

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

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

For the fiscal year ended December 31, 1998

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12993  
ALEXANDRIA REAL ESTATE EQUITIES, INC.  
(Exact name of registrant as specified in its charter)

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

135 N. LOS ROBLES AVENUE, SUITE 250 91101  
PASADENA, CALIFORNIA (Zip Code)  
(Address of principal executive offices)

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$.01 par value per share	New York Stock Exchange

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

Indicate by check mark whether the registrant: (1) has filed all  
reports required to be filed by Section 13 or 15(d) of the Securities Exchange  
Act of 1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. YES X NO  
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Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K. / /

The aggregate market value of the shares of Common Stock held by  
non-affiliates was approximately \$338.4 million based on the closing price for  
such shares on the New York Stock Exchange on March 10, 1999.

As of March 10, 1999 the Registrant had 13,736,263 shares of Common  
Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates information by reference from the  
definitive Proxy Statement to be mailed in connection with the registrant's  
annual meeting of stockholders to be held on April 15, 1999.

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PART I

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Words such as "believes," "expects," "anticipates," "intends" and similar expressions are intended to identify some of the forward-looking statements regarding events, conditions and financial trends that may affect our future plan of operation, business strategy, results of operations and financial position. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Actual results may differ materially from those included within the forward-looking statements as a result of various factors, including, but not limited to, those described below under the headings "Business Risks" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." We disclaim any obligation to update any of these factors or to announce publicly the result of any revisions to any of the forward-looking statements.

ITEM 1. BUSINESS.

BACKGROUND

Alexandria Real Estate Equities, Inc., a Maryland corporation formed in October 1994, is a real estate investment trust ("REIT") engaged primarily in the acquisition, management, expansion and selective development of high quality, strategically located properties containing office and laboratory space designed and improved for lease principally to pharmaceutical, biotechnology, diagnostic and personal care products companies, major scientific research institutions and related government agencies (collectively, the "Life Science Industry"). Properties leased to tenants in the Life Science Industry typically consist of suburban office buildings containing scientific research and development laboratories and other improvements that are generic to tenants operating in the Life Science Industry (such properties, "Life Science Facilities"). As of December 31, 1998, we owned 51 Life Science Facilities (the "Properties"), containing approximately 3.6 million rentable square feet of office and laboratory space.

BUSINESS AND GROWTH STRATEGY.

We focus our operations and acquisition activities principally in:

- California (in the San Diego and San Francisco Bay areas);
- Seattle;
- suburban Washington, D.C. (including Maryland and Virginia);
- Eastern Massachusetts;
- New Jersey and suburban Philadelphia; and
- the Southeast (including Georgia and North Carolina).

Our tenant base is broad and diverse within the Life Science Industry and reflects our focus on regional, national and international tenants with substantial financial and operational resources. For a detailed description of our Properties and tenants, see "Item 2. Properties." Alexandria is led by a senior management team with extensive experience in both the real estate and Life Science industries and is supported by a highly experienced Board of Directors.

We seek to maximize growth in funds from operations ("FFO") and cash available for distribution to stockholders through effective management, operation, acquisition, expansion and selective development of Life Science Facilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Funds from Operations" for a complete discussion of how we compute and view FFO as well as a discussion of other measures of cash flow. In particular, we seek to increase FFO and cash available for distribution per share by:

- acquiring high quality Life Science Facilities at attractive returns in our target markets;
- realizing contractual rental rate escalations;
- retenanting and releasing space within our portfolio at higher rental rates and with minimal non-revenue enhancing tenant improvement costs;
- expanding existing Properties or converting existing office space to generic laboratory space that can be leased at higher rental rates;
- selectively developing properties on a retrofit or build-to-suit basis; and
- continuing to implement effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures.

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

- location of the property and our strategy in the market;
- quality of existing and prospective tenants;
- condition and capacity of the building infrastructure;
- quality and generic characteristics of laboratory facilities;
- physical condition of the shell structure and common area improvements; and
- opportunities available for leasing vacant space and for retenanting occupied space.

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

- include rental rate escalation provisions in our leases;
- acquire undervalued or underperforming properties where we can improve investment returns through releasing of vacant space and replacement of existing tenants with new tenants at higher rental rates;
- achieve higher rental rates as existing leases expire; and
- expand existing facilities that are fully leased and/or convert existing office space to higher rent generic laboratory space.

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

DEVELOPMENT. We have emphasized acquisitions over development in pursuing our growth objectives and intend to continue to do so in the future. However, we have pursued and will continue to pursue selective build-to-suit and retrofit development projects where we expect to achieve investment returns that will equal or exceed our returns on acquisitions. We generally have undertaken build-to-suit and retrofit projects only if our investment in infrastructure will be substantially generic in nature and not tenant specific.

FINANCING/WORKING CAPITAL. We believe that cash provided by operations and our unsecured line of credit will be sufficient to fund our working capital requirements. We generally expect to finance future acquisitions through our unsecured line of credit and then to periodically refinance some or all of that indebtedness with additional equity or debt capital. We also may issue shares of our common stock or interests in our subsidiaries as consideration for acquisitions. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a complete discussion of our unsecured line of credit and other outstanding indebtedness.

## BUSINESS RISKS

### WE ARE DEPENDENT ON A SINGLE INDUSTRY FOR REVENUES FROM LEASE PAYMENTS

Our strategy is to invest primarily in properties used by tenants in the Life Science Industry. Consequently, our revenues from lease payments are largely dependent on a single industry. If the Life Science Industry experiences an economic downturn, our business could be adversely affected. Events within the Life Science Industry will have a more pronounced effect on our ability to make distributions to our stockholders than if we had diversified investments. Also, our Properties may be better suited for a particular Life Science Industry tenant and could require modification before we could release vacant space to another Life Science Industry tenant. Our Properties also may not be suitable for lease to traditional office tenants without significant expenditures on renovations.

### SOME OF OUR TENANTS MUST OBTAIN REGULATORY APPROVAL OF THEIR PRODUCTS AND MANUFACTURING PROCESSES, WHICH COULD ADVERSELY AFFECT THEIR ABILITY TO PAY US

The products and manufacturing processes of some of our Life Science Industry tenants require governmental regulatory approval before they can be marketed and sold or used. Any failure to obtain or any delay in obtaining these approvals could adversely affect the ability of the tenant to market and sell its products successfully and, therefore, its ability to make rental payments to us. The process of obtaining these approvals is costly, time-consuming and often unpredictable. We cannot assure you that our tenants will be able to obtain any required approvals.

In addition, some of our tenants receive significant funding from federal, state and local governments. If any of this funding were decreased or discontinued, the affected tenant could have difficulty making rental payments to us.

### WE COULD BE HELD LIABLE FOR DAMAGES RESULTING FROM OUR TENANTS' USE OF HAZARDOUS MATERIALS

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

We and our tenants must comply with federal, state and local laws and regulations that govern the use, manufacture, storage, handling and disposal of hazardous materials and waste products. Changes in these laws and regulations could adversely affect our business or our tenants' business and their ability to make rental payments to us.

### THE INABILITY OF ANY TENANT TO MAKE RENTAL PAYMENTS TO US COULD ADVERSELY AFFECT OUR BUSINESS

Our revenues are derived primarily from rental payments under our leases. Therefore, if our tenants, especially significant tenants, failed to make rental payments under their leases, our financial condition and our ability to make distributions to our stockholders could be adversely affected.

As of December 31, 1998, we had 158 leases with a total of 148 tenants. Twenty-four of our Properties were single-tenant properties. Three of our tenants accounted for approximately 18.4% of our aggregate Annualized Base Rent, or approximately 7.1%, 6.4% and 4.9%, respectively. "Annualized Base Rent" means the annualized fixed base rental amount in effect as of December 31, 1998, using rental revenue calculated on a straight-line basis in accordance with generally accepted accounting principles. Annualized Base Rent does not include real estate taxes and insurance, common area and other operating expenses, substantially all of which are borne by the tenants in the case of triple net leases.

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

OUR U.S. GOVERNMENT TENANTS MAY NOT RECEIVE ANNUAL APPROPRIATIONS, WHICH COULD ADVERSELY AFFECT THEIR ABILITY TO PAY US

U.S. government tenants are subject to annual appropriations. If one of our U.S. government tenants failed to receive its annual appropriation, it might not be able to make its lease payments to us. In addition, defaults under leases with government tenants are governed by federal statute and not state eviction or rent deficiency laws. All of our leases with U.S. government tenants provide that the government tenant may terminate the lease under certain circumstances. As of December 31, 1998, leases with U.S. government tenants at our Properties accounted for approximately 8.0% of our aggregate Annualized Base Rent.

LOSS OF A TENANT COULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS

A lessee may not renew its lease upon the expiration of the initial term. In addition, we may not be able to locate a qualified replacement tenant upon expiration or termination of a lease. Consequently, we could lose the cash flow from the affected Property, which could negatively impact our business. We may have to divert cash flow generated by other Properties to meet our mortgage payments, if any, or to pay other expenses related to owning the affected Property. As of December 31, 1998, leases at our Properties representing approximately 10.0% and 11.5% of the square footage of our Properties were scheduled to expire in 1999 and 2000, respectively.

POOR ECONOMIC CONDITIONS IN OUR TARGET MARKETS COULD ADVERSELY AFFECT OUR BUSINESS

Our Properties are located only in the following markets:

- California (in the San Diego and San Francisco Bay areas);
- Seattle;
- suburban Washington, D.C. (including Maryland and Virginia);
- Eastern, Massachusetts;
- New Jersey and suburban Philadelphia; and
- the Southeast (including North Carolina and Georgia).

As a result of this geographic concentration, we are dependent upon the local economic conditions in each of these markets, including local real estate conditions and competition. If there is a downturn in the economy in any of these markets, our operations and our ability to make distributions to stockholders could be adversely affected. We cannot assure you that these markets will continue to grow or will remain favorable to the Life Science Industry.

WE MAY HAVE DIFFICULTY MANAGING OUR RAPID GROWTH

We have grown rapidly and expect to continue to grow by acquiring and selectively developing additional properties. To manage our growth effectively, we must successfully integrate new acquisitions into our existing structure. We may not succeed with the integration. In addition, we may not effectively manage new properties, and new properties may not perform as expected. If we are unsuccessful in managing our growth, our business would be adversely affected.

#### WE MAY NOT HAVE SUFFICIENT FUNDS TO REFINANCE OUR DEBT

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

- our cash flow from operations may be not be sufficient to meet required payments of principal and interest;
- we may be forced to dispose of one or more of our Properties, possibly on disadvantageous terms, to make payments on our debt;
- we may default on our debt obligations, and the lenders or mortgagees may foreclose on our Properties that secure those loans;
- a foreclosure on one of our Properties could create taxable income without any accompanying cash proceeds to pay the tax;
- we may default under a mortgage loan that has cross default provisions, causing us automatically to default on another loan;
- we may not be able to refinance or extend our existing debt; and
- the terms of any refinancing or extension may not be as favorable as the terms of our existing debt.

As of December 31, 1998, we had outstanding mortgage indebtedness of approximately \$115.8 million, secured by nine Properties, and outstanding debt under our unsecured line of credit of approximately \$194.0 million.

#### OUR LINE OF CREDIT RESTRICTS OUR ABILITY TO ENGAGE IN SOME BUSINESS ACTIVITIES

Our \$250 million unsecured revolving credit facility contains customary negative covenants and other financial and operating covenants that, among other things:

- restrict our ability to incur additional indebtedness;
- restrict our ability to make certain investments;
- restrict our ability to merge with another company;
- restrict our ability to make distributions to stockholders;
- require us to maintain financial coverage ratios; and
- require us to maintain a pool of unencumbered assets approved by the lenders.

