



ARE 216.7%

S&P 500 INDEX 163.6%

NAREIT INDEX 118.9%

PERFORMANCE OF ALEXANDRIA REAL ESTATE EQUITES, INC.
COMPARED TO NAREIT INDEX AND S&P 500 INDEX (TOTAL RETURN
PERFORMANCE FROM IPO ON MAY 28, 1997 TO DECEMBER 31, 2000,
ASSUMING REINVESTMENT OF ALL DIVIDENDS)

TO FELLOW ALEXANDRIA OWNERS: The year 2000 was one of significant achievement for Alexandria, its shareholders, tenant partners and employees. During 2000, as we have consistently since our initial public offering ("IPO") in May 1997, we continued to produce solid and broad-based internal and external growth. This growth resulted from the successful day-to-day execution of our multi-faceted strategies, which capitalize on our unique business model and platform of office/laboratory assets and operations clustered in our key life science hub markets on the West and East coasts. Importantly, the year 2000 was seminal for the life science industry, with the successful sequencing of the human genome.

Alexandria is the first and only publicly traded real estate operating company that fills a unique niche with its principal operating and investment focus on office/laboratory properties. Through our consistently focused efforts on the fundamentals of our business to create cost-effective solutions and provide World Class

Space for World Class ScienceSM, we are privileged to be strategic partners with our broad and diversified life science tenant base. This special relationship, coupled with our highly focused niche, clearly differentiates Alexandria. Each and every employee is dedicated to this collaborative effort. The culmination of our business strategy and the development of our franchise to become The Landlord of Choice to the Life Science IndustrySM are among our most important achievements. Our cross-disciplinary management team has methodically guided Alexandria to attain this position, one that we prize and work hard to maintain.

During 2000, Alexandria's total market capitalization surpassed \$1 billion with a total shareholder return of approximately 22.3%. Alexandria's total shareholder return from our IPO through December 31, 2000 exceeded 216%, outperforming the S&P 500 Index during the same period by approximately 32% and the NAREIT Index by approximately 82%, assuming reinvestment of all dividends. Our performance, when

JERRY M. SUDARSKY
CHAIRMAN OF THE BOARD



JOEL S. MARCUS
CHIEF EXECUTIVE OFFICER



reinvestment of all dividends. Our performance, when benchmarked against these major indices, has been consistently strong during varying business cycles. We have achieved double-digit per share funds from operations growth quarter-to-quarter and year-to-year without compromising our strong and flexible capital base. These are significant milestones in our continual quest to create and increase shareholder value.

OPERATIONAL REVIEW AND FINANCIAL HIGHLIGHTS

In general, Alexandria's life science cluster markets tend to be relatively steady during varying business cycles. Life science research and development spending is generally based on long-term budgets and not on the current state of the economy. We are comfortable with the health of the life science industry and are optimistic about its increasing space requirements.

It is estimated that pharmaceutical research and development expenditures reached approximately \$26.4 billion in 2000, an increase of more than 20%

over the previous year. In addition, the National Institutes of Health received its largest percentage budget increase in history with expenditures reaching approximately \$18 billion. These macroeconomic drivers were important contributing factors to Alexandria's growth during 2000.

We achieved our goals for internal growth as we successfully executed our leasing and re-leasing strategies for the year. Alexandria signed a total of 53 leases for approximately 845,000 square feet of space, averaging double-digit rental rate increases. We also reached total occupancy of approximately 98.4%, excluding our properties under redevelopment. Our full year growth in GAAP net operating income for our static pool of "same properties" approximated 6.4%, and cash net operating income for these properties grew approximately 7.9%. These internal growth metrics represented solid performance in each of our markets.

At year-end, we had 12 properties in our value creation redevelopment pipeline, comprising a total of

redeveloping approximately 405,000 square feet. We also had approximately 371,000 square feet of identified additional redevelopment opportunities embedded in our existing portfolio. This redevelopment effort has grown substantially during 2000 as we have sought to compress the time to market for delivering our office/laboratory space. Importantly, we focused our efforts to effectively control the costs of our operations and continued to maintain strong operating margins that approximated 78.8%.

Our external growth goals were achieved with the completion of approximately \$57.4 million in acquisitions, adding approximately 449,000 square feet to our portfolio. We completed and delivered five development projects during the year in four markets, adding approximately 381,000 square feet to our portfolio. In addition, at year-end, we had a development land bank together with expansion opportunities embedded in our portfolio approximating 617,000 square feet. Our external growth strategies, once again, continue to remain highly focused on our key life science hub

markets as we continued to expand and strengthen our franchise in these leading cluster areas.

We pilot-tested our laboratory services strategic initiative and began rolling out specific test programs in several cluster markets beginning in 2000. We look forward to expanding this highly synergistic program during 2001. We also launched a national branding campaign to properly position and solidify our unique and dominant position within the life science sector as The Landlord of Choice to the Life Science IndustrySM.

During 2000, we continued to maintain a strong, balanced and diverse group of tenant partners representing a broad cross section of the sectors comprising the life science industry. This year, we were pleased to welcome Baxter Healthcare Corporation and Merck & Co., Inc. as significant new additions to the Alexandria family, and were equally pleased to continue to provide Pfizer Inc. with office/laboratory space in San Diego and the San Francisco Bay area following its acquisition of Warner Lambert.

We are very proud to congratulate Dr. Eric Kandel of Memory Pharmaceuticals Corp., an Alexandria tenant partner, and Columbia University on receipt of the 2000 Nobel Prize for Medicine. We are pleased to provide World Class Space for World Class ScienceSM to Dr. Kandel and his colleagues at Memory and their groundbreaking scientific discoveries involving the human brain.

We have experienced solid growth while steadfastly maintaining balance sheet flexibility. Funds from operations for the year 2000 were approximately \$46.6 million on revenues of approximately \$106.9 million. Our debt to total market capitalization at year-end approximated 41%. A conservative dividend payout ratio was maintained during 2000 in order to utilize internally generated cash to help fund our growth.

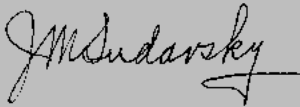
We continued to execute our strategy of maintaining a conservative and flexible capital structure while identifying creative opportunities to selectively expand our capital base. During the year, we raised \$52.1

million in strategic "match funding" stock placements. Minimization of dilution to our shareholders has been a significant priority in our execution of this strategy, as we matched the proceeds from these transactions with strategic and accretive real estate investments.

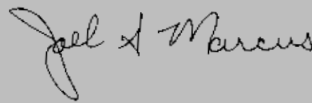
THE 21ST CENTURY

Our unique blend of real estate and life science experience and expertise has enabled us to seek out and execute value creation opportunities and successfully achieve our strategic and financial goals during changing economic climates. As we embark upon the 21st century, we will continue to execute our unique niche strategy and successfully capitalize on life science innovation, which is destined to play a significant role in promoting a better quality of life for mankind.

We look forward to the many new opportunities that lie ahead for Alexandria, along with our fellow shareholders, tenant partners and employees, whom we thank for their constant and continued support.



JERRY M. SUDARSKY
CHAIRMAN OF THE BOARD



JOEL S. MARCUS
CHIEF EXECUTIVE OFFICER



1543

ALEXANDER THE GREAT ESTABLISHED THE CITY OF ALEXANDRIA AS THE CENTER FOR A NEW AGE OF SCIENTIFIC DISCOVERY, BRIDGING GREEK WITH BABYLONIAN AND EGYPTIAN INTELLECTUAL TRADITIONS.

332 B.C.

NICOLAUS COPERNICUS (1473-1543) PROPOSED THE REVOLUTIONARY HELIOCENTRIC THEORY THAT THE SUN IS THE CENTER OF THE COSMOS AND THE EARTH IS ONE OF ITS PLANETS.



1610

ZACHARIAS JANSSEN (1588-C.1631) INVENTED THE FIRST COMPOUND MICROSCOPE, FOREVER CHANGING THE WAY SCIENTIFIC RESEARCH WOULD BE CONDUCTED. BY GIVING SCIENTISTS THE ABILITY TO ANALYZE LIVING TISSUES, THE MICROSCOPE LED TO THE DISCOVERY OF THE CELL.

C. 1595

GALILEO GALILEI (1564-1642) PUBLISHED HIS RESEARCH IN "THE SIDEREAL MESSENGER," WHICH INTRODUCED MATHEMATICAL RATIONALISM INTO EXPLANATIONS OF NATURE, AND PRESENTED THE DISCIPLINE OF PHYSICS.



1865

CHARLES DARWIN (1809-1882) PUBLISHED "THE ORIGIN OF SPECIES," WHICH ELUCIDATED THE LANDMARK THEORY OF EVOLUTION.

1859

LOUIS PASTEUR (1822-1895) SIGNIFICANTLY ADVANCED THE STUDY OF BACTERIOLOGY AND INTRODUCED THE TECHNIQUE OF "PASTEURIZATION," WHICH HELPED ESTABLISH THE GERM THEORY OF DISEASE AND PAVED THE WAY TOWARD DISCOVERIES OF VACCINE THERAPIES.



1865

GREGOR MENDEL (1822-1884) PUBLISHED HIS EXPERIMENTS WITH PEAS, WHICH LED TO THEORIES OF HEREDITY, LAYING THE SCIENTIFIC GROUNDWORK FOR THE FIELD OF GENETICS.



