in the period the asset qualifies as held for sale. The accompanying statements have been presented in compliance with SFAS 144.

As of December 31, 2002, we had two properties that have been designated as “held for sale” under the provisions of SFAS 144. The net book value of one of the properties, a parcel of land which cannot be redeveloped pursuant to our original strategic objectives, has been reduced by an impairment charge of \$1,150,000. This charge has been reflected in discontinued operations for 2002. Interest expense included in discontinued operations represents interest related to a secured note payable which is expected to be either assumed by the buyer or repaid at the close of the anticipated sale. The following is a summary of the properties designated as “held for sale” (in thousands):

Year Ended December 31,	2002	2001	2000
Total revenue	\$ 4,806	\$ 4,754	\$ 4,684
Operating expenses	787	673	663
Net operating income	4,019	4,081	4,021
Interest	1,431	1,460	1,484
Depreciation	814	972	974
Income before non-cash impairment charge	1,774	1,649	1,563
Non-cash impairment charge	1,150	-	-
Income from discontinued operations	\$ 624	\$ 1,649	\$ 1,563

Year Ended December 31,	2002	2001
Properties held for sale, net	\$ 43,361	\$ 44,230
Cash and cash equivalents	3	3
Tenant security deposits and other restricted cash	115	120
Tenant receivables	(1)	(83)
Deferred rent	1,081	929
Other assets	97	76
Total assets	\$ 44,656	\$ 45,275
Secured note payable	\$ 18,777	\$ 19,158
Accounts payable, accrued expenses and tenant security deposits	1,112	1,829
Total liabilities	19,889	20,987
Net assets of discontinued operations	\$ 24,767	\$ 24,288

Market for the Registrant’s Common Equity and Related

Stockholder Matters

Alexandria Real Estate Equities, Inc. and subsidiaries

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “ARE”. As of December 31, 2002, there were approximately 231 holders of record of our common stock (excluding beneficial owners whose shares are held in the name of CEDE & Co.). The following table sets forth the quarterly high and low sales prices per share of our common stock as reported on the NYSE and the distributions paid by us with respect to each such period.

Period	High	Low	Per Share Distribution
January 1, 2002 to March 31, 2002	\$ 42.73	\$ 37.66	\$ 0.50
April 1, 2002 to June 30, 2002	\$ 47.85	\$ 42.10	\$ 0.50
July 1, 2002 to September 30, 2002	\$ 47.69	\$ 36.92	\$ 0.50
October 1, 2002 to December 31, 2002	\$ 42.79	\$ 37.56	\$ 0.50

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

everyday