These restrictions could have a negative effect on our operations and our ability to make distributions to our stockholders.

#### WE MAY NOT BE ABLE TO OBTAIN ADDITIONAL CAPITAL TO FURTHER OUR BUSINESS OBJECTIVES

Our ability to acquire or develop properties is dependent upon our ability to obtain capital. An inability to obtain capital on acceptable terms could delay or prevent us from acquiring, structuring and closing desirable investments, which would adversely affect our business. Also, the issuance of additional shares of capital stock or interests in subsidiaries to obtain capital for the acquisition of additional properties could result in a dilution of ownership for the then existing stockholders.

#### IF INTEREST RATES RISE, OUR DEBT SERVICE COSTS WILL INCREASE

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

#### WE MAY NOT BE ABLE TO ACQUIRE PROPERTIES OR OPERATE THEM SUCCESSFULLY

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

The acquisition, ownership and operation of real estate is subject to many risks, including:

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

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

#### WE MAY NOT BE ABLE TO COMPLETE DEVELOPMENT PROJECTS EFFECTIVELY

Our expansion and development activities subject us to many risks, including:

- possible delays in construction;
- budget overruns;
- increasing costs of materials;
- financing availability;
- volatility in interest rates;
- labor availability;
- timing of the commencement of rental payments; and
- other property development uncertainties.

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

#### IF OUR REVENUES ARE LESS THAN OUR EXPENSES, WE MAY HAVE TO BORROW ADDITIONAL FUNDS AND WE MAY NOT MAKE DISTRIBUTIONS TO OUR STOCKHOLDERS

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

- national and local economic climates;
- competition from other Life Science Facilities;
- real estate conditions in our target markets;
- our ability to collect rent payments;

- availability of financing;
- changes in interest rate levels;
- vacancies at our Properties and our ability to release space;
- changes in tax or other regulatory laws;
- cost of compliance with government regulation;
- illiquidity of real estate investments; and
- increased operating costs.

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

#### IMPROVEMENTS TO LIFE SCIENCE FACILITIES ARE MORE COSTLY THAN TRADITIONAL OFFICE SPACE

Our Properties contain generic infrastructure improvements that are more costly than other property types. These improvements include:

- reinforced concrete floors;
- upgraded roof loading capacity;
- significantly upgraded electrical, gas and plumbing infrastructure;
- heavy-duty HVAC systems; and
- laboratory benches.

Although we have historically been able to reflect the additional investment in generic infrastructure improvements in higher rental rates, we cannot assure you that we will be able to continue to do so in the future.

#### WE MAY NOT BE ABLE TO SELL OUR PROPERTIES QUICKLY TO RAISE MONEY

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

#### WE FACE SUBSTANTIAL COMPETITION IN OUR TARGET MARKETS

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

- insurance companies;
- pension and investment funds;
- partnerships;
- developers;
- investment companies; and
- other REITs.

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

OUR PROPERTIES MAY HAVE DEFECTS UNKNOWN TO US

All of our Properties have been under our management for less than five years, and we have owned a substantial majority of them for less than two years. Any of our Properties may have characteristics or deficiencies unknown to us that could adversely affect the Property's valuation or revenue potential.

IF WE FAIL TO QUALIFY AS A REIT, WE WOULD BE TAXED AT CORPORATE RATES AND WOULD NOT BE ABLE TO TAKE CERTAIN DEDUCTIONS WHEN COMPUTING OUR TAXABLE INCOME

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

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

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

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

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

Although certain of our officers and directors have extensive experience in the acquisition, leasing, operation financing and development of real properties, prior to commencement of our operations, no officer had significant experience in operating a business in accordance with the requirements for maintaining qualification as a REIT under the Internal Revenue Code.

THERE ARE LIMITS ON THE OWNERSHIP OF OUR CAPITAL STOCK; A STOCKHOLDER MAY LOSE BENEFICIAL OWNERSHIP OF ITS SHARES OF OUR COMMON STOCK BECAUSE OF THE OWNERSHIP LIMITS

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

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

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

#### THE OWNERSHIP LIMIT AND OTHER PROVISIONS OF OUR CHARTER MAY DELAY OR PREVENT TRANSACTIONS THAT WOULD OTHERWISE BE BENEFICIAL TO OUR STOCKHOLDERS

The Ownership Limit may have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our charter allows our Board of Directors to cause us to issue additional authorized but unissued shares of our common stock or preferred stock without any stockholder approval. The issuance of preferred stock could make it more difficult for another party to gain control of Alexandria. In addition, our Board of Directors could establish a series of preferred stock that could delay, defer or prevent a transaction that might involve a premium price for our common stock or otherwise be in the best interest of our common stockholders. Our Board of Directors could also establish a series of preferred stock that has a dividend preference, which may adversely affect our ability to pay dividends on our common stock.

#### OUR INSURANCE MAY NOT COVER ALL POTENTIAL LOSSES

If we experience a loss at any of our Properties that is not covered by insurance or that exceeds our insurance policy limits, we could lose the capital invested in the affected Property and, possibly, future revenues from that Property. In addition, we would continue to be obligated on any mortgage indebtedness or other obligations related to the affected Properties.

We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our Properties. We have obtained earthquake insurance for all of our Properties because many of them are located in the vicinity of active earthquake faults. We also carry environmental remediation insurance and have title insurance policies on all of our Properties. We obtain our title insurance policies when we acquire the Property. As a result, each policy covers an amount equal to the initial purchase price of each Property. Any one of our title insurance policies may be in an amount less than the current value of the related Property.

We believe that our insurance policy specifications, insured limits and deductibles are consistent with those customarily carried for similar properties. In addition, we require our tenants to maintain comprehensive insurance, including liability and casualty insurance, that is customarily obtained for similar properties. There are, however, certain types of losses that we and our tenants do not generally insure because they are either uninsurable or because it is not economical to insure against them. In addition, certain disaster-type insurance (covering catastrophic events) may not be available or may only be available at rates that, in the opinion of our management, are prohibitive.

#### WE COULD INCUR SIGNIFICANT COSTS COMPLYING WITH ENVIRONMENTAL LAWS

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

Under environmental laws and regulations, we may have to pay governmental entities or third parties for property damage and for investigation and clean-up costs incurred by those parties relating to contaminated Properties regardless of whether we knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination, we may be held responsible for all of the clean-up costs. In addition, third parties may sue us for damages and costs resulting from environmental contamination from that site.

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

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

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

Some of our tenants routinely handle hazardous substances and wastes as part of their operations at our Properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities. Environmental liabilities could also affect a tenant's ability to make rental payments to us. We require our tenants to comply with these environmental laws and regulations and to indemnify us for any related liabilities. We are not aware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our Properties.

Independent environmental consultants have conducted Phase I or similar environmental assessments at all of our Properties. We anticipate that consultants will conduct similar environmental assessments on our future acquisitions. This type of assessment generally includes a site inspection, interviews and a public records review, but no subsurface sampling. These assessments and certain follow-up investigations of our Properties have not revealed any environmental liability that we believe would have a material adverse effect on our business or results of operations. The follow-up investigations included, as appropriate:

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

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

#### WE MAY INCUR SIGNIFICANT COSTS COMPLYING WITH THE AMERICANS WITH DISABILITIES ACT AND SIMILAR LAWS

Under the Americans with Disabilities Act, places of public accommodation and/or commercial facilities are required to meet federal requirements related to access and use by disabled persons. We may be required to make

substantial capital expenditures at our Properties to comply with this law. In addition, our noncompliance could result in the imposition of fines or an award of damages to private litigants.

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

We believe that our Properties are substantially in compliance with the present requirements of the Americans with Disabilities Act and similar laws. We have not, however, conducted an audit or an investigation of all of our Properties to determine our compliance.

#### WE MAY INCUR SIGNIFICANT COSTS IF WE FAIL TO COMPLY WITH LAWS OR IF LAWS CHANGE

Our Properties are subject to many federal, state and local regulatory requirements and to state and local fire and life-safety requirements. If we do not comply with all of these requirements, we may have to pay fines to governmental authorities or damage awards to private litigants.

We believe that our Properties are currently in compliance with all of these regulatory requirements. We do not know whether these requirements will change or whether new requirements will be imposed. Changes in these regulatory requirements could require us to make significant unanticipated expenditures. These expenditures could have an adverse effect on us and our ability to make distributions to stockholders.

#### THE LOSS OF SERVICES OF ANY OF OUR EXECUTIVE OFFICERS COULD ADVERSELY AFFECT US

We depend upon the services of our executive officers. The loss of services of any one of our executive officers could have an adverse effect on our business, financial condition and prospects. We use the extensive personal and business relationships that members of our management have developed over time with owners of Life Science Facilities and with major Life Science Industry tenants. We have employment agreements with most of our executive officers, but we cannot assure you that our executive officers will remain employed with us.

#### WE MAY CHANGE OUR BUSINESS POLICIES WITHOUT STOCKHOLDER APPROVAL

Our Board of Directors determines all of our business policies, with management's input, including our:

- status as a REIT;
- investment initiatives;
- growth management;
- debt incurrence;
- general financing;
- acquisition and selective development activities;
- shareholder distributions; and
- operations.

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

#### WE COULD BECOME HIGHLY LEVERAGED AND OUR DEBT SERVICE OBLIGATIONS COULD INCREASE

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

We have adopted a policy of incurring debt only if upon such incurrence our debt to total market capitalization ratio would not exceed 57.5%. Our total market capitalization is the market value of our capital stock, including interests exchangeable for shares of capital stock, plus total debt. Our Board of Directors could, however, change or eliminate this policy at any time. Higher leverage also increases the risk of default on our debt obligations.

#### OUR DISTRIBUTIONS TO STOCKHOLDERS MAY DECLINE AT ANY TIME

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

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

#### THE YEAR 2000 PROBLEM COULD DISRUPT OUR BUSINESS OPERATIONS

The year 2000 problem results from an inability of computer systems to accurately recognize dates on and after January 1, 2000. The year 2000 problem could lead to significant disruptions in our operations and in our tenants' operations, which could adversely affect their ability to make rental payments to us.

We have formed a Year 2000 Task Force to address the effects of the year 2000 problem on us. Our internal accounting systems have been tested and are currently working without year 2000 or systems-related problems. Some of our operations, however, are not currently year 2000 compliant, but we expect to be compliant by mid-1999. We are also evaluating our significant third-party vendors, our financial institutions and our major tenants for their year 2000 readiness.

We have identified the following as the principal risks to us associated with the year 2000 problem:

- disruption of our operations due to the failure of third parties, including tenants, vendors and financial institutions, to achieve year 2000 readiness; and
- business interruption due to building system failures at our Properties.

We are using internal staff and outside consultants to address our year 2000 problems. Our year 2000 costs to date have been minimal, and we do not expect future costs to be material. However, unexpected future costs could be significant. We cannot guarantee that all of our systems will be year 2000 compliant on time or that other companies on which we rely will be compliant in a timely manner. A failure in either case could result in material adverse effects on our financial condition and our results of operations.

#### POSSIBLE FUTURE SALES OF SHARES OF OUR COMMON STOCK COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK

We cannot predict the effect, if any, of future sales of shares of our common stock on the market price of our common stock prevailing from time to time. Sales of substantial amounts of capital stock (including common stock

issued upon the exercise of stock options), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

As of December 31, 1998, some of our stockholders held registration rights with respect to 1,765,923 shares of our common stock. In addition, we have reserved for issuance to our officers, directors and employees pursuant to our Amended and Restated 1997 Stock Award and Incentive Plan that number of shares of our common stock equal to 10% of the total number of shares outstanding at any time, provided that in no event may the number of shares of our common stock available for issuance under our stock option plan exceed 3,000,000 shares at any time.