ALBERT EINSTEIN (1879-1955) PUBLISHED TWO LANDMARK PAPERS, ONE ON THE SPECIAL THEORY OF RELATIVITY AND THE OTHER ON THE QUANTUM OF LIGHT AND THE PHOTOELECTRIC EFFECT, FOR WHICH HE WAS AWARDED THE NOBEL PRIZE FOR PHYSICS IN 1921.

1905

1928

ALEXANDER FLEMING (1881-1955) DISCOVERED PENICILLIN, WHICH WAS TO BECOME THE FIRST ANTIBIOTIC FOR HUMAN HEALTHCARE USE. PENICILLIN IS STILL AMONG THE MOST OFTEN PRESCRIBED ANTIBIOTICS TODAY.



JAMES WATSON (1928-) AND FRANCIS CRICK (1916-) PUBLISHED THE HISTORIC PAPER ON THE DISCOVERY OF THE MOLECULAR (DOUBLE-HELIX) STRUCTURE OF DNA, FOR WHICH THEY WERE AWARDED THE NOBEL PRIZE IN PHYSIOLOGY OR MEDICINE IN 1962. DESCRIBED AS "FINDING THE SECRET OF LIFE," THEIR DISCOVERY MARKED THE DAWN OF THE AGE OF MODERN GENETICS.

1953

1973

STANLEY COHEN (1935-) AND HERBERT BOYER (1936-) ESTABLISHED AN INNOVATIVE METHOD TO REENGINEER DNA, PAVING THE WAY FOR THE BIRTH OF THE LIFE SCIENCE INDUSTRY AND THE ADVENT OF GENETIC MEDICINES.



ERIC KANDEL (1929-) WAS AWARDED THE NOBEL PRIZE IN PHYSIOLOGY OR MEDICINE, TOGETHER WITH ARVID CARLSSON AND PAUL GREENGARD, FOR THEIR PIONEERING DISCOVERIES OF HOW BRAIN CELLS COMMUNICATE WITH EACH OTHER. DR. KANDEL'S DISCOVERIES WERE UTILIZED AS THE SCIENTIFIC FOUNDATION OF ONE OF ALEXANDRIA'S LIFE SCIENCE TENANTS, MEMORY PHARMACEUTICALS CORP.

2000

Although the science of genetics began, arguably, with the experiments on beans and peas by the monk Gregor Mendel in 1865, the increase in genetics research and knowledge has been doubling every two years since the mid 1960's. Thus biotechnology, which is the commercialization of modern molecular biology, genetics, and cell biology, has also been progressing at an ever-increasing rate. Using the doubling rule, 93% of what we knew in 2000 we did not know in 1990, and, similarly, 93% of what will be known in 2010 is not known today. We can, though, by the methods of rational prediction and extrapolation, speculate on what these advances might be. Near term, we can expect that the mechanism of several serious diseases will be worked out from genomics, i.e., data from the Human Genome Project.

We will then, for the first time, be able to design new drugs that interact with multiple pathways in a manner that is faster, cheaper, and better than the essentially random discovery methods of the 20th century. ◦ Enhanced by such genomic data, computers, becoming ever more efficient, will be able to model organs and diseases, such that the design of new drugs and cures will be predictable up to late-stage human clinicals, based on preexisting databases and without experimental input. These advances should be possible by 2030. ◦ Finally, knowledge of the genomics of cells is probably going to lead us to a totally new form of treatment, where we can turn off the activity of any diseased cell, rejuvenate it, and switch it back on in young and viable form. This advance—one shot curing any disease—might be expected by 2050.

ALAN G. WALTON, PH.D., D.SC., GENERAL PARTNER, OXFORD BIOSCIENCE PARTNERS,
DIRECTOR, ALEXANDRIA REAL ESTATE EQUITIES, INC.

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While the genetic makeup of all people is virtually identical, individuals have very different physical and biological characteristics. These differences are the result of minuscule genetic variations (0.3% or less) between individuals that can dramatically affect one's predisposition to certain diseases and/or reaction to particular pharmaceutical treatments. To achieve better treatment outcomes, scientists have begun examining the role of these genetic variations in the evolution of diseases so that they can design more efficacious drugs for particular patients and better determine how individual patients may respond to a certain drug. In the future, a physician may be able to predict each patient's reaction to a therapy and prescribe the appropriate medicine and dosage regimen. Medical practice in the new millennium will involve early prevention of disease through diagnosis of an individual's genetic risk profile, which will be made possible through discovery of the molecular pathology of diseases and development of new diagnostic tools by the scientific community.

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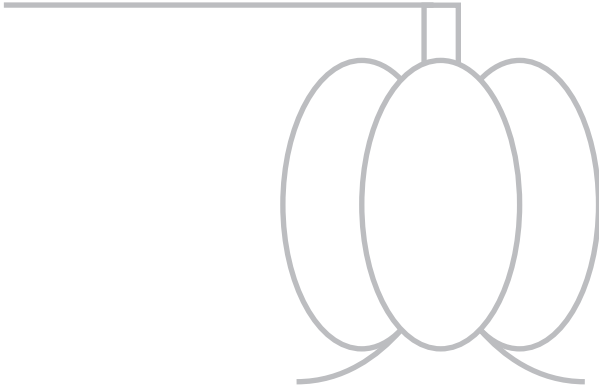
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Our experience and expertise in the science industry have enabled us to identify significant trends in science and technology.

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NANO

TECHNOLOGY

ABOVE THIS ARTISTIC AND IMAGINATIVE RENDITION OF A NANO SCALE COMPUTER DEVICE DEMONSTRATES HOW THIS TECHNOLOGY AND THE PRODUCTS DEVELOPED THEREFROM MAY ONE DAY OPERATE INSIDE THE HUMAN BODY, DETECTING AND TREATING DISEASES AT A VERY EARLY STAGE, PRIOR TO THE OCCURRENCE OF SYMPTOMS.

The convergence of biology, engineering and computer science has created a breakthrough area of science known as nanotechnology. This newly emerging technology involves the process of manipulating matter on a molecular scale. It is now being utilized by academic institutions and pharmaceutical companies as a tool for genetic research and drug discovery. Future development of this exciting technology is expected to transform the way we detect, monitor and treat diseases. Nanotechnology may lead to the development of medically active microscopic machines that will be able to detect and fight disease and effect physiological changes at the cellular level inside the human body. For example, a highly miniaturized computer device inside the body may one day enable diabetics to monitor glucose levels and deliver insulin as needed directly into the bloodstream.

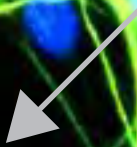
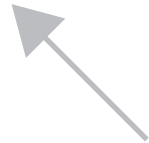
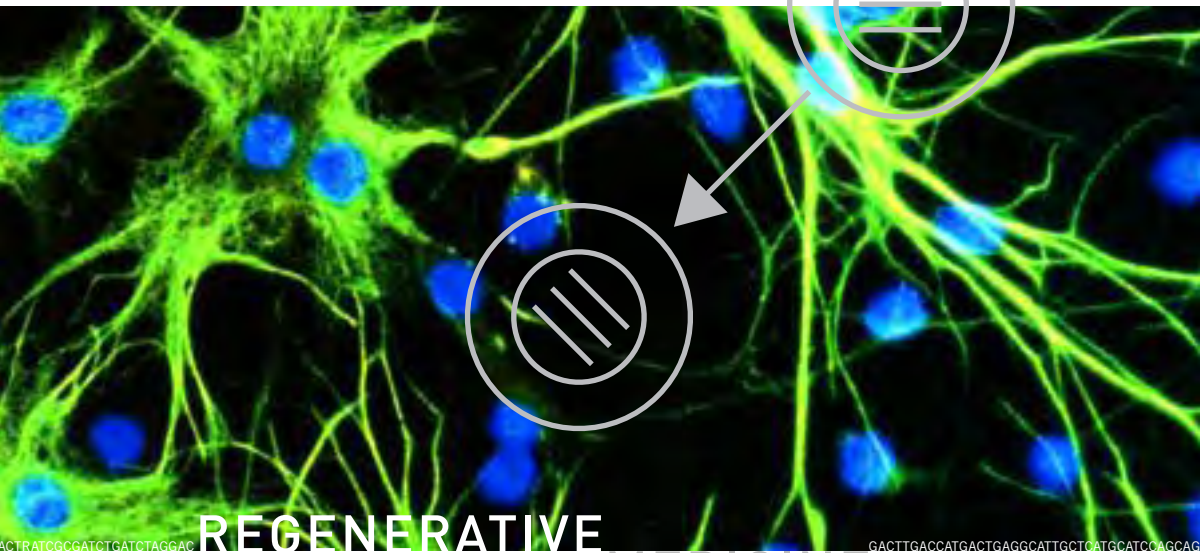


Millions of Americans suffer from severe impairment of critical functions of tissues and organs as a result of diseases, physical trauma, or simply aging. At present, these patients are treated with sub-optimal drugs or substitutes designed to compensate for lost or impaired functions. Some patients may have to wait for the rare opportunity to receive a life-saving organ donation. Today, scientists are involved in promising research in the area of regenerative medicine. While early successes have resulted in skin replacements for severe burns and certain chronic wounds, leading-edge scientific research may one day revolutionize the way we treat patients with organ failures and bring potential cures for such debilitating conditions as stroke, spinal cord injury, diabetes and Parkinson's disease.