As of December 31, 1998, we had outstanding options to purchase 821,500 shares of our common stock, of which options to purchase 252,834 shares of our common stock were exercisable. We have filed a registration statement with respect to the issuance of shares of our common stock pursuant to grants under the stock option plan. In addition, any shares issued under our stock option plan will be available for sale in the public market from time to time without restriction by persons who are not our Affiliates (as defined in Rule 144 promulgated under the Securities Act). Affiliates will be able to sell shares of our common stock pursuant to exemptions from the registration requirements or upon registration.

#### FINANCIAL INFORMATION REGARDING INDUSTRY SEGMENTS AND OPERATIONS.

We are involved only in the real estate industry segment within the United States, and we have no foreign operations. Accordingly, all financial statements contained in this report relate to the real estate industry segment. See "Item 2. Properties" and "Item 8. Financial Statements and Supplementary Data" for detailed financial information regarding our business.

#### EMPLOYEES

As of December 31, 1998, we had 29 full-time employees and one part-time employee.

#### ITEM 2. PROPERTIES.

##### GENERAL.

Our Properties range in size from approximately 15,000 to 250,000 square feet, are built to accommodate single or multiple tenants and are generally one or two story concrete tilt-up or block and steel frame structures. The exteriors typically resemble traditional suburban office properties, but interior infrastructures are designed to accommodate the needs of Life Science Industry tenants. These improvements typically are generic to Life Science Industry tenants rather than specific to a particular tenant. As a result, we believe that the improvements have long-term value and utility and are readily usable by a wide range of Life Science Industry tenants. Generic infrastructure improvements include:

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

We own fee simple title in each of our Properties, except with respect to:

- 1311, 1401 and 1431 Harbor Bay Parkway, in which we own a commercial condominium interest, together with an undivided interest in the common areas of the project in which the Property is a part; and
- Buildings 79 & 96, Charlestown Navy Yard, and 8000/9000/10000 Virginia Manor Road, in which we own ground leasehold interests.

As of December 31, 1998, we had 158 leases with a total of 148 tenants, and 24 of our Properties were single-tenant properties. Leases in our multi-tenant buildings typically have terms of three to seven years, while the single-tenant building leases typically have terms of 10 to 20 years. As of December 31, 1998:

- approximately 78% 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 to base rent;
- approximately 17% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses;
- approximately 83% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed (ranging from 2.5% to 4.0%) or indexed based on a consumer price index or other index; and
- approximately 78% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing), which we believe would typically be borne by the landlord in traditional office leases.

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

As of December 31, 1998, we managed 41 of our Properties. The remaining Properties were managed by third-party professional management companies. We make all material decisions with respect to all of our Properties.

The following table sets forth pertinent information with respect to our Properties as of December 31, 1998:

PROPERTIES	YEAR BUILT/ RENOVATED (1)	RENTABLE SQUARE FEET	PERCENTAGE LEASED (2)	ANNUALIZED BASE RENT (2)(3)	PERCENTAGE OF AGGREGATE PORTFOLIO ANNUALIZED BASE RENT
SAN DIEGO					
10933 North Torrey Pines Road San Diego, CA	1971/1994	107,753	100%	\$2,311,111	3.8%
11099 North Torrey Pines Road San Diego, CA	1986/1996	86,962	95	2,048,151	3.4
3535 General Atomics Court San Diego, CA	1986/1991	76,084	100	2,509,707	4.1
3565 General Atomics Court San Diego, CA	1991	43,600	100	1,526,949	2.5
11025 Roselle Street San Diego, CA	1983	18,173	100	387,379	0.6

4757 Nexus Centre Drive San Diego, CA	1989	67,050	100	2,107,557	3.4
6166 Nancy Ridge Drive San Diego, CA	1997	29,333	100	638,633	1.0
10505 Roselle Street San Diego, CA	late 1970's	16,000	38	51,120	0.1
3770 Tansy Street San Diego, CA	1978	13,000	--	--	--
SAN FRANCISCO BAY AREA					
1201 Harbor Bay Parkway Alameda, CA	1983	61,015	74	692,660	1.1
1311 Harbor Bay Parkway Alameda, CA	1984	27,745	66	273,057	0.4
1401 Harbor Pay Parkway Alameda, CA	1986/1994	47,777	100	518,593	0.8
1431 Harbor Bay Parkway Alameda, CA	1985/1994	68,711	100	1,413,968	2.3
819-863 Mitten Rd & 866 Malcolm Road Burlingame, CA	1962/1997	150,150	96	2,465,268	4.0
SEATTLE					
1102/1124 Columbia Street Seattle, WA ++	1975/1997	210,163	95	5,380,147	8.8
3000/3018 Western Avenue Seattle, Washington	1929/1990	47,746	100	1,458,253	2.4
3005 First Avenue Seattle, Washington	1980/1990	70,647	100	1,888,515	3.1
SUBURBAN WASHINGTON, D.C.					
300 Professional Drive Gaithersburg, MD	1989	47,588	51	474,523	0.8
401 Professional Drive Gaithersburg, MD	1987	62,739	100	1,038,585	1.7
25/35/45 West Watkins Mill Road Gaithersburg, MD	1989/1997	138,938	100	2,007,399	3.3
708 Quince Orchard Road Gaithersburg, MD	1982/1997	49,225	100	1,191,608	2.0
940 Clopper Road Gaithersburg, MD	1989	44,464	84	513,769	0.8
1401 Research Boulevard Rockville, MD	1966	48,800	100	722,904	1.2
1500 East Gude Drive Rockville, MD	1981/1986	45,989	100	624,334	1.0
3/3 1/2 Taft Court Rockville, MD	1981/1986	24,460	15	36,602	0.1
1413 Research Boulevard Rockville, MD	1967/1996	105,000	100	1,563,450	2.6
1550 East Gude Drive Rockville, MD	1981/1995	44,500	100	596,006	1.0

1330 Piccard Drive Rockville, MD	1978/1994	131,511	100	1,903,653	3.1
14225 Newbrook Drive Chantilly, VA	1992	248,186	100	4,341,125	7.1
8000/9000/10000 Virginia Manor Road Beltsville, MD	1990	188,379	87	1,718,394	2.8
10150 Old Columbia Road Columbia, MD	1983/1997	75,500	100	1,087,002	1.8
19 Firstfield Road Gaithersburg, MD	1974	25,175	100	417,446	0.7
15020 Shady Grove Road Gaithersburg, MD	1987	41,062	100	706,188	1.2
2001 Aliceanna Street Baltimore, MD	early 1950's	179,397	84	863,564	1.4
50 West Watkins Mill Road Gaithersburg, MD	1988	57,410	100	677,438	1.1
EASTERN MASSACHUSETTS					
Buildings 79 & 96 Charlestown Navy Yard Boston, MA	1880/1991	24,940	100	710,000	1.2
280 Pond Street Randolph, MA	1960's	24,867	100	401,295	0.7
60 Westview Street Lexington, MA	1975	39,909	100	480,000	0.8
377 Plantation Street Worcester, MA	1993	92,711	100	2,185,284	3.6
620 Memorial Drive Cambridge, MA	1920's/1997	96,500	100	3,947,688	6.5
NEW JERSEY/SUBURBAN PHILADELPHIA					
215 College Road Paramus, NJ	1968/1974/ 1984	110,666	100	1,253,463	2.1
170 Williams Drive Ramsey, NJ	1982/1994	37,000	100	536,500	0.9
100 Phillips Parkway Montvale, NJ	late 1960's	80,000	--	--	--
5100/5110 Campus Drive Plymouth Meeting, PA	1989	42,782	100	509,090	0.8
702 Electronic Drive Horsham, PA	1983/1998	40,000	100	937,527	1.5
279 Princeton Parkway Princeton, NJ	1984	42,600	100	260,320	0.4

SOUTHEAST

100 Capitola Drive Durham, NC	1986	66,861	97	1,019,490	1.7
800 & 801 Capitola Drive Durham, NC	1985	119,916	100	1,479,246	2.4
150/154 Technology Parkway Norcross, GA	1976/1993/ 1985	37,080	100	675,560	1.1
5 Triangle Drive Research Triangle Park, NC	1981	32,120	100	486,825	0.8
Total/Weighted Average (14):		3,588,154	92.9%	\$61,037,346	

PROPERTIES	ANNUALIZED BASE RENT PER LEASED SQUARE FOOT (3)	ANNUALIZED NET EFFECTIVE RENT PER LEASED SQUARE FOOT (4)	MAJOR TENANTS
SAN DIEGO			
10933 North Torrey Pines Road San Diego, CA	\$21.45	15.93	The Scripps Research Institute Advanced Tissue Sciences, Inc.
11099 North Torrey Pines Road San Diego, CA	24.84	23.04	Agouron Pharmaceuticals, Inc. (5) Axys Pharmaceuticals, Inc.
3535 General Atomics Court San Diego, CA	32.99	32.02	The Scripps Research Institute R.W. Johnson Pharmaceutical Research Institute(6) Syntro Corporation(7)
3565 General Atomics Court San Diego, CA	35.02	35.02	Agouron Pharmaceuticals, Inc. (5)
11025 Roselle Street San Diego, CA	21.32	18.68	Collateral Therapeutics, Inc. Ciblex Corporation

4757 Nexus Centre Drive San Diego, CA	31.43	24.52	Matrix Pharmaceutical, Inc.
6166 Nancy Ridge Drive San Diego, CA	21.77	19.78	Arena Pharmaceuticals, Inc.
10505 Roselle Street San Diego, CA	8.52	8.52	Robert Prater Associates(8)
3770 Tansy Street San Diego, CA	--	--	Vacant(9)
SAN FRANCISCO BAY AREA			
1201 Harbor Bay Parkway Alameda, CA	15.27	8.45	Avigen, Inc. Ascend Communications, Inc.
1311 Harbor Bay Parkway Alameda, CA	14.95	14.31	Chiron Corporation Therasense, Inc.
1401 Harbor Pay Parkway Alameda, CA	10.85	10.54	Chiron Diagnostics
1431 Harbor Bay Parkway Alameda, CA	20.58	16.57	U.S. Food & Drug Administration
819-863 Mitten Rd & 866 Malcolm Road Burlingame, CA	17.03	14.96	Megabios Corp. Mills Peninsula Medical Group, Inc.
SEATTLE			
1102/1124 Columbia Street Seattle, WA ++	26.97	26.30	Corixa Corporation Fred Hutchinson Cancer Research Center Swedish Medical Center
3000/3018 Western Avenue Seattle, Washington	30.54	25.35	University of Washington
3005 First Avenue Seattle, Washington	26.73	26.01	Dendreon Corporation
SUBURBAN WASHINGTON, D.C.			
300 Professional Drive Gaithersburg, MD	19.64	19.57	Antex Biologics Inc.
401 Professional Drive Gaithersburg, MD	16.55	16.55	Gillette Capital Corporation(10)
25/35/45 West Watkins Mill Road Gaithersburg, MD	14.45	14.26	Genetic Therapy, Inc.(11) MedImmune, Inc.
708 Quince Orchard Road Gaithersburg, MD	24.21	15.08	Gene Logic, Inc.
940 Clopper Road Gaithersburg, MD	13.69	12.86	Immunomatrix, Inc. Lockheed Martin Federal Systems, Inc.
1401 Research Boulevard Rockville, MD	14.81	14.05	U.S. Bureau of Alcohol Tobacco and Firearms
1500 East Gude Drive Rockville, MD	16.29	16.02	bioMerieux Vitek, Inc.
3/3 1/2 Taft Court Rockville, MD	9.68	9.68	bioMerieux Vitek, Inc.(12)
1413 Research Boulevard Rockville, MD	14.89	13.32	U.S. Army Corps of Engineers
1550 East Gude Drive Rockville, MD	\$13.39	\$13.39	Shire Pharmaceuticals Group plc(13)