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ABOVE MAMMALIAN BRAIN CELLS ARE BEING STUDIED UNDER IMMUNOFLUORESCENT LIGHT. SCIENTISTS IN ACADEMIC INSTITUTIONS AS WELL AS PHARMACEUTICAL COMPANIES ARE EXPLORING THE FUNDAMENTAL BIOLOGY OF CELLS, WITH THE GOAL OF DISCOVERING AND DEVELOPING INNOVATIVE PRODUCTS TO RESTORE OR REPLACE CRITICAL FUNCTIONS OF CELLS IN THE EVENT THAT THEY ARE SEVERELY DAMAGED BY INJURY OR DISEASE.



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REGENERATIVE

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MEDICINE

Alexandria is tenant cen
world-class environmen
nurture and support the

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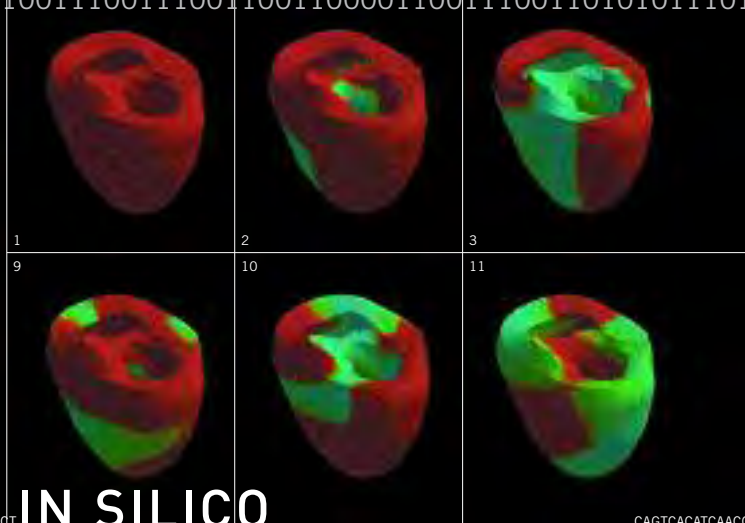
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ts that will attract,
best scientific minds.

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THE FUTURE OF SCIENCE

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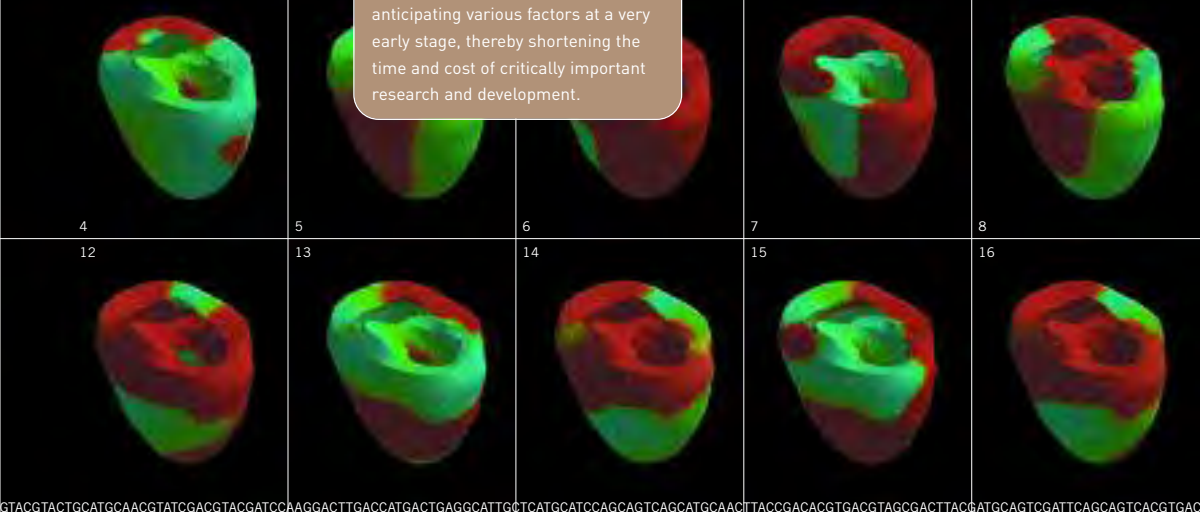
TECHNOLOGY

ABOVE THIS ARTISTIC RENDITION OF A THREE-DIMENSIONAL HEART MODEL HAS BEEN DEVELOPED BASED ON DETAILED MOLECULAR, BIOCHEMICAL, CELLULAR AND ANATOMICAL INFORMATION GENERATED BY DECADES' WORTH OF EXPERIMENTS INVOLVING DIFFERENT CELL TYPES OF HEALTHY AND DISEASED HEARTS. THE COMPUTER MODEL CAN SIMULATE BIOLOGICAL AND PHYSIOLOGICAL RESPONSES TO THERAPEUTIC COMPOUNDS UNDER DEVELOPMENT AND, AMONG OTHER THINGS, ALERT SCIENTISTS TO POTENTIAL SIDE EFFECTS THAT MAY BE CAUSED BY AN EXPERIMENTAL DRUG AT AN EARLY STAGE OF ITS EVOLUTION. REPRINTED WITH PERMISSION FROM PHYSIOME SCIENCES, INC. (WWW.PHYSIOME.COM).

The Human Genome Project has produced a voluminous amount of information, which has overwhelmed current approaches to scientific research. It is imperative that scientists develop new computational tools to simulate genetic networks, protein pathways and biological systems for more efficient and effective drug discovery and development. In the emerging discipline of "in silico" technology, scientists are striving to create a virtual environment that replicates biological processes utilizing computer simulation. With this new and very important technology, scientists can create and develop new pharmaceutical products by anticipating various factors at a very early stage, thereby shortening the time and cost of critically important research and development.

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2000 FINANCIALS

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

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

OPERATING DATA

	2000	1999	1998	1997	1996
Total revenue	\$ 106,910	\$ 86,262	\$ 61,016	\$ 34,846	\$ 17,673
Total expenses	80,901	64,209	41,613	37,643	15,498
Net income (loss)	<u>\$ 26,009</u>	\$ 22,053	\$ 19,403	\$ [2,797]	\$ 2,175
Net income (loss) per share of common stock (pro forma for 1997, pro forma and restated for 1996)					
– Basic	<u>\$ 1.55</u>	\$ 1.48	\$ 1.60	\$ [0.35]	\$ 0.60
– Diluted	<u>\$ 1.52</u>	\$ 1.46	\$ 1.58	\$ [0.35]	\$ 0.60
Weighted average shares of common stock outstanding (pro forma for 1997, pro forma and restated for 1996) ⁽¹⁾					
– Basic	<u>14,460,711</u>	13,525,840	12,098,959	8,075,864	3,642,131
– Diluted	<u>14,699,478</u>	13,670,568	12,306,470	8,075,864	3,642,131
Cash dividends declared per share of common stock (pro forma for 1997, pro- forma and restated for 1996)	<u>\$ 1.72</u>	\$ 1.69	\$ 1.60	\$ 1.60	\$ 0.87

BALANCE SHEET DATA (AT YEAR END)

Rental properties - net of accumulated depreciation	\$ 679,653	\$ 554,706	\$ 471,907	\$ 227,076	\$ 146,960
Total assets	\$ 780,984	\$ 643,118	\$ 530,296	\$ 248,454	\$ 160,480
Secured notes payable and unsecured line of credit	\$ 431,256	\$ 350,512	\$ 309,829	\$ 70,817	\$ 113,182
Total liabilities	\$ 461,832	\$ 380,535	\$ 330,527	\$ 81,537	\$ 120,907
Mandatorily redeemable Series V preferred stock	\$ -	\$ -	\$ -	\$ -	\$ 25,042
Stockholders' equity	\$ 319,152	\$ 262,583	\$ 199,769	\$ 166,917	\$ 14,531

(Dollars in thousands, except per share amounts)

OTHER DATA

	2000	1999	1998	1997	1996
Net income (loss)	\$ 26,009	\$ 22,053	\$ 19,403	\$ (2,797)	\$ 2,175
Less:					
Dividends on preferred stock	(3,666)	(2,036)	-	-	-
Add:					
Depreciation and amortization	24,251	18,532	10,296	4,866	2,405
Funds from operations ⁽²⁾	<u>\$ 46,594</u>	\$ 38,549	\$ 29,699	\$ 2,069	\$ 4,580
Cash flows from operating activities	\$ 32,931	\$ 46,011	\$ 26,111	\$ 3,883	\$ (1,646)
Cash flows from investing activities	\$(132,480)	\$(113,549)	\$(246,753)	\$(87,620)	\$(94,900)
Cash flows from financing activities	\$ 98,879	\$ 69,430	\$ 220,136	\$ 84,101	\$ 97,323
Number of properties owned at year end	75	58	51	22	12
Rentable square feet of properties owned at year end	4,856,650	4,046,126	3,588,154	1,747,837	1,031,070
Occupancy of properties owned at year end	91% ⁽³⁾	92% ⁽³⁾	93% ⁽³⁾	97%	97%

(1) Pro forma shares of common stock outstanding for the years ended December 31, 1997 and 1996 include all shares outstanding after giving effect to the initial public offering (the "Offering"), weighted for the period beginning from the date of the Offering, conversion of all series of preferred stock, the 1,765,923 to 1 stock split, the issuance of the stock grants and exercise of substitute stock options.

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

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

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, conversion, retrofitting, expansion and selective development and redevelopment of high quality, strategically located properties containing office/laboratory space leased principally to tenants in the life science industry (we refer to these properties as "Life Science Facilities").