1330 Piccard Drive Rockville, MD	14.48	14.47	Intracel Corporation
14225 Newbrook Drive Chantilly, VA	17.49	17.49	American Medical Laboratories, Inc.
8000/9000/10000 Virginia Manor Road Beltsville, MD	10.54	10.53	Digene Corporation North American Vaccine, Inc.
10150 Old Columbia Road Columbia, MD	14.40	13.48	North American Vaccine, Inc.
19 Firstfield Road Gaithersburg, MD	16.58	16.58	Genetic Therapy, Inc. (11)
15020 Shady Grove Road Gaithersburg, MD	17.20	7.87	Human Genome Sciences
2001 Aliceanna Street Baltimore, MD	5.74	5.74	Maryland Economic Development Corporation The National Aquarium of Baltimore, Inc.
50 West Watkins Mill Road Gaithersburg, MD	11.80	11.80	Federal Express Corporation
EASTERN MASSACHUSETTS			
Buildings 79 & 96 Charlestown Navy Yard Boston, MA	28.47	26.35	Diacrin, Inc.
280 Pond Street Randolph, MA	16.14	16.14	Ares Advanced Technology, Inc.
60 Westview Street Lexington, MA	12.03	11.03	U.S. Environmental Protection Agency
377 Plantation Street Worcester, MA	23.57	23.57	University of Massachusetts Phytera, Inc.
620 Memorial Drive Cambridge, MA	40.91	40.91	Pfizer, Inc.
NEW JERSEY/SUBURBAN PHILADELPHIA			
215 College Road Paramus, NJ	11.33	11.10	Playtex Products, Inc. Synaptic Pharmaceutical Corporation
170 Williams Drive Ramsey, NJ	14.50	14.50	Alteon Inc.
100 Phillips Parkway Montvale, NJ	--	--	Vacant(9)
5100/5110 Campus Drive Plymouth Meeting, PA	11.90	11.87	Gen Trak, Inc. Biomol Research Laboratories, Inc. Magainin Pharmaceuticals Inc.
702 Electronic Drive Horsham, PA	23.44	23.44	Cell Pathways, Inc.
279 Princeton Parkway Princeton, NJ	6.11	6.11	Coelacanth Corporation

## SOUTHEAST

100 Capitola Drive Durham, NC	15.77	10.38	American Social Health Association, Inc. Batelle Survey Research, Inc.
800 & 801 Capitola Drive Durham, NC	12.34	11.05	Triangle Laboratories, Inc. Ventana Communications Group, Inc.
150/154 Technology Parkway Norcross, GA	18.22	18.10	CytRx Corporation Oread, Inc.
5 Triangle Drive Research Triangle Park, NC	15.16	14.85	Mantech Environmental Technology, Inc. City Search, Inc.
Total/Weighted Average (14):	\$18.32	\$16.96	

++ Gross revenues from this Property for the year ended December 31, 1998 represent in excess of 10% of the aggregate gross revenues of the Company for such period.

- (1) Includes year in which construction was completed and, where applicable, year of most recent major renovation.
- (2) Based on all leases at the respective Property in effect as of December 31, 1998.
- (3) Annualized Base Rent means the annualized fixed base rental amount in effect as of December 31, 1998 (using rental revenue computed on a straight-line basis in accordance with GAAP) paid by tenants under the terms of their leases. This amount, divided by the rentable square feet leased at the Property as of December 31, 1998, is the Annualized Base Rent per Leased Square Foot.
- (4) Annualized Net Effective Rent is the Annualized Base Rent in effect as of December 31, 1998, less (for gross leases) real estate taxes and insurance, common area and other operating expenses and (for all leases) amortized tenant improvements and leasing commissions. This amount, divided by the rentable square feet leased at the Property as of December 31, 1998, is the Annualized Net Effective Rent per Leased Square Foot.
- (5) Agouron Pharmaceuticals, Inc. and Warner-Lambert Company have entered into a merger agreement. The closing of the merger is subject to certain conditions, including the approval of the common stockholders of Agouron Pharmaceuticals, Inc. and the receipt of customary antitrust clearance. If approved, Agouron Pharmaceuticals, Inc. will become a wholly owned subsidiary of Warner-Lambert Company.
- (6) The R.W. Johnson Pharmaceutical Research Institute is a wholly owned subsidiary of Johnson & Johnson.
- (7) Syntro Corporation is a wholly owned subsidiary of Schering-Plough Corporation.
- (8) Robert Prater Associates will vacate the Property on or before April 1999, and the entire Property will be renovated.
- (9) This Property is currently under renovation.
- (10) Gillette Capital Corporation is a wholly owned subsidiary of The Gillette Company, the guarantor of the lessee's obligations under the lease.
- (11) Genetic Therapy, Inc. is a wholly owned subsidiary of Novartis AG.
- (12) The unleased portion of this Property is currently under renovation.
- (13) Shire Pharmaceuticals, plc subleases its space from Quest Diagnostics, Inc.
- (14) Weighted Average based on a percentage of aggregate leased square feet.

LOCATION AND TYPE OF SPACE

The following table sets forth, as of December 31, 1998, the gross revenues and type of space within our Properties by rentable square footage in each of our existing markets.

GROSS REVENUES AND TYPE OF SPACE

GEOGRAPHIC AREA -----	TOTAL RENTABLE SQUARE FOOTAGE -----	% OF TOTAL RENTABLE SQUARE FOOTAGE -----	ANNUALIZED BASE RENT(1) -----	% OF ANNUALIZED BASE RENT -----
San Diego	457,955	12.8%	\$11,580,607	19.0%
San Francisco Bay Area	355,398	9.9	5,363,546	8.8
Seattle	328,556	9.2	8,726,915	14.3
Suburban Washington, D.C.	1,558,293	43.4	20,483,989	33.6
Eastern Massachusetts	278,927	7.8	7,724,267	12.6
New Jersey/Suburban Philadelphia	353,048	9.8	3,496,900	5.7
Southeast	255,977	7.1	3,661,122	6.0
Total	3,588,154 ----- -----	100.0% ----- -----	\$61,037,346 ----- -----	100.0% ----- -----

(1) Annualized Base Rent means the annualized fixed base rental amount in effect as of December 31, 1998 (using rental revenue computed on a straight-line basis in accordance with GAAP) paid by tenants under the terms of their leases.

TENANTS

Our Properties are leased principally to tenants engaged in a variety of activities in the Life Science Industry. The following table sets forth information regarding leases with our 20 largest tenants based upon Annualized Base Rent as of December 31, 1998.

20 LARGEST TENANTS

TENANT	NUMBER OF LEASES	REMAIN-ING INITIAL LEASE TERM IN YEARS	APPROXIMATE AGGREGATE RENTABLE SQUARE FEET	PERCENTAGE OF AGGREGATE LEASED SQUARE FEET	ANNUALIZED BASE RENT (IN THOUSANDS)(1)	PERCENTAGE OF AGGREGATE PORTFOLIO ANNUALIZED BASE RENT	ANNUALIZED NET EFFECTIVE RENT (IN THOUSANDS)(2)	PERCENTAGE OF AGGREGATE PORTFOLIO ANNUALIZED NET EFFECTIVE RENT
American Medical Laboratories, Inc.	1	18.0	248,186	7.4%	\$4,341	7.1%	\$4,341	7.7%
Pfizer, Inc.	1	13.3	96,500	2.9%	3,948	6.4%	3,948	7.0%
Corixa Corporation(3)	2	1.0 1.4 7.7	83,534	2.5%	3,049	4.9%	2,917	5.2%
Agouron Pharmaceuticals, Inc.(4)	2	1.8 2.8	70,506	2.1%	2,309	3.8%	2,232	4.0%
Matrix Pharmaceutical, Inc.	1	12.3	67,050	2.0%	2,108	3.5%	1,644	2.9%
Intracel Corporation	1	8.1	131,511	3.9%	1,904	3.1%	1,903	3.4%
Dendreon Corporation	1	10.0	70,647	2.1%	1,889	3.1%	1,837	3.3%
Advanced Tissue Sciences, Inc.	2	1.7	84,524	2.5%	1,723	2.8%	1,390	2.5%
U.S. Army Corps of Engineers(5)	1	0.4 2.8	105,000	3.2%	1,563	2.6%	1,399	2.5%
North American Vaccine, Inc.	2	3.8 9.3	110,531	3.3%	1,496	2.5%	1,427	2.5%
University of Washington	1	9.1	47,746	1.4%	1,458	2.4%	1,210	2.1%
U.S. Food & Drug Administration	1	15.1	68,711	2.1%	1,414	2.3%	1,138	2.0%
Fred Hutchinson Cancer Research Center	2	5.9	66,754	2.0%	1,395	2.3%	1,394	2.5%
MedImmune, Inc.	2	7.9	84,668	2.5%	1,348	2.2%	1,338	2.4%
R.W. Johnson Pharmaceutical Research Institute(6)	1	0.1	44,997	1.4%	1,334	2.2%	1,261	2.2%
The Scripps Research Institute	2	1.4 2.7	41,538	1.2%	1,334	2.2%	1,072	1.9%
Axys Pharmaceuticals, Inc.	1	3.0	55,548	1.7%	1,266	2.1%	1,194	2.1%
Gene Logic Inc.	1	8.9	49,225	1.5%	1,192	2.0%	742	1.3%
Gillette Capital Corporation(7)	1	7.3	62,739	1.9%	1,039	1.7%	1,039	1.8%
University of Massachusetts	1	4.3	33,244	1.0%	997	1.6%	997	1.8%
Total/Weighted Average(8)	27	8.2	1,623,159	48.6%	\$37,107	60.8%	34,423	61.1%

- (1) Annualized Base Rent means the annualized fixed base rental amount in effect as of December 31, 1998 (using rental revenue computed on a straight-line basis in accordance with GAAP) paid by tenants under the terms of their leases.
- (2) Annualized Net Effective Rent is the Annualized Base Rent in effect as of December 31, 1998 (using rental revenue computed on a straight-line basis in accordance with GAAP), less (for gross leases) real estate taxes and insurance, common area and other operating expenses and (for all leases) amortized tenant improvements and leasing commissions.
- (3) Of the 83,534 rentable square feet leased to Corixa Corporation, portions of their leases with respect to 1,232 square feet, 12,305 square feet and 69,997 square feet are subject to expiration in May 1999, December 1999 and January 2005, respectively.
- (4) Agouron Pharmaceuticals, Inc. and Warner-Lambert Company have entered into a merger agreement. The closing of the merger is subject to certain conditions, including the approval of the common stockholders of Agouron Pharmaceuticals, Inc. and the receipt of customary antitrust clearance. If approved, Agouron Pharmaceuticals, Inc. will become a wholly owned subsidiary of Warner-Lambert Company.
- (5) Of the 105,000 rentable square feet leased to the U.S. Army Corps of Engineers, portions of their lease with respect to 30,000 square feet and with respect to 75,000 square feet are subject to expiration in 1999 and 2001, respectively.
- (6) The R.W. Johnson Pharmaceutical Research Institute is a wholly owned subsidiary of Johnson & Johnson.
- (7) Gillette Capital Corporation is a wholly owned subsidiary of The Gillette Company, the guarantor of the lessee's obligations under the lease.
- (8) Weighted Average based on percentage of aggregate leased square feet.