In 2000, we:

- Sold 1,625,000 shares of common stock in two transactions, resulting in aggregate proceeds of approximately \$52.1 million, net of underwriting discounts and commissions and other offering costs.
- Expanded our unsecured line of credit to provide for borrowings of up to \$325 million.
- Acquired 12 properties with an aggregate of approximately 449,000 rentable square feet. In addition, we completed the development of five properties with approximately 381,000 rentable square feet.

Our primary source of revenue is rental income and tenant recoveries from leases at the properties we own. Of the 75 properties we owned as of December 31, 2000, four were acquired in 1994, eight in 1996, ten in 1997, 29 in 1998 (the "1998 Properties"), six in 1999 and 12 in 2000. In addition, we completed the development of one property in 1999 (together with the six properties acquired in 1999, the "1999 Properties") and five properties in 2000 (together with the 12 properties acquired in 2000, the "2000 Properties"). As a result of these acquisition and development activities, there were significant increases in total revenues and expenses for 2000 as compared to 1999, and for 1999 as compared to 1998.

RESULTS OF OPERATIONS

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

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

Tenant recoveries increased by \$4.6 million, or 28%, to \$20.9 million for 2000 compared to \$16.3 million for 1999. The increase resulted primarily from the 1999 Properties being owned for a full period and the

addition of the 2000 Properties. Tenant recoveries for the 2000 Same Properties increased by \$2.3 million, or 17.1%, primarily due to increases in certain recoverable operating expenses.

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

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

The following is a comparison of property operating data for the 2000 Same Properties computed under generally accepted accounting principles ("GAAP Basis") and under generally accepted accounting principles, adjusted to exclude the effect of straight-line rent adjustments required by GAAP ("Cash Basis") (dollars in thousands):

For the Year Ended December 31

GAAP BASIS

Revenue

Rental operating expenses

Net operating income

CASH BASIS

Revenue

Rental operating expenses

Net operating income

	2000	1999	CHANGE
Revenue	\$ 74,620	\$ 70,210	6.3%
Rental operating expenses	17,070	16,116	5.9%
Net operating income	<u>\$ 57,550</u>	\$ 54,094	6.4%
Revenue	\$ 73,097	\$ 68,065	7.4%
Rental operating expenses	17,070	16,116	5.9%
Net operating income	<u>\$ 56,027</u>	\$ 51,949	7.9%

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

Interest expense increased by \$6.1 million, or 31%, to \$25.8 million for 2000 compared to \$19.7 million for 1999. The increase resulted from (a) indebtedness incurred to acquire the 1999 and 2000 Properties, (b) indebtedness incurred to finance development properties which have been completed and (c) an increase in the floating interest rate on our line of credit. The weighted average effective interest rate on our borrowings (not including the effect of swap agreements) increased from 7.33% as of December 31, 1999 to 8.32% as of December 31, 2000. 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 \$5.8 million, or 31%, to \$24.3 million for 2000 compared to \$18.5 million for 1999. The increase resulted primarily from depreciation associated with the 1999 Properties being owned for a full period and the addition of the 2000 Properties.

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

Comparison of the Year Ended December 31, 1999 to the Year Ended December 31, 1998

Rental revenue increased by \$19.9 million, or 41%, to \$68.4 million for 1999 compared to \$48.5 million for 1998. The increase resulted primarily from the 1998 Properties being owned for a full period and the addition of the 1999 Properties. Rental revenue from properties operating for a full year during 1998 and 1999 (the "1999 Same Properties") increased by \$1.1 million, or 3.8%, due to increases in rental rates and occupancy.

Tenant recoveries increased by \$5.0 million, or 44%, to \$16.3 million for 1999 compared to \$11.3 million for 1998. The increase resulted primarily from the 1998 Properties being owned for a full period and the addition of the 1999 Properties. Tenant recoveries for the 1999 Same Properties increased by \$838,000, or 11.7%, generally due to an increase in recoverable operating expenses.

Interest and other income increased by \$298,000, or 24%, to \$1.5 million for 1999 compared to \$1.2 million for 1998. The increase resulted from an increase in storage and parking income at certain of our properties and from the increase in interest income from our secured note receivable, which was funded in March 1998.

Rental operating expenses increased by \$5.6 million, or 42%, to \$19.0 million for 1999 compared to \$13.4 million for 1998. The increase resulted primarily from the 1998 Properties being owned for a full period and the addition of the 1999 Properties. Operating expenses for the 1999 Same Properties increased by \$711,000, or 9.2%, primarily due to the increase in property taxes. The increase in property taxes, substantially all of which was recoverable from the tenants at the respective properties, was partially offset by lower premiums on our blanket property and liability insurance policies for all of our properties.

The following is a comparison of property operating data computed on a GAAP Basis and on a Cash Basis for the 1999 Same Properties (dollars in thousands):

For the Year Ended December 31

GAAP BASIS

Revenue

Rental operating expenses

Net operating income

CASH BASIS⁽¹⁾

Revenue

Rental operating expenses

Net operating income

	1999	1998	CHANGE
	\$ 37,109	\$ 35,244	5.3%
	8,435	7,724	9.2%
	<u>\$ 28,674</u>	\$ 27,520	4.2%
	\$ 34,427	\$ 31,839	8.1%
	7,902	7,176	10.1%
	<u>\$ 26,525</u>	\$ 24,663	7.5%

(1) The Cash Basis presentation excludes the results for 1431 Harbor Bay Parkway, Alameda, California. The lease for this property (which was in place when we acquired the property in 1996) contains significant step-down provisions that affected the cash rent paid by the tenant beginning in January 1999. As a result, cash rent paid was reduced from \$2,948,000 for 1998 to \$2,128,000 for 1999. The lease, which expires in January 2014, requires another step-down in rent beginning in January 2004 to \$750,000 per year. If this property was included in the Cash Basis presentation for 1999, revenue would have increased 5.0%, rental operating expenses would have increased 9.2% and net operating income would have increased 3.8%. On a GAAP Basis, rental income from this property throughout 1998 and 1999 was \$1,414,000.

General and administrative expenses increased by \$3.1 million, or 79%, to \$7.0 million for 1999 compared to \$3.9 million for 1998 due to the continued expansion in the scope of our operations.

Interest expense increased by \$5.7 million, or 40%, to \$19.7 million for 1999 compared to \$14.0 million for 1998. The increase resulted primarily from the indebtedness we incurred to acquire the 1998 Properties and the 1999 Properties.

Depreciation and amortization increased by \$8.2 million, or 80%, to \$18.5 million for 1999 compared to \$10.3 million for 1998. The increase resulted primarily from depreciation associated with the 1998 Properties being owned for a full period and the addition of the 1999 Properties.

As a result of the foregoing, net income was \$22.1 million for 1999 compared to \$19.4 million for 1998.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities for 2000 decreased by \$13.1 million to \$32.9 million compared to \$46.0 million for 1999. The decrease resulted primarily from increases in deferred rent associated with new leases and increases in other assets resulting from leasing costs incurred during the year and loan costs incurred in connection with the renewal of our unsecured line of credit in February 2000.

Net cash used in investing activities increased by \$19.0 million to \$132.5 million for 2000 compared to \$113.5 million for 1999. The increase was primarily due to a higher level of property redevelopment costs incurred and increased investment activity.

Net cash provided by financing activities increased by \$29.5 million to \$98.9 million for 2000 compared to \$69.4 million for 1999. Cash provided by financing activities for 2000 primarily consisted of net proceeds from our unsecured line of credit, secured debt and issuances of common stock and exercise of stock options, partially offset by principal reductions on our secured debt and distributions to stockholders. Cash provided by financing activities for 1999 primarily consisted of net proceeds from the issuance/repurchase of our common stock, issuance of preferred stock and borrowings of secured debt, partially offset by principal reductions on our secured debt, principal reductions on our unsecured line of credit and distributions to stockholders.

Commitments

As of December 31, 2000, we were committed under the terms of certain leases to complete the construction of buildings and certain related improvements at a remaining aggregate cost of \$21.4 million.

As of December 31, 2000, we were also committed to fund approximately \$38.5 million for the construction of building infrastructure improvements under the terms of various leases and for certain investments.

Restricted Cash

Restricted cash consists of the following (in thousands):

	2000	1999
Funds held in trust as additional security required under the terms of our secured notes payable	\$5,103	2,982
Security deposit funds based on the terms of certain lease agreements	1,892	1,699
	<u>\$6,995</u>	<u>4,681</u>

Secured Debt

Secured debt as of December 31, 2000 consists of the following (dollars in thousands):

COLLATERAL	BALANCE AT DECEMBER 31 2000	STATED INTEREST RATE	MATURITY DATE
One Innovation Drive, Worcester, MA ⁽¹⁾	\$ 11,276	8.75%	January 2006
100/800/801 Capitola Drive, Durham, NC	12,314	8.68%	December 2006
20/22 Firstfield Road, Gaithersburg, MD and 1300 Quince Orchard Road, Gaithersburg, MD	9,998	8.25%	August 2007
620 Memorial Drive, Cambridge, MA ⁽²⁾	19,513	9.125%	October 2007
14225 Newbrook Drive, Chantilly, VA and 3000/3018 Western Avenue, Seattle, WA	35,646	7.22%	May 2008
377 Plantation Street, Worcester, MA and 6166 Nancy Ridge Road, San Diego, CA	18,798	8.71%	December 2009
25/35/45 W. Watkins Mill Road, Gaithersburg, MD and 708 Quince Orchard Road, Gaithersburg, MD	24,675	8.33%	November 2010
1431 Harbor Bay Parkway, Alameda, CA	6,018	7.165%	January 2014
3535/3565 General Atomics Court, San Diego, CA	16,499	9.00%	December 2014
1102/1124 Columbia Street, Seattle, WA	19,520	7.75%	May 2016
1201 Clopper Road, Gaithersburg, MD ⁽³⁾	18,981	LIBOR + 1.75%	January 2002
341/343 Oyster Point Boulevard (development project), San Francisco, CA ⁽⁴⁾	7,018	LIBOR + 1.70%	June 2003
	<u>\$200,256</u>		

(1) The balance shown includes an unamortized premium of \$611,000; the effective rate of the loan is 7.25%.

(2) The balance shown includes an unamortized premium of \$1,845,000; the effective rate of the loan is 7.25%.

(3) The balance shown represents the amount drawn on a construction loan that provides for borrowings of up to \$19,000,000.

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

The following is a summary of the scheduled principal payments for our secured debt as of December 31, 2000 (in thousands):

YEAR	AMOUNT
2001	\$ 3,885
2002	23,183
2003	11,563
2004	4,199
2005	12,361
Thereafter	142,609
Subtotal	197,800
Unamortized premium	2,456
	<u>\$200,256</u>

Unsecured Line of Credit

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

The line of credit contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. Borrowings under the line of credit are limited to an amount based on a pool of unencumbered assets. Accordingly, as we acquire or complete the development of additional unencumbered properties, borrowings available under the line of credit will increase up to the maximum of \$325 million. As of December 31, 2000, borrowings under the line of credit were limited to approximately \$303 million and carried a weighted average interest rate of 8.32%.

The line of credit expires February 2003 and provides for annual extensions (provided there is no default) for two additional one-year periods upon notice by the company and consent of the participating banks.

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

The following table summarizes our interest rate swap agreements.

TRANSACTION DATE	EFFECTIVE DATE	TERMINATION DATE	NOTIONAL AMOUNT	INTEREST PAY RATE
October 1999	December 8, 1999	May 31, 2001	\$50,000,000	6.500%
January 2000 ⁽¹⁾	January 31, 2000	December 31, 2001	\$50,000,000	7.250% ⁽²⁾
April 2000	May 20, 2000	January 2, 2003	\$50,000,000	6.995%
July 2000	May 31, 2001	May 31, 2003	\$50,000,000	7.070%
January 2001	January 31, 2001	December 31, 2002	\$50,000,000	6.350%

(1) This interest rate swap agreement was terminated and replaced with another interest rate swap agreement in January 2001.

(2) The interest pay rate from December 30, 2000 through December 31, 2001 is 7.25%. The interest pay rate prior to December 30, 2000 was 6.5% from February 1, 2000 to March 31, 2000, 6.75% from April 1, 2000 to July 31, 2000 and 7.00% from August 1, 2000 to December 29, 2000.

With respect to our swap agreements, we are exposed to losses in the event the financial institution is unable to perform under the agreements, or in the event one month LIBOR is less than the agreed-upon fixed interest rates. The fair value of the swap agreements outstanding as of December 31, 2000 and changes in their fair value as a result of changes in market interest rates are not recognized in the financial statements.

Other Resources and Liquidity Requirements

In April 2000, we sold 500,000 shares of common stock to an institutional investor. The shares were issued at a price of \$29.39 per share, resulting in aggregate proceeds of approximately \$14.2 million, net of offering costs.

In October 2000, we completed a public offering of 1,125,000 shares of common stock. The shares were issued at a price of \$33.8731 per share, resulting in aggregate proceeds of approximately \$37.9 million, net of underwriting discounts and commissions and other 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 make distributions necessary to enable us 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.

Capital Expenditures, Tenant Improvements and Leasing Costs

The following table shows total and weighted average per square foot capital expenditures, tenant improvements and leasing costs 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, 2000, 1999, 1998, 1997 and 1996, attributable to leases that commenced at our properties after our acquisition.

	Total/ Weighted Average	2000	1999	1998	1997	1996
CAPITAL EXPENDITURES						
Weighted average square feet in portfolio	13,070,186	4,448,916	3,823,290	2,891,863	1,342,216	563,901
Property related capital expenditures	\$2,325,000	\$ 778,000	\$ 478,000	\$ 341,000	\$ 547,000	\$ 181,000
Per weighted average square foot in portfolio	\$ 0.18	\$ 0.17	\$ 0.13	\$ 0.12	\$ 0.41	\$ 0.32
TENANT IMPROVEMENTS AND LEASING COSTS						
Retenanted space ⁽¹⁾						
Retenanted square feet	642,215	112,286	220,397	88,181	40,953	180,398
Tenant improvements and leasing costs	\$ 4,112,000	\$ 796,000	\$ 1,454,000	\$ 478,000	\$ 164,000	\$ 1,220,000
Per square foot leased	\$ 6.40	\$ 7.09	\$ 6.60	\$ 5.42	\$ 4.00	\$ 6.76
Renewal space						
Renewal square feet	430,017	233,017	93,667	77,038	1,232	25,063
Tenant improvements and leasing costs	\$ 342,000	\$ 124,000	\$ 149,000	\$ 69,000	\$ -	\$ -
Per square foot leased	\$ 0.80	\$ 0.53	\$ 1.59	\$ 0.90	\$ -	\$ -

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

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 84% of our leases provide for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing). In addition, we maintain an active preventative maintenance program at each of our properties to minimize capital expenditures required.

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

INFLATION

As of December 31, 2000, approximately 83% 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 12% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 92% of our leases (on a square footage basis) contain effective annual rent escalations that are either fixed (generally ranging from 3% to 4%) or indexed based on the consumer price index or another index. Accordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk of inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including our unsecured line of credit.

FUNDS FROM OPERATIONS

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

The following table presents our FFO for the years ended December 31, 2000, 1999 and 1998 (in thousands):

Year Ended December 31

	2000	1999	1998
Net income	\$26,009	\$22,053	\$19,403
Less:			
Dividends on preferred stock	(3,666)	(2,036)	–
Add:			
Depreciation and amortization	24,251	18,532	10,296
Funds from operations	<u>\$46,594</u>	\$38,549	\$29,699

PROPERTY AND LEASE INFORMATION

The following table is a summary of our property portfolio as of December 31, 2000 (dollars in thousands):

	NUMBER OF PROPERTIES	RENTABLE SQUARE FEET	ANNUALIZED BASE RENT	OCCUPANCY PERCENTAGE
Suburban Washington D.C.	19	1,685,204	\$26,571	97.9% ⁽¹⁾
California – San Diego	19	836,264	21,902	100.0%
California – San Francisco Bay	6	399,424	9,115	99.8% ⁽¹⁾
Southeast	5	340,469	5,241	90.3% ⁽¹⁾
New Jersey/Suburban Philadelphia	5	268,418	4,295	100.0%
Eastern Massachusetts	6	384,974	10,561	100.0%
Washington – Seattle	3	327,754	9,353	100.0%
Subtotal	63	4,242,507	87,038	98.4%
Redevelopment Properties	12	614,143	6,158	39.0%
Total	<u>75</u>	<u>4,856,650</u>	<u>\$93,196</u>	<u>90.8%</u>

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

The following table shows certain information with respect to the lease expirations of our properties as of December 31, 2000:

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)
2001	48	651,925	14.8%	\$ 19.86
2002	26	436,759	9.9%	\$ 18.72
2003	22	462,864	10.5%	\$ 19.39
2004	19	378,109	8.6%	\$ 19.32
2005	15	308,470	7.0%	\$ 25.70
Thereafter	43	2,174,133	49.2%	\$ 22.02

The following table is a summary of our lease activity for the year ended December 31, 2000 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 Rent	63	616,313	\$21.57	-	-	-	-
GAAP Rent	63	616,313	\$21.29	-	-	-	-
Renewed/ Released Space							
Cash Rent	40	499,180	\$22.21	\$ 24.44	10.0%	\$11.02	4.5 Years
GAAP Rent	40	499,180	\$21.92	\$ 25.40	15.9%	\$11.02	4.5 Years
Month-to-Month Leases							
Cash Rent	11	63,100	\$12.11	\$ 12.41	2.5%	-	-
GAAP Rent	11	63,100	\$11.71	\$ 12.41	6.0%	-	-
Total Leasing							
Cash Rent	51	562,280	\$21.07	\$ 23.09	9.6%	-	-
GAAP Rent	51	562,280	\$20.77	\$ 23.91	15.3%	-	-
Vacant Space Leased							
Cash Rent	13	345,660	-	\$ 22.88	-	\$15.10	7.6 Years
GAAP Rent	13	345,660	-	\$ 24.75	-	\$15.10	7.6 Years
All Lease Activity							
Cash Rent	64	907,940	-	\$ 23.01	-	-	-
GAAP Rent	64	907,940	-	\$ 24.25	-	-	-

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, due to the purchase of our interest rate swap agreements, the current effects of interest rate changes are reduced. Based on interest rates at, and our swap agreements in effect on, December 31, 2000, a 1% increase in interest rates on our line of credit would decrease annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$810,000. A 1% decrease in interest rates on our line of credit would increase annual future earnings and cash flows, after considering the effect of our interest rate swap agreements, by approximately \$810,000. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their fair value by approximately \$9.9 million. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their fair value by approximately \$11.7 million. A 1% increase or decrease in interest rates on our secured note receivable would not have a material impact on its fair value.