#### ITEM 3. LEGAL PROCEEDINGS.

On August 10, 1998, we filed a demand for arbitration against Mr. Alan Gold, our former President, alleging various claims arising from his employment relationship and seeking declaratory relief. On October 8, 1998, Mr. Gold filed a response and alleged claims against us, arising from his employment relationship, which we also expect to be resolved in the arbitration. The arbitration is scheduled to take place April 19, 1999 through April 23, 1999.

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

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

We did not submit any matters to a vote of security holders in the fourth quarter of the fiscal year ended December 31, 1998.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "ARE". On March 10, 1999, the last reported sales price per share of our common stock was \$28-5/8, and there were approximately 127 holders of record of our common stock (excluding beneficial owners whose shares are held in the name of Cede & Co.). The following table sets forth the quarterly high and low sales prices per share of our common stock as reported on the NYSE and the distributions paid by us with respect to each such period.

Period(1) -----	High -----	Low -----	Per Share Distribution -----
1997 ----			
May 28, 1997 to June 30, 1997	22-1/4	20-5/8	\$0.1275(2)
Third Quarter	28-9/16	21-5/8	\$0.40
Fourth Quarter	31-7/8	26-5/8	\$0.40
1998 ----			
First Quarter	34-9/16	30-7/8	\$0.40
Second Quarter	34-1/2	28-1/2	\$0.40
Third Quarter	31-11/16	25-3/16	\$0.40
Fourth Quarter	31-15/16	25-15/16	\$0.40

(1) Period commencing on the date our common stock began trading on the NYSE and ending on December 31, 1998. Prior to our initial public offering in June 1997 and the 1,765,923 to 1 stock split in connection therewith, we paid the following dividends on our common stock during 1997: (1) February 3, 1997, \$1,549.82 per share; (2) March 31, 1997, \$750.01 per share; and (3) June 5, 1997, \$475.00 per share.

(2) We paid a distribution of \$0.1275 per share of our common stock on July 18, 1997 for the period May 28, 1997 through June 30, 1997, which is approximately equivalent to a quarterly distribution of \$0.40 per share for the full calendar quarter.

Future distributions on our common stock will be determined by our Board of Directors and will be dependent upon a number of factors, including actual cash available for distribution, our financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as our Board of Directors deems relevant. To maintain our qualification as a REIT, we must make annual distributions to stockholders of at least 95% of our taxable income, determined without regard to deductions for dividends paid and by excluding any net capital gains. Under certain circumstances, we may be required to make distributions in excess of cash flow available for distributions to meet the distribution requirements. In that case, we may borrow funds or may raise funds through the issuance of additional debt or equity capital. We cannot assure you that we will make any future distributions.

ITEM 6. SELECTED FINANCIAL DATA.

The following table should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

	Year ended December 31				For the Period
	1998	1997	1996	1995	October 27, 1994 (inception) through December 31, 1994
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
<b>OPERATING DATA:</b>					
Total revenue.....	\$ 61,016	\$ 34,846	\$ 17,673	\$ 9,923	\$ 1,011
Total expenses.....	41,613	37,643	15,498	9,057	1,659
Income (loss) from operations.....	19,403	(2,797)	2,175	866	(648)
Charge in lieu of taxes.....	--	--	--	(105)	--
Net income (loss).....	\$ 19,403	\$ (2,797)	\$ 2,175	\$ 761	\$ (648)
Net income (loss) per share of common stock (pro forma for 1997, pro forma and restated for 1996, 1995 and 1994)					
- Basic.....	\$ 1.60	\$ (0.35)	\$ 0.60	\$ 0.43	\$ (0.37)
- Diluted.....	\$ 1.58	\$ (0.35)	\$ 0.60	\$ 0.43	\$ (0.37)
Weighted average shares of common stock outstanding (pro forma for 1997, pro forma and restated for 1996, 1995 and 1994)(1)					
- Basic.....	12,098,959	8,075,864	3,642,131	1,765,923	1,765,923
- Diluted.....	12,306,470	8,075,864	3,642,131	1,765,923	1,765,923
Cash dividends declared per share of common stock (pro forma for 1997, pro forma and restated for 1996 and 1995)					
	\$ 1.60	\$ 1.60	\$ 0.87	\$ 0.51	\$ --
<b>BALANCE SHEET DATA (AT PERIOD END):</b>					
Rental properties - net of accumulated depreciation.....	\$ 471,907	\$ 227,076	\$ 146,960	\$ 54,353	\$ 54,366
Total assets.....	\$ 530,296	\$ 248,454	\$ 160,480	\$ 58,702	\$ 58,600
Mortgage loans payable and unsecured line of credit.....	\$ 309,829	\$ 70,817	\$ 113,182	\$ 40,894	\$ 39,164
Total liabilities.....	\$ 330,527	\$ 81,537	\$ 120,907	\$ 42,369	\$ 40,119
Mandatorily redeemable Series V Preferred Stock.....	\$ --	\$ --	\$ 25,042	\$ --	\$ --
Stockholders' equity.....	\$ 199,769	\$ 166,917	\$ 14,531	\$ 16,333	\$ 16,481
<b>OTHER DATA:</b>					
Net income (loss).....	\$ 19,403	\$ (2,797)	\$ 2,175	\$ 761	\$ (648)
Add:					
Special bonus(2).....	--	353	--	--	--
Stock compensation(3).....	--	4,239	--	--	--
Post-retirement benefit(4).....	--	632	438	--	--
Acquisition LLC financing costs(5).....	--	6,973	--	--	--
Write-off of unamortized loan costs(6).....	--	2,295	--	--	--
Depreciation and amortization.....	10,296	4,866	2,405	1,668	63
Funds from operations(7).....	\$ 29,699	\$ 16,561	\$ 5,018	\$ 2,429	\$ (585)
Cash flows from operating activities.....	\$ 26,143	\$ 3,883	\$ (1,646)	\$ 355	\$ (1,024)
Cash flows from investing activities.....	\$ (246,753)	\$ (87,620)	\$ (94,900)	\$ (1,554)	\$ (29,924)
Cash flows from financing activities.....	\$ 220,104	\$ 84,101	\$ 97,323	\$ 927	\$ 32,139
Number of properties owned at period end.....	51	22	12	4	4
Rentable square feet of properties owned at period end.....	3,588,154	1,747,837	1,031,070	313,042	313,042
Occupancy of properties owned at period end.....	93%	97%	97%	96%	88%

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

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

### OVERVIEW

In June 1997, we completed an initial public offering of our common stock (the "Offering"). We issued 7,762,500 shares of our common stock in connection with the Offering (including shares issued in the related exercise of the underwriters' overallotment option) and raised \$138.9 million, net of underwriting discounts and commissions, advisory fees and offering costs.

Since the Offering, we have continued to devote substantially all of our resources to the acquisition, selective development and management of high quality, strategically located properties leased principally to tenants in the life science industry (we refer to these properties as "Life Science Facilities").

In 1998, we:

- Sold 1,150,000 shares of our common stock in May to PaineWebber Incorporated for inclusion in the PaineWebber Equity Trust REIT Series I, a unit investment trust. We received aggregate proceeds from this transaction, net of underwriting discounts and commissions, advisory fees and offering costs, of approximately \$32.7 million.
- Increased our borrowing capacity under our line of credit from \$150 million to \$250 million in August, thereby providing additional flexibility in pursuing acquisitions and funding tenant improvements and capital expenditures.
- Acquired a total of 29 properties with approximately 1.8 million in rentable square feet, including two properties aggregating approximately 105,000 rentable square feet that will undergo major renovation.

Our primary source of revenue is rental income and tenant recoveries from leases at the properties we own. Of the 51 properties we owned as of December 31, 1998, four were acquired in calendar year 1994, eight in 1996 (the "1996 Acquired Properties"), 10 in 1997 (the "1997 Acquired Properties") and 29 in 1998 (the "1998 Acquired Properties"). As a result of our acquisition activities, there were significant increases in total revenues and expenses for 1998 as compared to 1997.

### RESULTS OF OPERATIONS

COMPARISON OF THE YEAR ENDED DECEMBER 31, 1998 TO THE YEAR ENDED DECEMBER 31, 1997

Rental revenue increased by \$22.9 million, or 89%, to \$48.5 million for 1998 compared to \$25.6 million for 1997. The increase resulted primarily from the 1997 Acquired Properties being owned for a full period and the addition of the 1998 Acquired Properties. A portion of the increase was due to \$277,000 in rental termination payments received in 1998 associated with leases at two of the properties. Rental revenue from the properties we acquired before January 1, 1997 (the "Same Properties") increased by \$234,000, or 1.6%, due to increases in rental rates and occupancy.

Tenant recoveries increased by \$2.9 million, or 35%, to \$11.3 million for 1998 compared to \$8.4 million for 1997. The increase resulted primarily from the 1997 Acquired Properties being owned for a full period and the addition of the 1998 Acquired Properties. Tenant recoveries for the Same Properties increased by \$149,000, or 2.8%, generally due to the improved identification and recovery of costs at certain properties.

Interest and other income increased by \$398,000, or 48%, to \$1.2 million for 1998 compared to \$836,000 for 1997, resulting primarily from \$511,000 of interest income from a \$6.0 million secured loan made in connection with the acquisition of one of the 1998 Acquired Properties. This increase was partially offset by a decrease in interest income resulting from a lower level of cash equivalents in 1998 compared to 1997, because cash equivalents had been used to acquire properties.

Rental operating expenses increased by \$4.6 million, or 52%, to \$13.4 million for 1998 compared to \$8.8 million for 1997. The increase resulted almost entirely from the 1997 Acquired Properties being owned for a full period and the addition of the 1998 Acquired Properties. Operating expenses for the Same Properties decreased by \$145,000, or 2.5%, primarily due to lower premiums on our blanket property and liability insurance policies.

The following is a comparison of property operating data 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") for the Same Properties (in thousands, except percentage data):

	FOR THE YEAR ENDED DECEMBER 31		
	1998	1997	CHANGE
-----			
GAAP BASIS:			
Revenue	\$ 20,878	\$ 20,432	2.2%
Rental operating expenses	5,616	5,761	-2.5%
	-----	-----	-----
Net operating income	\$ 15,262	\$ 14,671	4.0%
	-----	-----	-----
CASH BASIS (1):			
Revenue	\$ 22,401	\$ 21,520	4.1%
Rental operating expenses	5,616	5,761	-2.5%
	-----	-----	-----
Net operating income	\$ 16,785	\$ 15,759	6.5%
	-----	-----	-----

(1) Revenue and operating expenses are computed in accordance with GAAP, except that revenue excludes the effect of straight line rent adjustments.

General and administrative expenses increased by \$1.4 million, or 56%, to \$3.9 million for 1998 compared to \$2.5 million for 1997 due to owning a larger portfolio of properties in 1998 compared to 1997 and increased costs incurred as a result of being a public company for a full year.

Interest expense increased by \$7.0 million, or 100%, to \$14.0 million for 1998 compared to \$7.0 million for 1997. The increase resulted from indebtedness incurred to acquire the 1997 Acquired Properties and the 1998 Acquired Properties, offset by a reduction in ongoing interest expense due to the payoff of \$72.7 million in secured notes payable in June 1997 with proceeds from the Offering.

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

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

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

Depreciation and amortization increased by \$5.4 million, or 110%, to \$10.3 million for 1998 compared to \$4.9 million for 1997. The increase resulted primarily from depreciation associated with the 1997 Acquired Properties being owned for a full period and the addition of the 1998 Acquired Properties.

As a result of the foregoing, net income was \$19.4 million for 1998 compared to a net loss of \$2.8 million for 1997.