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

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

Assets

	2000	1999
Rental properties, net	\$679,653	\$554,706
Property under development	26,092	44,121
Cash and cash equivalents	2,776	3,446
Tenant security deposits and other restricted cash	6,995	4,681
Secured note receivable	6,000	6,000
Tenant receivables	2,835	3,432
Deferred rent	14,945	9,014
Other assets	41,688	17,718
Total assets	<u>\$780,984</u>	643,118

Liabilities and Stockholders' Equity

Secured notes payable (includes unamortized premium of \$2,456 and \$2,787 at December 31, 2000 and 1999, respectively)	\$200,256	\$158,512
Unsecured line of credit	231,000	192,000
Accounts payable, accrued expenses and tenant security deposits	23,123	23,349
Dividends payable	7,453	6,674
	<u>461,832</u>	380,535

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, 2000 and 1999; \$25.00 liquidation value	38,588	38,588
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 15,548,356 and 13,745,622 shares issued and outstanding at December 31, 2000 and 1999, respectively	155	137
Additional paid-in capital	278,868	225,180
Deferred compensation	(296)	(1,494)
Retained earnings	-	-
Accumulated other comprehensive income	1,837	172
Total stockholders' equity	<u>319,152</u>	262,583
Total liabilities and stockholders' equity	<u>\$780,984</u>	\$643,118

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES

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

	2000	1999	1998
Revenues			
Rental	\$ 82,499	\$68,425	\$48,469
Tenant recoveries	20,905	16,305	11,313
Interest and other income	<u>3,506</u>	1,532	1,234
	106,910	86,262	61,016
Expenses			
Rental operations	21,873	19,003	13,390
General and administrative	8,986	6,977	3,894
Interest	25,791	19,697	14,033
Depreciation and amortization	<u>24,251</u>	18,532	10,296
	80,901	64,209	41,613
Net income	<u>\$ 26,009</u>	\$22,053	\$19,403
Dividends on preferred stock	<u>\$ 3,666</u>	\$ 2,036	\$ -
Net income allocated to common stockholders	<u>\$ 22,343</u>	\$20,017	\$19,403
Net income per share of common stock			
– Basic	<u>\$ 1.55</u>	\$ 1.48	\$ 1.60
– Diluted	<u>\$ 1.52</u>	\$ 1.46	\$ 1.58
Weighted average shares of common stock outstanding			
– Basic	<u>14,460,711</u>	13,525,840	12,098,959
– Diluted	<u>14,699,478</u>	13,670,568	12,306,470

See accompanying notes.

For the Year Ended December 31
(In thousands)

	2000	1999	1998
Operating activities			
Net income	\$ 26,009	\$ 22,053	\$ 19,403
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,251	18,532	10,296
Amortization of loan fees and costs	1,021	748	451
Amortization of premiums on secured notes	(331)	(310)	(32)
Stock compensation expense	1,831	1,658	-
Changes in operating assets and liabilities:			
Tenant security deposits and other restricted cash	(2,314)	2,810	(692)
Tenant receivables	597	(548)	(1,752)
Deferred rent	(5,931)	(3,419)	(3,097)
Other assets	(11,976)	(3,199)	(7,971)
Accounts payable, accrued expenses and tenant security deposits	(226)	7,686	9,505
Net cash provided by operating activities	32,931	46,011	26,111
Investing activities			
Purchase of rental properties	(48,584)	(63,896)	(200,590)
Additions to rental properties	(40,539)	(16,807)	(21,218)
Additions to property under development	(29,813)	(29,130)	(18,945)
Additions to investments, net	(13,544)	(3,716)	-
Issuance of note receivable	-	-	(6,000)
Net cash used in investing activities	(132,480)	(113,549)	(246,753)

For the Year Ended December 31
(In thousands)

Financing activities

	2000	1999	1998
Proceeds from secured notes payable	38,061	34,163	36,500
Net proceeds from issuances of common stock	52,117	29,829	32,713
Net proceeds from issuance of preferred stock	-	36,876	-
Exercise of stock options	4,115	874	386
Net borrowings from (principal reductions to) unsecured line of credit	39,000	(2,000)	171,000
Principal reductions on secured notes payable	(6,026)	(3,303)	(1,286)
Dividends paid on common stock	(24,722)	(22,278)	(19,177)
Dividends paid on preferred stock	(3,666)	(1,272)	-
Repurchase of common stock	-	(3,459)	-
Net cash provided by financing activities	98,879	69,430	220,136
Net (decrease) increase in cash and cash equivalents	(670)	1,892	(506)
Cash and cash equivalents at beginning of year	3,446	1,554	2,060
Cash and cash equivalents at end of year	<u>\$ 2,776</u>	<u>\$ 3,446</u>	<u>\$ 1,554</u>
Supplemental disclosure of cash flow information			
Cash paid during the year for interest, net of interest capitalized	<u>\$25,315</u>	<u>\$ 23,512</u>	<u>\$12,778</u>

See accompanying notes.

	SERIES A PREFERRED STOCK
(Dollars in thousands)	
Balance at December 31, 1997	\$ —
Issuance of common stock, net of offering costs	—
Exercise of stock options, net	—
Dividends declared on common stock	—
Net income	—
Balance at December 31, 1998	—
Net income	—
Unrealized gain on marketable securities	—
Comprehensive income	—
Issuance of common stock, net of offering costs	—
Repurchase of common stock	—
Issuance of preferred stock, net of offering costs	38,588
Stock compensation expense	—
Amortization of stock compensation expense	—
Exercise of stock options	—
Dividends declared on preferred stock	—
Dividends declared on common stock	—
Balance at December 31, 1999	38,588
Net income	—
Unrealized gain on marketable securities	—
Comprehensive income	—
Issuances of common stock, net of offering costs	—
Stock compensation expense	—
Amortization of stock compensation expense	—
Exercise of stock options	—
Dividends declared on preferred stock	—
Dividends declared on common stock	—
Balance at December 31, 2000	\$38,588

See accompanying notes.

NUMBER OF COMMON SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
11,404,631	\$114	\$173,735	\$ -	\$ (6,932)	\$ -	\$166,917
1,150,000	12	32,701	-	-	-	32,713
31,632	-	386	-	-	-	386
-	-	(7,179)	-	(12,471)	-	(19,650)
-	-	-	-	19,403	-	19,403
12,586,263	126	199,643	-	-	-	199,769
-	-	-	-	22,053	-	22,053
-	-	-	-	-	172	172
-	-	-	-	-	-	22,225
1,150,000	11	29,818	-	-	-	29,829
(145,343)	(1)	(3,458)	-	-	-	(3,459)
-	-	(1,712)	-	-	-	36,876
105,800	1	3,151	(3,152)	-	-	-
-	-	-	1,658	-	-	1,658
48,902	-	874	-	-	-	874
-	-	-	-	(2,036)	-	(2,036)
-	-	(3,136)	-	(20,017)	-	(23,153)
13,745,622	137	225,180	(1,494)	-	172	262,583
-	-	-	-	26,009	-	26,009
-	-	-	-	-	1,665	1,665
-	-	-	-	-	-	27,674
1,625,000	16	52,101	-	-	-	52,117
18,400	-	633	(633)	-	-	-
-	-	-	1,831	-	-	1,831
159,334	2	4,113	-	-	-	4,115
-	-	-	-	(3,666)	-	(3,666)
-	-	(3,159)	-	(22,343)	-	(25,502)
15,548,356	\$155	\$278,868	\$ (296)	\$ -	\$1,837	\$319,152

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, conversion, retrofitting, expansion, and selective development and redevelopment 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, diagnostic, device, contract research and personal care products companies, major scientific research institutions, related government agencies and technology enterprises. As of December 31, 2000, our portfolio consisted of 75 properties in nine states with approximately 4,857,000 rentable square feet, compared to 58 properties in nine states with approximately 4,046,000 rentable square feet as of December 31, 1999.

BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Investments

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

Investment income of \$1,446,000 for 2000 consisted of gross realized gains of \$1,575,000 and gross realized losses of \$129,000 and is included in other income in the accompanying statements of income. The fair value of available-for-sale securities as of December 31, 2000 and 1999 was \$4,148,000 and \$172,000, respectively, with related gross unrealized gains of \$2,249,000 and \$172,000, respectively, and gross unrealized losses of \$412,000 and \$0, respectively. At December 31, 2000 and 1999, the cost of available-for-sale securities totaled \$2,311,000 and \$0, respectively.

Investments in privately held entities as of December 31, 2000 and 1999, totaled \$14,777,000 and \$3,544,000, respectively. These investments are accounted for under the cost method and are included in other assets in the accompanying balance sheets.

Rental Properties and Property Under Development

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

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

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

Restricted Cash

Restricted cash consists of the following (in thousands):

As of December 31

Funds held in trust as additional security required
under the terms of certain secured notes payable

Security deposit funds based on the terms
of certain lease agreements

2000	1999
\$5,103	\$2,982
1,892	1,699
<u>\$6,995</u>	\$4,681

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 \$5,810,000 and \$3,018,000 as of December 31, 2000 and 1999, respectively, and are included in other assets in our balance sheets.

Rental Income

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

Interest Income

Interest income was \$1,025,000, \$1,013,000 and \$978,000 in 2000, 1999 and 1998, respectively, and is included in interest and other income in the accompanying statements of income.

Leasing Costs

Leasing costs are amortized on a straight-line basis over the term of the related lease. Leasing costs, net of related amortization, totaled \$11,652,000 and \$7,159,000 as of December 31, 2000 and 1999, respectively, and are included in other assets in our balance sheets.

Fair Value of Financial Instruments

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

The fair value of our secured notes payable was estimated using discounted cash flows analyses based on borrowing rates we believe we could obtain with similar terms and maturities. As of December 31, 2000 and 1999, the fair value of our secured notes payable was approximately \$204,786,000 and \$149,329,000, respectively.

Net Income Per Share

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

For the Year Ended December 31

(Dollars in thousands, except per share amounts)

Net income available to common stockholders

Weighted average shares of common stock
outstanding—basic

Add: dilutive effect of stock options

Weighted average shares of common stock
outstanding—diluted

Net income per common share – basic

Net income per common share – diluted

Common dividends declared per share

	2000	1999	1998
Net income available to common stockholders	<u>\$22,343</u>	20,017	19,403
Weighted average shares of common stock outstanding—basic	14,460,711	13,525,840	12,098,959
Add: dilutive effect of stock options	<u>238,767</u>	144,728	207,511
Weighted average shares of common stock outstanding—diluted	<u>14,699,478</u>	13,670,568	12,306,470
Net income per common share – basic	<u>\$ 1.55</u>	1.48	1.60
Net income per common share – diluted	<u>\$ 1.52</u>	1.46	1.58
Common dividends declared per share	<u>\$ 1.72</u>	1.69	1.60

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, 2000, 1999 and 1998. 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 2000, 1999 and 1998, we declared dividends on our common stock of \$1.72, \$1.69 and \$1.60 per share, respectively. For federal income tax purposes, \$1.61, \$1.69 and \$1.60 per common share was reported to shareholders as ordinary income, respectively. In addition, \$0.11 per common share was reported as a return of capital for the year ended December 31, 2000. During 2000 and 1999, we declared dividends on our preferred stock of \$2.375 and \$1.4184 per share, respectively. For federal income tax purposes, we reported that none of our preferred distributions represented a return of capital.

RENTAL PROPERTIES

Rental properties consist of the following (in thousands):

As of December 31

	2000	1999
Land	\$ 99,373	\$ 81,446
Building and improvements	575,212	475,507
Tenant and other improvements	62,622	33,249
	<u>737,207</u>	<u>590,202</u>
Less accumulated depreciation	(57,554)	(35,496)
	<u>\$679,653</u>	<u>\$554,706</u>

Nineteen of our rental properties are encumbered by deeds of trust and assignments of rents and leases associated with the properties (see Note 6). The net book value of these properties as of December 31, 2000 is \$280,948,000.

We lease space under noncancelable leases with remaining terms of one to 16 years.

As of December 31, 2000, approximately 83% of our leases (on a square footage basis) require that the lessee pay substantially all taxes, maintenance, insurance and certain other operating expenses applicable to the leased properties.

We capitalize interest to properties under development or redevelopment during the period the asset is undergoing activities to prepare it for its intended use. Total interest capitalized for the years ended December 31, 2000, 1999 and 1998 was \$7,710,000, \$3,784,000 and \$2,199,000, respectively. Total interest incurred for the years ended December 31, 2000, 1999 and 1998 was \$33,832,000, \$23,792,000 and \$16,264,000, respectively.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 2000, are as follows (in thousands):

2001	\$	81,744
2002		73,741
2003		65,290
2004		58,345
2005		50,807
Thereafter		224,417
		<u>\$554,344</u>

SECURED NOTE RECEIVABLE

In connection with the acquisition of a Life Science Facility in San Diego, California in March 1998, we made a \$6,000,000 loan to the sole tenant of the property, fully secured by a first deed of trust on certain improvements at the property. The loan bears interest at a rate of 11% per year, payable monthly, and matures in March 2002. The loan is cross-defaulted to the lease with the sole tenant. Under certain circumstances, we may obtain title to the improvements that secure the loan, and, in such event, we may also require the sole tenant at the property to lease such improvements back from us for an additional rental amount.

UNSECURED LINE OF CREDIT

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

The line of credit contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. Borrowings under the line of credit are limited to an amount based on a pool of unencumbered assets. Accordingly, as we acquire or complete the development of additional unencumbered properties, borrowings available under the line of credit will increase up to the maximum of \$325 million. As of December 31, 2000, borrowings under the line of credit were limited to approximately \$303 million and carried a weighted average interest rate of 8.32%.

The line of credit expires February 2003 and provides for annual extensions (provided there is no default) for two additional one-year periods upon notice by the company and consent of the participating banks.

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

The following table summarizes our interest rate swap agreements.

TRANSACTION DATE	EFFECTIVE DATE	TERMINATION DATE	NOTIONAL AMOUNT	INTEREST PAY RATE
October 1999	December 8, 1999	May 31, 2001	\$50,000,000	6.500%
January 2000 ⁽¹⁾	January 31, 2000	December 31, 2001	\$50,000,000	7.250% ⁽²⁾
April 2000	May 20, 2000	January 2, 2003	\$50,000,000	6.995%
July 2000	May 31, 2001	May 31, 2003	\$50,000,000	7.070%
January 2001	January 31, 2001	December 31, 2002	\$50,000,000	6.350%

(1) This interest rate swap agreement was terminated and replaced with another interest rate swap agreement in January 2001.

(2) The interest pay rate from December 30, 2000 through December 31, 2001 is 7.25%. The interest pay rate prior to December 30, 2000 was 6.5% from February 1, 2000 to March 31, 2000, 6.75% from April 1, 2000 to July 31, 2000 and 7.00% from August 1, 2000 to December 29, 2000.

With respect to our swap agreements, we are exposed to losses in the event the financial institution is unable to perform under the agreements, or in the event one-month LIBOR is less than the agreed-upon fixed interest rates. The fair value of the swap agreements outstanding as of December 31, 2000 and changes in their fair value as a result of changes in market interest rates are not recognized in the financial statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities," and its amendments Statements 137 and 138, in June 1999 and June 2000, respectively. This statement requires us to reflect all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged asset, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The adoption of SFAS 133, as amended, on January 1, 2001 will result in a reduction in other comprehensive income of approximately \$3.5 million.

SECURED NOTES PAYABLE

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

As of December 31

	2000	1999
8.75% note, due January 2006, with an effective interest rate of 7.25% (includes unamortized premium of \$611 and \$725 at December 31, 2000 and 1999, respectively), secured by One Innovation Drive, Worcester, MA	\$ 11,276	\$ 11,720
8.68% note, due December 2006, secured by 100/800/801 Capitola Drive, Durham, NC	12,314	12,435
8.25% note, due August 2007, secured by 20/22 Firstfield Road, Gaithersburg, MD and 1300 Quince Orchard Road, Gaithersburg, MD	9,998	-
9.125% note, due October 2007, with an effective interest rate of 7.25% (includes unamortized premium of \$1,845 and \$2,062 at December 31, 2000 and 1999, respectively), secured by 620 Memorial Drive, Cambridge, MA	19,513	19,842
7.22% note, due May 2008, secured by 14225 Newbrook Avenue, Chantilly, VA and 3000/3018 Western Avenue, Seattle, WA	35,646	35,995
8.71% note, due December 2009, secured by 377 Plantation Street, Worcester, MA and 6166 Nancy Ridge, San Diego, CA	18,798	18,900
8.33% note, due November 2010, secured by 25/35/45 W. Watkins Mill Road, Gaithersburg, MD and 708 Quince Orchard Road, Gaithersburg, MD	24,675	-
7.165% note, due January 2014, secured by 1431 Harbor Bay Parkway, Alameda, CA	6,018	7,146
9.00% note, due December 2014, secured by 3535/3565 General Atomics Court, San Diego, CA	16,499	17,063
7.75% note, due May 2016, secured by 1102/1124 Columbia Street, Seattle, WA	19,520	20,148
9.00% note, due October 2000, secured by 381 Plantation Street, Worcester, MA	-	2,625
Construction loan at LIBOR plus 1.75%, due January 2002, providing for borrowings of up to \$19,000,000, secured by 1201 Clopper Road Gaithersburg, MD	18,981	12,638
Construction loan at LIBOR plus 1.70%, due June 2003, providing for borrowings of up to \$25,175,000, secured by 341/343 Oyster Point Boulevard, San Francisco, CA	7,018	-
	<u>\$200,256</u>	<u>\$158,512</u>

All of our secured notes payable, except for the notes secured by 1431 Harbor Bay Parkway, 1201 Clopper Road and 341/343 Oyster Point Boulevard, require monthly payments of principal and interest. The note secured by 1431 Harbor Bay Parkway requires monthly payments of interest and semi-annual payments of principal. The notes secured by 1201 Clopper Road and 341/343 Oyster Point Boulevard require monthly payments of interest only.

Future principal payments due on secured notes payable as of December 31, 2000, are as follows (in thousands):

	2001	\$ 3,885
	2002	23,183
	2003	11,563
	2004	4,199
	2005	12,361
	Thereafter	142,609
	Subtotal	197,800
	Unamortized premium	2,456
		\$200,256

ISSUANCE OF COMMON STOCK

In April 2000, we sold 500,000 shares of common stock to an institutional investor. The shares were issued at a price of \$29.39 per share, resulting in aggregate proceeds of approximately \$14.2 million, net of offering costs.