#### COMPARISON OF THE YEAR ENDED DECEMBER 31, 1997 TO THE YEAR ENDED DECEMBER 31, 1996

Rental revenue increased by \$12.7 million, or 98%, to \$25.6 million for 1997 compared to \$12.9 million for 1996. The increase resulted primarily from the 1996 Acquired Properties being owned for a full period and the addition of the 1997 Acquired Properties. Rental revenue from the properties we acquired before January 1, 1996 (the "1997 Same Properties") increased by \$180,000, or 2%. This increase resulted primarily from the conversion of 19,310 square feet of storage space to higher rent laboratory space at 10933 North Torrey Pines Road in October 1996.

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

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

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

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

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

The amounts shown for special bonus, post-retirement benefit expense, stock compensation expense, Acquisition LLC financing costs and write-off unamortized loan costs in 1997 relate primarily to transactions associated with the Offering. We have described them in the prior section under " - Comparison of the Year Ended December 31, 1998 to the Year Ended December 31, 1997."

Depreciation and amortization increased by \$2.5 million, or 104%, to \$4.9 million for 1997 compared to \$2.4 million for 1996. The increase resulted primarily from depreciation associated with the 1996 Acquired Properties being owned for a full period and the addition of the 1997 Acquired Properties.

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

#### LIQUIDITY AND CAPITAL RESOURCES

##### CASH FLOWS

Net cash provided by operating activities for 1998 increased by \$22.2 million to \$26.1 million compared to \$3.9 million for 1997. The increase resulted primarily from operating cash flows from the addition of the 1997 Acquired Properties and the 1998 Acquired Properties.

Net cash used in investing activities increased by \$159.2 million to \$(246.8) million for 1998 compared to \$(87.6) million for 1997. The increase resulted from \$200.6 million used for the acquisition of the 1998 Acquired Properties, \$21.2 million used for additions to rental properties, \$18.9 million used for additions to land under development and \$6.0 million used for the addition of a note receivable made in connection with the acquisition of one of the 1998 Acquired Properties.

Net cash provided by financing activities increased by \$136.0 million to \$220.1 million for 1998 compared to \$84.1 million for 1997. This increase resulted from \$35.2 million in net proceeds from secured debt, \$171.0 million in borrowings under our unsecured line of credit, \$32.7 million in net proceeds from the issuance of our common stock and \$386,000 in net proceeds from the exercise of stock options, partially offset by payments of \$19.2 million in dividends payable on our common stock.

##### COMMITMENTS

We are committed to complete the construction of a building and certain related improvements in San Diego, California at a remaining cost of approximately \$4.9 million under the terms of two leases. In addition, we are committed to complete the construction of a building and certain related improvements in Gaithersburg, Maryland at a remaining cost of between \$7.8 million and \$16.8 million (depending on the level of improvements to the facility elected by the tenant) under the terms of a lease. Under the terms of the lease, the tenant's rental rate will be adjusted depending on the ultimate cost of the improvements.

We are also committed to fund approximately \$11.1 million for investments in limited partnerships and rental properties, including the construction of tenant improvements under the terms of various leases. Of this amount, approximately \$3.2 million has been set aside in restricted cash accounts to complete the conversion of existing space into higher rent generic laboratory space (as well as certain related improvements) at 1102/1124 Columbia Street and 3000/3018 Western Avenue.

RESTRICTED CASH

As of December 31, 1998, we had \$9.9 million in cash and cash equivalents, including \$7.5 million in restricted cash. Restricted cash consists of the following (in thousands):

	Amount
	-----
Reserve for tenant improvements established pursuant to leases at two of our properties (1)	\$ 3,220
Funds held in trust as additional security required under the terms of two of our secured notes payable	3,360
Security deposit funds based on the terms of certain lease agreements	911
	-----
	\$ 7,491
	-----

(1) Of this amount, \$2.1 million was returned to us in January 1999 upon the completion of tenant improvements at 3000/3018 Western Avenue.

SECURED DEBT

Secured debt as of December 31, 1998 consists of the following (dollars in thousands):

COLLATERAL	BALANCE AT DECEMBER 31, 1998	STATED INTEREST RATE	MATURITY DATE
	-----	-----	-----
3535/3565 General Atomics Court, San Diego, CA	\$ 17,578	9.00%	December 2014
1431 Harbor Bay Parkway, Alameda, CA	8,500	7.165%	January 2014
1102/1124 Columbia Street, Seattle, WA	20,729	7.75%	May 2016
100/800/801 Capitola Drive, Durham, NC	12,547	8.68%	December 2006
14225 Newbrook Drive, Chantilly, VA and 3000/3018 Western Avenue, Seattle, WA	36,326	7.22%	May 2008
620 Memorial Drive, Cambridge, MA (1)	20,149	9.125%	May 2007
	-----		
	\$ 115,829		
	-----		

(1) The balance shown includes an unamortized premium of \$2,262 so that the effective rate of the loan is 7.25%.

The following is a summary of the scheduled principal payments for our secured debt as of December 31, 1998 (in thousands):

YEAR ----	AMOUNT -----
1998	\$ 3,000
1999	2,907
2000	3,145
2001	3,395
2002	3,666
Thereafter	97,454
Subtotal	113,567
Unamortized premium	2,262
	\$ 115,829
	-----
	-----

#### UNSECURED LINE OF CREDIT

Alexandria has an unsecured line of credit which provides for borrowings of up to \$250 million. Prior to August 1998, our line of credit provided for borrowings of up to \$150 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 market 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 additional unencumbered properties, borrowings available under the line of credit will increase, but may not exceed \$250 million. As of December 31, 1998, borrowings under the line of credit were limited to approximately \$214,000,000, and carried a weighted average interest rate of 6.48%.

The line of credit expires May 31, 2000 and provides for annual extensions (provided there is no default) for two additional one-year periods upon notice by the company and consent of the participating banks.

In September 1998, we entered into an interest rate swap agreement with BankBoston, N.A. (the "Bank") to hedge our exposure to variable interest rates associated with our line of credit. Interest paid is calculated at a fixed interest rate of 5.43% through May 31, 2000 on a notional amount of \$50 million and interest received is calculated at one month LIBOR. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense. The fair value of the swap agreement and changes in the fair value as a result of changes in market interest rates are not recognized in the financial statements.

#### OTHER RESOURCES AND LIQUIDITY REQUIREMENTS

On May 29, 1998, we sold 1,150,000 shares of our common stock to PaineWebber Incorporated for inclusion in the PaineWebber Equity Trust REIT Series I, a unit investment trust. The shares were issued at a price of \$30.5625 per share (before discounts and commissions) resulting in aggregate proceeds to us, net of offering costs of \$2.4 million, of approximately \$32.7 million.

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 real estate investment trust. We also believe that net cash provided by operations 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 activities, scheduled debt maturities, renovations, expansions and other non-recurring capital improvements, through long-term secured and unsecured indebtedness, including borrowings under the line of credit, and the issuance of additional debt and/or equity securities.

#### EXPOSURE TO ENVIRONMENTAL LIABILITIES

In connection with the acquisition of all of 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.

#### 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 (excluding capital expenditures and tenant improvements that are recoverable from tenants or are revenue-enhancing) for the years ended December 31, 1998, 1997, 1996 and 1995, attributable to leases that commenced at our properties after our acquisition.

	TOTAL/ WEIGHTED AVERAGE	1998	1997	1996	1995
	-----	-----	-----	-----	-----
<b>CAPITAL EXPENDITURES:</b>					
Weighted average square feet in portfolio	5,112,759	2,891,863	1,342,216	563,901	314,779
Property related capital expenditures	\$1,086,000	\$ 341,000	\$ 547,000	\$ 181,000	\$ 17,000
Per weighted average square foot in portfolio	\$ 0.21	\$ 0.12	\$ 0.41	\$ 0.32	\$ 0.05
<b>TENANT IMPROVEMENTS AND LEASING COSTS:</b>					
<b>RETENANTED SPACE:</b>					
Retenanted square feet	359,470	88,181	40,953	180,398	49,938
Tenant improvements and leasing costs	\$2,438,000	\$ 478,000	\$ 164,000	\$1,220,000	\$576,000
Per square foot leased	\$ 6.78	\$ 5.42	\$ 4.00	\$ 6.76	\$ 11.53
<b>RENEWAL SPACE:</b>					
Renewal square feet	119,417	77,038	1,232	25,063	16,084
Tenant improvements and leasing costs	\$ 117,000	\$ 69,000	\$ -	\$ -	\$ 48,000
Per square foot leased	\$ 0.98	\$ 0.90	\$ -	\$ -	\$ 2.98

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. We maintain an active preventive maintenance program at each of our properties to minimize required capital improvements.

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

#### INFLATION

As of December 31, 1998, approximately 78% 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 17% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 83% of our leases (on a square footage basis) contain

effective annual rent escalations that are either fixed (ranging from 2.5% to 4.0%) or indexed based on the consumer price index or other index. Accordingly, we do not believe that our earnings or cash flow are subject to any significant risk of inflation. An increase in inflation, however, could result in an increase in our variable rate borrowing cost, including borrowings under the unsecured line of credit.

#### IMPACT OF THE YEAR 2000

The year 2000 issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Any of our computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send tenant invoices, provide building services or engage in similar normal business activities.

We rely on computer technologies to operate our business. In October 1998, we formed an internal task force to identify, assess and evaluate our critical systems to determine which year 2000 related problems may cause system errors or failures. We have identified three major areas as critical systems: (i) internal accounting systems, (ii) systems of significant tenants, vendors and financial institutions; and (iii) internal building systems at our properties. We have engaged consulting professionals from a nationally recognized accounting firm to review our plans and assist us with our solutions.

The following discussion of our year 2000 project contains numerous forward-looking statements based on inherently uncertain information. The cost of our evaluation and the date on which we plan to complete our internal evaluation and related remediation projects are based on our best estimates. We derived these estimates using a number of assumptions of future events, including the continued availability of internal and external resources, third-party modifications and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results may be materially different from those anticipated. Moreover, although we believe that we will be operating in a year 2000 compliant manner prior to December 31, 1999, there can be no assurance that any failure to modify a critical system would not have a material adverse effect on our operations.

#### READINESS

Our year 2000 project is designed to ensure that all critical systems have been evaluated and will be suitable for continued use into and beyond the year 2000. We expect to have completed our identification and initial evaluation of critical systems in the first quarter of 1999, and we expect we will have implemented substantially all of the necessary remedial actions by mid-1999.

We have completed our review of our internal accounting systems. Our most significant accounting systems, our general ledger system and our accounts payable system, are currently year 2000 compliant. The systems will be tested, but we do not anticipate year 2000 problems. Our billing system is currently not year 2000 compliant. We have been notified by the vendor that they will be distributing the year 2000 compliant upgrade to the software at no additional cost by June 1999. Once we receive this upgrade, the software will be tested for compatibility and year 2000 compliance.

We place a high degree of reliance on computer systems of third parties, such as tenants, vendors and financial institutions. Although we are assessing the readiness of these third parties, there can be no guarantee that the failure of these third parties to modify their systems in advance of December 31, 1999 would not have a material adverse effect on our operations. We have surveyed our most significant third-party vendors and financial institutions, and all surveyed indicated that they have implemented year 2000 programs. We are currently in the process of surveying all major vendors and suppliers for their year 2000 readiness. In addition, we are in the process of surveying our significant tenants for their year 2000 readiness and expect to complete such tenant assessments in the first quarter of 1999. We are continually participating in such surveys with new tenants, vendors and other third-party suppliers. If future risk

assessments of third-party suppliers or tenants indicate significant exposure from a supplier's year 2000 problem, such supplier or tenant will be asked to demonstrate how such problems will be addressed. We believe that we have viable alternatives for each of our major vendors.

The final critical system the task force is evaluating consists of internal systems in our properties that may have embedded microprocessors with potential year 2000 problems, mainly building systems, including heating, ventilation and air conditioning systems, elevators and security systems. We are in the process of identifying the areas and systems that use embedded microprocessors and will determine whether any modification or replacement is necessary. We anticipate using the services of outside experts to assist us with this phase of our year 2000 project. The evaluation of these areas is in process and is expected to be completed in the first quarter of 1999, and any required modifications are expected to be made by mid-1999.

#### COST

We do not expect our year 2000 project costs, including the costs of any remedial activities and outside experts, to be material. The aggregate cost of purchasing conversion packages for the accounting systems and the cost to survey tenants, vendors and financial institutions are not expected to be material. In addition, any costs incurred to replace or upgrade building systems will constitute property maintenance costs, and are therefore generally recoverable from the tenants pursuant to the terms of their existing leases.

#### RISKS

We believe that the principal risks associated with the year 2000 issue include the risk of disruption of our operations due to operational failures of third parties, including tenants, vendors and financial institutions, and the risk of business interruption due to building system failures. We do not believe that the risk of disruptions due to operational failures of vendors or financial institutions is significant, because our major vendors and financial institutions are currently year 2000 compliant, and we believe we have viable alternatives for such suppliers. If any of our major tenants do not become year 2000 compliant on schedule, such tenant's operations and financial condition could be adversely affected, which may impact the tenant's ability to meet its rent obligations. Similarly, if our building systems failed due to year 2000 problems, services to our properties and tenants, such as mechanical and security services, could be interrupted, resulting in potential rent disputes with the tenants. We believe, however, that our early involvement in identifying, assessing and evaluating our critical systems should minimize the risk of year 2000 problems to our operations.

#### CONTINGENCY PLANS

We believe that development of contingency plans for significant exposures to potential year 2000 problems are integral to our planning process. Once we have completed our identification and evaluation of critical systems and have completed the subsequent remedial action phase, we will again assess our exposure to year 2000 problems. Based on this assessment, we intend to develop appropriate contingency plans for the systems. Because we anticipate being substantially year 2000 compliant by mid-1999, we believe that adequate time exists to ensure that alternatives can be developed, assessed and implemented prior to the end of 1999. Based on our assessment of the success or adequacy of these alternatives, we intend to develop contingency plans. We cannot give assurance, however, that failure to develop an alternative or an appropriate contingency plan would not have a material adverse effect on our operations.

#### 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 March 1995 White Paper (the "White Paper"), which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for our discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. The White Paper defines FFO as net income (loss) (computed in accordance with generally accepted accounting principles ("GAAP")), excluding gains (or losses) from debt restructuring and sales of property, and excluding amounts for extraordinary and non-recurring items, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of 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, 1998, 1997, and 1996 (in thousands):

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
Net income (loss)	\$19,403	\$(2,797)	\$2,175
Add:			
Special bonus	-	353	-
Stock compensation	-	4,239	-
Post-retirement benefit	-	632	438
Acquisition LLC financing costs	-	6,973	-
Write-off of unamortized loan costs	-	2,295	-
Depreciation and amortization	10,296	4,866	2,405
Funds from Operations	\$29,699	\$16,561	\$5,018

#### PROPERTY AND LEASE INFORMATION

The following table is a summary of our property portfolio as of December 31, 1998 (dollars in thousands):

	NUMBER OF PROPERTIES	RENTABLE SQUARE FEET	ANNUALIZED BASE RENT	OCCUPANCY PERCENTAGE
REGION:				
Suburban Washington D.C.	17	1,533,833	\$20,917	94.5%(1)
California - San Diego	7	428,955	11,529	98.9%
California - San Francisco Bay	6	355,398	5,364	91.4%(1)
Southeast	4	255,977	3,661	99.1%(1)
New Jersey/Suburban Philadelphia	5	273,048	3,497	100.0%
Eastern Massachusetts	5	278,927	7,724	100.0%
Washington - Seattle	3	328,556	8,727	96.7%
Subtotal	47	3,454,694	61,419	96.2%
Renovation/Repositioning Properties	4	133,460	88	7.3%
Total	51	3,588,154	\$61,507	92.9%

1) All, or 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, 1998:

YEAR OF LEASE EXPIRATION	NUMBER OF EXPIRING LEASES	SQUARE FOOTAGE OF EXPIRING LEASES	PERCENTAGE OF AGGREGATE PORTFOLIO LEASE SQUARE FOOT	ANNUALIZED BASE RENT OF EXPIRING LEASES (PER SQUARE FOOT)
1999	47	332,161	10.0%	\$ 18.08
2000	26	383,600	11.5%	\$ 16.89
2001	22	424,382	12.7%	\$ 18.93
2002	11	118,086	3.5%	\$ 14.25
2003	17	366,782	11.0%	\$ 15.46
Thereafter	35	1,706,942	51.5%	\$ 19.43

#### ITEM 7A. 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 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 agreement, the effects of interest rate changes are reduced. Based on interest rates at December 31, 1998, 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 agreement, by approximately \$1.4 million. 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 agreement, by approximately \$1.4 million. A 1% increase interest rates on our secured debt and interest rate swap agreement would decrease their fair value by approximately \$7.7 million. A 1% decrease in interest rates on our secured debt and interest rate swap agreement would increase their fair value by approximately \$8.8 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 interest rate swap agreement. 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.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required by Regulation S-X are included in this Report on Form 10-K beginning on page F-1.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by Item 10 is incorporated by reference from our definitive proxy statement to be mailed in connection with our annual meeting of stockholders to be held on April 15, 1999.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 11 is incorporated by reference from our definitive proxy statement to be mailed in connection with our annual meeting of stockholders to be held on April 15, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 12 is incorporated by reference from our definitive proxy statement to be mailed in connection with our annual meeting of stockholders to be held on April 15, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 13 is incorporated by reference from our definitive proxy statement to be mailed in connection with our annual meeting of stockholders to be held on April 15, 1999.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) FINANCIAL STATEMENTS AND SCHEDULES

The following consolidated financial information is included as a separate section of this Annual Report on Form 10-K:

	PAGE
	----
Report of Independent Auditors . . . . .	F-1
Audited Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 1998 and 1997 . . . . .	F-2
Consolidated Statements of Operations for the Years Ended December 31, 1998, 1997 and 1996 . . . . .	F-3
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1998, 1997 and 1996 . . . . .	F-4
Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996 . . . . .	F-5
Notes to Consolidated Financial Statements for the Years Ended December 31, 1998, 1997 and 1996 . . . . .	F-6
Schedule III - Consolidated Financial Statement of Rental Properties and Accumulated Depreciation . . . . .	
	F-23

(B) REPORTS ON FORM 8-K.

On November 20, 1998, Alexandria filed a Current Report on Form 8-K, dated November 20, 1998, to report the acquisition of certain properties.

(C) EXHIBITS.

EXHIBIT NUMBER -----	EXHIBIT -----
3.1++	Articles of Amendment and Restatement of Alexandria
3.2++	Certificate of Correction of Alexandria
3.3++	Amended and Restated Bylaws of Alexandria
3.4	Amendment to Amended and Restated Bylaws of Alexandria
4.1+	Specimen Certificate representing shares of Common Stock
10.1*	Second Amendment to the Executive Employment Agreement and General and Special Release by and between Alexandria and Jerry M. Sudarsky, dated May 30, 1997
10.2*	Amended and Restated Executive Employment Agreement by and between Alexandria and Joel S. Marcus, dated January 5, 1994, and amended as of March 28, 1997
10.3+++	Executive Employment Agreement between Alexandria and James H. Richardson, dated July 31, 1997
10.4***	Amended and Restated Executive Employment Agreement between Alexandria and Peter J. Nelson, dated May 20, 1998
10.5	Severance Agreement between Alexandria and Lynn Anne Shapiro, dated January 1, 1999
10.6	Executive Employment Agreement between Alexandria and Vincent R. Ciruzzi, dated April 20, 1998

EXHIBIT  
NUMBER

EXHIBIT

- 
- 10.7\* Registration Rights Agreement by and between Alexandria and Health Science Properties Holding Corporation, dated June 2, 1997
  - 10.8\*\* Amended and Restated 1997 Stock Award and Incentive Plan of Alexandria
  - 10.9+ Form of Non-Employee Director Stock Option Agreement for use in connection with options issued pursuant to the 1997 Stock Option Plan
  - 10.10+ Form of Incentive Stock Option Agreement for use in connection with Options issued pursuant to the 1997 Stock Option Plan
  - 10.11+ Form of Nonqualified Stock Option Agreement for use in connection with Options issued pursuant to the 1997 Stock Option Plan
  - 10.12\*+ First Amended and Restated Revolving Loan Agreement among Alexandria, the Operating Partnership, ARE-QRS Corp., ARE Acquisitions, LLC, the Other Borrowers Then or Hereafter a Party Thereto, the Banks therein named, the Other Banks Which May Become Parties Thereto, and BankBoston, N.A., dated August 4, 1998
  - 10.13 First Amendment to First Amended and Restated Revolving Loan Agreement among Alexandria, the Operating Partnership, ARE-QRS Corp., ARE Acquisitions, LLC, the Other Borrowers Then or Hereafter a Party Thereto, the Banks therein named and BankBoston, N.A., dated October 21, 1998
  - 10.14 Form of International Swap Dealers Association, Inc. Master Agreement and related Schedule and Confirmation between BankBoston, N.A. and Alexandria, dated as of August 31, 1998
  - 12.1 Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
  - 21.1 List of Subsidiaries of Alexandria
  - 23.1 Consent of Ernst & Young LLP
  - 27.1 Financial Data Schedule

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- + Incorporated by reference to Alexandria's Registration Statement on Form S-11 (No. 333-23545), declared effective by the Commission on May 27, 1997
  - ++ Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended June 30, 1997, filed with the Commission on August 14, 1997
  - +++ Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended September 30, 1997, filed with the Commission on November 14, 1997
  - \* Incorporated by reference to Alexandria's Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Commission on March 31, 1998
  - \*\* Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended June 30, 1998, filed with the Commission on August 14, 1998
  - \*\*\* Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q/A for the period ended June 30, 1998, filed with the Commission on August 18, 1998
  - \*+ Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended September 30, 1998, filed with the Commission on November 13, 1998

SIGNATURES

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

ALEXANDRIA REAL ESTATE EQUITIES, INC.

Dated: March 12, 1999 By: /s/ JOEL S. MARCUS  
 -----  
 Joel S. Marcus  
 Chief Executive Officer

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURES -----	TITLE -----	DATE -----
/s/ Jerry M. Sudarsky ----- Jerry M. Sudarsky	Chairman of the Board of Directors	March 12, 1999
/s/ Joel S. Marcus ----- Joel S. Marcus	Chief Executive Officer (Principal Executive Officer) and Director	March 12, 1999
/s/ James H. Richardson ----- James H. Richardson	President and Director	March 12, 1999
/s/ Peter J. Nelson ----- Peter J. Nelson	Chief Financial Officer, Senior Vice President, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 12, 1999
/s/ Joseph Elmaleh ----- Joseph Elmaleh	Director	March 12, 1999
/s/ Richard B. Jennings ----- Richard B. Jennings	Director	March 12, 1999
/s/ Viren Mehta ----- Viren Mehta	Director	March 12, 1999

SIGNATURES

TITLE

DATE

-----  
/s/ David M. Petrone

Director

March 12, 1999

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David M. Petrone

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/s/ Anthony M. Solomon

Director

March 12, 1999

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Anthony M. Solomon

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/s/ Alan G. Walton

Director

March 12, 1999

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Alan G. Walton

Report of Independent Auditors

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, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1998, 1997 and 1996. Our audits also included the consolidated financial statement Schedule III, rental properties and accumulated depreciation. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for the years ended December 31, 1998, 1997 and 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, referred to above, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects the financial information set forth therein.