In October 2000, we completed a public offering of 1,125,000 shares of common stock. The shares were issued at a price of \$33.8731 per share, resulting in aggregate proceeds of approximately \$37.9 million, net of underwriting discounts and commissions and other offering costs.

NON-CASH TRANSACTIONS

In connection with the acquisition of 20/22 Firstfield Road and 1300 Quince Orchard Road in 2000 and One Innovation Drive in 1999, we assumed secured notes payable. The following table summarizes these transactions (in thousands):

	2000	1999
Aggregate purchase price	\$18,000	\$17,294
Secured notes payable assumed	10,040	11,297
Cash paid for the properties	\$ 7,960	\$ 5,997

In 2000 and 1999, we incurred \$1,831,000 and \$1,658,000, respectively, in non-cash stock compensation expense.

PREFERRED STOCK AND EXCESS STOCK

Series A Cumulative Redeemable Preferred Stock

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

Preferred Stock and Excess Stock Authorizations

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock, of which 1,543,500 shares were issued and outstanding as of December 31, 2000. In addition, 200,000,000 shares of "excess stock" (as defined) are authorized, none of which were issued and outstanding at December 31, 2000.

COMMITMENTS AND CONTINGENCIES

Employee Retirement Savings Plan

Effective January 1, 1997, we adopted a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code ("Code") whereby our employees may contribute a portion of their compensation to their respective retirement accounts, in an amount not to exceed the maximum allowed under the Code. The plan provides that we contribute eight percent of our employees' salary (subject to statutory limitations), which amounted to \$254,000, \$185,000 and \$89,000, respectively, for the years ended December 31, 2000, 1999 and 1998. 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, 2000, we had 173 leases with a total of 155 tenants and 40 of our 75 properties were each leased to a single tenant. At December 31, 2000, our three largest tenants accounted for approximately 16.6% of our aggregate annualized base rent.

We generally do not require collateral or other security from our tenants, other than security deposits. In addition to security deposits held in cash, we hold \$7.5 million in irrevocable letters of credit available from certain tenants as security deposits for 20 leases as of December 31, 2000.

Commitments

As of December 31, 2000, we were committed under the terms of certain leases to complete the construction of buildings and certain related improvements at a remaining aggregate cost of \$21.4 million.

As of December 31, 2000, we were also committed to fund approximately \$38.5 million for the construction of building infrastructure improvements under the terms of various leases and for certain investments.

STOCK OPTION PLANS AND STOCK GRANTS

1997 Stock Plan

In 1997, we adopted a stock option and incentive plan (the "1997 Stock Plan") for the purpose of attracting and retaining the highest quality personnel, providing for additional incentives and promoting the success of the company by providing employees the opportunity to acquire common stock pursuant to (i) options to purchase common stock; and (ii) share awards. As of December 31, 2000, a total of 562,936 shares were reserved for the granting of future options and share awards under the 1997 Stock Plan.

Options under our plan have been granted at prices that are equal to the market value of the stock on the date of grant and expire ten years after the date of grant. Employee options vest ratably in three annual installments from the date of grant. Non-employee director options vest immediately on the date of grant. The options outstanding under the 1997 Stock Plan expire at various dates through October 2010.

In addition, the 1997 Stock Plan permits us to issue share awards to our employees and non-employee directors. A share award is an award of common stock which (i) may be fully vested upon issuance or (ii) may be subject to the risk of forfeiture under Section 83 of the Internal Revenue Code. For employees, these shares generally vest over a one-year period and the sale of the shares is restricted prior to the date of vesting. For non-employee directors, these shares are generally fully vested upon issuance and the sale of the shares is not restricted. During 2000, we awarded 18,400 shares of common stock. These shares were recorded at fair value with a corresponding charge to stockholders' equity. The unearned portion is amortized as compensation expense on a straight-line basis over the vesting period.

We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for our employee and non-employee director stock options, stock grants and stock appreciation rights. Under APB 25, because the exercise price of the options we granted equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized. Although we have elected to follow APB 25, pro forma information regarding net income and net income per share is required by Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation." This information has been determined as if we had accounted for our stock options under the fair value method under Statement 123. The fair value of the options issued under the 1997 Stock Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2000, 1999 and 1998:

For the Year Ended December 31

	2000	1999	1998
Risk-free interest rate	5.15%	6.48%	4.66%
Dividend yield	4.78%	5.66%	5.20%
Volatility factor of the expected market price	23.20%	24.60%	24.50%
Weighted average expected life of the options	4.7 years	5.8 years	5.0 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):

For the Year Ended December 31

	2000	1999	1998
Pro forma net income available to common stockholders	\$21,532	\$19,083	\$18,299
Pro forma net income per common share:			
– Basic	\$ 1.49	\$ 1.41	\$ 1.51
– Diluted	\$ 1.46	\$ 1.40	\$ 1.49

A summary of the stock option activity under our 1997 Stock Plan and related information for the years ended December 31, 2000, 1999 and 1998 follows:

	2000		1999		1998	
	STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding-beginning of year	785,000	\$25.37	821,500	\$24.49	701,000	\$20.80
Granted	316,000	33.78	70,500	29.56	290,500	31.00
Exercised	(145,334)	26.38	(75,000)	20.11	(57,333)	20.00
Forfeited	(54,666)	32.45	(32,000)	23.98	(112,667)	20.64
Outstanding-end of year	<u>901,000</u>	<u>\$27.73</u>	785,000	\$25.37	821,500	\$24.49
Exercisable at end of year	<u>519,001</u>	<u>\$23.94</u>	426,003	\$24.36	252,834	\$23.33
Weighted average fair value of option granted		<u>\$ 5.51</u>		\$ 5.28		\$ 4.88

Exercise prices for options outstanding as of December 31, 2000 range from \$20.00 to \$38.4375. The weighted average contractual life of options outstanding is 7.8 years.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Following is a summary of consolidated financial information on a quarterly basis for 2000 and 1999:

(In thousands, except per share amounts)

2000

Revenues
 Net income available to common stockholders
 Net income per common share:
 – Basic
 – Diluted

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenues	\$23,962	\$24,910	\$28,475	\$29,563
Net income available to common stockholders	\$ 4,821	\$ 5,425	\$ 5,615	\$ 6,484
Net income per common share:				
– Basic	\$ 0.35	\$ 0.38	\$ 0.39	\$ 0.42
– Diluted	\$ 0.35	\$ 0.38	\$ 0.38	\$ 0.41

1999

Revenues
 Net income available to common stockholders
 Net income per common share:
 – Basic
 – Diluted

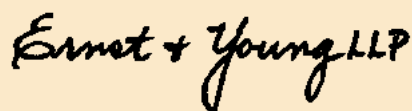
Revenues	\$19,539	\$21,094	\$22,395	\$23,234
Net income available to common stockholders	\$ 5,298	\$ 5,613	\$ 4,933	\$ 4,173
Net income per common share:				
– Basic	\$ 0.41	\$ 0.41	\$ 0.36	\$ 0.30
– Diluted	\$ 0.40	\$ 0.41	\$ 0.36	\$ 0.30

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, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

The signature of Ernst & Young LLP is written in a black, cursive script. The words "Ernst & Young" are written in a larger, more prominent font, with "LLP" in a smaller font to the right. The signature is positioned in the lower right quadrant of the page.

Los Angeles, California
January 26, 2001

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

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James H. Richardson
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Peter J. Nelson
Chief Financial Officer,
Senior Vice President,
Operations and Treasurer

Laurie A. Allen
Senior Vice President,
Business Development and
Legal Affairs and Corporate Secretary

Vincent R. Ciruzzi
Senior Vice President,
Construction and Development

Michael C. Kelcy
Senior Vice President,
Real Estate Legal Affairs

COMMON STOCK

Listed on The New York Stock Exchange
Symbol ARE

CORPORATE OFFICE

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

TRANSFER AGENT

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

LEGAL COUNSEL

Mayer, Brown & Platt
Los Angeles, California

AUDITORS

Ernst & Young LLP
Los Angeles, California

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 11:00 a.m., April 27, 2001, at the Hilton Hotel, Pasadena, California.

SEC FORM 10-K

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge, upon written request to:
Investor Relations
Alexandria Real Estate Equities, Inc.
135 North Los Robles Avenue
Suite 250
Pasadena, CA 91101

COMMON STOCK DATA

The common stock of Alexandria Real Estate Equities, Inc. trades on the New York Stock Exchange (“NYSE”) under the symbol “ARE.” As of December 31, 2000, there were approximately 236 holders of record of the Company’s common stock (excluding beneficial owners whose shares are held in the name of CEDE & Co.). The following table sets forth the quarterly high and low sales prices per share of common stock reported on the NYSE and the distributions paid by the Company for the year ended December 31, 2000.

Period

January 1, 2000 to March 31, 2000
 April 1, 2000 to June 30, 2000
 July 1, 2000 to September 30, 2000
 October 1, 2000 to December 31, 2000

	HIGH	LOW	PER SHARE DISTRIBUTION
	32	29	\$ 0.43
	34 7/8	30	\$ 0.43
	37 1/8	31 1/2	\$ 0.43
	38 9/16	33 1/8	\$ 0.43

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

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"THE LANDLORD OF CHOICE TO THE LIFE SCIENCE INDUSTRY" ARE REGISTERED SERVICE MARKS OF ALEXANDRIA REAL ESTATE EQUITIES, INC.
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