/s/ Ernst & Young LLP

Los Angeles, California  
January 23, 1999,  
except for Note 15, as to which  
the date is February 23, 1999

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31	
	1998	1997
	-----	
<b>ASSETS</b>		
Rental properties, net	\$ 471,907	\$ 227,076
Land under development	21,839	2,894
Cash and cash equivalents	1,554	2,060
Tenant security deposits and other restricted cash	7,491	6,799
Secured note receivable	6,000	-
Tenant receivables and deferred rent	8,479	3,630
Other assets	13,026	5,995
	-----	
Total assets	\$ 530,296	\$ 248,454
	-----	
	-----	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Secured notes payable (includes unamortized premium of \$2,262 in 1998)	\$ 115,829	\$ 47,817
Unsecured line of credit	194,000	23,000
Accounts payable, accrued expenses and tenant security deposits	15,663	6,158
Dividends payable	5,035	4,562
	-----	
	330,527	81,537
	-----	
Commitments and contingencies	-	-
	-----	
<b>Stockholders' equity:</b>		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 12,586,263 and 11,404,631 shares issued and outstanding at December 31, 1998 and 1997, respectively	126	114
Additional paid-in capital	199,643	173,735
Retained earnings (accumulated deficit)	-	(6,932)
	-----	
Total stockholders' equity	199,769	166,917
	-----	
Total liabilities and stockholders' equity	\$ 530,296	\$ 248,454
	-----	
	-----	

SEE ACCOMPANYING NOTES.

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
Revenues:			
Rental	\$ 48,469	\$ 25,622	\$ 12,941
Tenant recoveries	11,313	8,388	4,169
Interest and other income	1,234	836	563
	61,016	34,846	17,673
Expenses:			
Rental operations	13,390	8,766	4,356
General and administrative	3,894	2,476	1,972
Interest	14,033	7,043	6,327
Stock compensation	-	4,239	-
Post retirement benefit	-	632	438
Special bonus	-	353	-
Acquisition LLC financing costs	-	6,973	-
Write-off of unamortized loan costs	-	2,295	-
Depreciation and amortization	10,296	4,866	2,405
	41,613	37,643	15,498
Net income (loss)	\$ 19,403	\$ (2,797)	\$ 2,175
Net income allocated to preferred stockholders	\$ -	\$ 3,038	\$ 1,590
Net income (loss) allocated to common stockholders	\$ 19,403	\$ (5,835)	\$ 585
Net income (loss) per share of common stock (pro forma for 1997, pro forma and restated for 1996):			
- Basic	\$ 1.60	\$ (0.35)	\$ 0.60
- Diluted	\$ 1.58	\$ (0.35)	\$ 0.60
Weighted average shares of common stock outstanding (pro forma for 1997, pro forma and restated for 1996):			
- Basic	12,098,959	8,075,864	3,642,131
- Diluted	12,306,470	8,075,864	3,642,131

SEE ACCOMPANYING NOTES.

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(DOLLARS IN THOUSANDS)

	NUMBER OF SERIES T PREFERRED SHARES	SERIES T PREFERRED STOCK	NUMBER OF SERIES U PREFERRED SHARES	SERIES U PREFERRED STOCK	NUMBER OF COMMON SHARES
Balance at January 1, 1996 (restated)	12	\$ 1	-	\$ -	1,765,923
Issuance of Series U preferred stock	-	-	220	110	-
Accretion on Series V preferred stock	-	-	-	-	-
Cash dividends on Series T, U, & V preferred stock	-	-	-	-	-
Dividends declared on common stock	-	-	-	-	-
Net income	-	-	-	-	-
Balance at December 31, 1996 (restated)	12	1	220	110	1,765,923
Accretion on Series V preferred stock	-	-	-	-	-
Cash dividends on Series T, U and V preferred stock	-	-	-	-	-
Exercise of compensatory stock options and issuance of stock grants (including compensation expense of \$4,161)	-	-	-	-	209,615
Issuance of common stock in connection with initial public offering, net of offering costs	-	-	-	-	7,762,500
Conversion of Series V and Series U preferred stock	-	-	(220)	(110)	1,666,593
Redemption of Series T preferred stock	(12)	(1)	-	-	-
Dividends declared on common stock	-	-	-	-	-
Net loss	-	-	-	-	-
Balance at December 31, 1997	-	-	-	-	11,404,631
Issuance of common stock, net of offering costs	-	-	-	-	1,150,000
Exercise of stock options, net	-	-	-	-	31,632
Dividends declared on common stock	-	-	-	-	-
Net income	-	-	-	-	-
Balance at December 31, 1998	-	\$ -	-	\$ -	12,586,263

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
Balance at January 1, 1996 (restated)	\$ 18	\$ 17,110	\$ (796)	\$ 16,333
Issuance of Series U preferred stock	-	-	-	110
Accretion on Series V preferred stock	-	(933)	-	(933)
Cash dividends on Series T, U, & V preferred stock	-	-	(665)	(665)
Dividends declared on common stock	-	-	(2,489)	(2,489)
Net income	-	-	2,175	2,175
Balance at December 31, 1996 (restated)	18	16,177	(1,775)	14,531
Accretion on Series V preferred stock	-	(1,911)	-	(1,911)
Cash dividends on Series T, U and V preferred stock	-	-	(1,127)	(1,127)
Exercise of compensatory stock options and issuance of stock grants (including compensation expense of \$4,161)	2	4,190	-	4,192
Issuance of common stock in connection with initial public offering, net of offering costs	78	138,812	-	138,890
Conversion of Series V and Series U preferred stock	16	27,045	-	26,951
Redemption of Series T preferred stock	-	-	-	(1)
Dividends declared on common stock	-	(10,578)	(1,233)	(11,811)
Net loss	-	-	(2,797)	(2,797)
Balance at December 31, 1997	114	173,735	(6,932)	166,917
Issuance of common stock, net of offering costs	12	32,701	-	32,713
Exercise of stock options, net	-	386	-	386
Dividends declared on common stock	-	(7,179)	(12,471)	(19,650)
Net income	-	-	19,403	19,403
Balance at December 31, 1998	\$ 126	\$ 199,643	\$ -	\$ 199,769

SEE ACCOMPANYING NOTES.

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
<hr/>			
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 19,403	\$ (2,797)	\$ 2,175
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,296	4,866	2,405
Stock option compensation	-	4,161	-
Changes in operating assets and liabilities:			
Tenant security deposits and other restricted cash	(692)	(1,214)	(4,371)
Tenant receivables and deferred rent	(4,849)	(2,298)	(502)
Other assets	(7,520)	(1,343)	(3,633)
Accounts payable, accrued expenses and tenant security deposits	9,505	2,508	2,280
Net cash provided by (used in) operating activities	26,143	3,883	(1,646)
<hr/>			
<b>INVESTING ACTIVITIES</b>			
Purchase of rental properties	(200,590)	(81,160)	(93,322)
Additions to rental properties	(21,218)	(3,566)	(1,578)
Additions to land under development	(18,945)	(2,894)	-
Issuance of note receivable	(6,000)	-	-
Net cash used in investing activities	(246,753)	(87,620)	(94,900)
<hr/>			
<b>FINANCING ACTIVITIES</b>			
Proceeds from secured notes payable	36,500	15,360	77,260
Net proceeds from issuances of common stock	32,713	138,919	-
Exercise of stock options	386	-	-
Proceeds from issuance of Series V preferred stock (net of issuance costs of \$3,391)	-	-	24,109
Proceeds from issuance of Series U preferred stock	-	-	110
Proceeds from unsecured line of credit	171,000	25,500	-
(Decrease) increase in due to Health Science Properties Holding Corporation	-	(2,525)	2,420
Principal reductions on unsecured line of credit	-	(2,500)	(4,000)
Principal reductions on secured notes payable	(1,318)	(80,725)	(972)
Common dividends paid	(19,177)	(8,800)	(939)
Preferred dividends paid	-	(1,127)	(665)
Redemption of Series T preferred stock	-	(1)	-
Net cash provided by financing activities	220,104	84,101	97,323
Net (decrease) increase in cash and cash equivalents	(506)	364	777
Cash and cash equivalents at beginning of year	2,060	1,696	919
Cash and cash equivalents at end of year	\$ 1,554	\$ 2,060	\$ 1,696
<hr/>			
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid during the year for interest and financing costs, net of interest capitalized	\$ 12,778	\$ 13,552	\$ 5,953
<hr/>			

SEE ACCOMPANYING NOTES.

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We are engaged primarily in the acquisition, management, and selective development of properties for lease principally to participants in the life science industry (we refer to these properties as "Life Science Facilities"). As of December 31, 1998, our portfolio consisted of 51 properties in nine states with approximately 3,588,000 rentable square feet, compared to 22 properties in four states with approximately 1,748,000 rentable square feet as of December 31, 1997.

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

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

- We repaid debt of approximately \$77,723,000, including (i) mortgage debt of \$72,698,000, (ii) debt of \$2,500,000 outstanding under our prior unsecured line of credit, and (iii) debt of \$2,525,000 to Health Science Properties Holding Corporation ("Holdings"). Holdings owned all of our common stock prior to the Offering and 14% of our common stock as of December 31, 1998.
- We obtained two new mortgage loans totaling \$15,360,000.
- We acquired an entity that owns three Life Science Facilities from affiliates of PaineWebber Incorporated, the lead managing underwriter for the Offering, for an aggregate purchase price of \$58,844,000 (see Note 12).
- Each previously outstanding share of our common stock was split into 1,765.923 shares of common stock. The share data as of and for the year ended December 31, 1996 has been restated to reflect the effects of the stock split.
- All of the previously outstanding shares of Series T preferred stock were redeemed at their stated value (\$1,200 in the aggregate) (see Note 9).

## 1. BACKGROUND (CONTINUED)

- All of the previously outstanding shares of Series U preferred stock and Series V preferred stock were converted into shares of common stock (7,354 shares in the aggregate for Series U and 1,659,239 shares in the aggregate for Series V) (see Notes 8 and 9).
- Officers, directors and certain employees of Alexandria were granted an aggregate of 152,615 shares of our common stock. In addition, our officers, directors and certain employees were granted options to purchase 57,000 shares of our common stock in substitution for stock options previously issued by Holdings (see Notes 8 and 11). These options were exercised at a nominal exercise price in connection with the Offering.
- Officers, directors and employees of Alexandria were granted options under the 1997 stock option plan to purchase an aggregate of 600,000 shares of our common stock at the Offering price (see Note 11).
- A special bonus of \$353,000 was paid to an officer of Alexandria.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION

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

### USE OF ESTIMATES

The preparation of financial statements in conformity with 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### CASH EQUIVALENTS

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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

RENTAL PROPERTIES AND LAND UNDER DEVELOPMENT

Properties and land 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):

	DECEMBER 31	
	1998	1997
Reserve for tenant improvements established pursuant to leases at two of our properties	\$3,220	\$3,364
Funds held in trust as additional security required under the terms of two of our secured notes payable	3,360	1,966
Security deposit funds based on the terms of certain lease agreements	911	1,469
	-----	-----
	\$7,491	\$6,799
	-----	-----

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 \$3,424,000 and \$1,350,000 as of December 31, 1998 and 1997, respectively.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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 tenant receivables and deferred rent on our consolidated balance sheet. Amounts received currently, but recognized as income in future years, are included in unearned rent on our consolidated balance sheet.

OTHER INCOME

Other income consists of interest income and other income associated with the operations of the properties. Interest income was \$978,000, \$588,000 and \$118,000 in 1998, 1997 and 1996, respectively.

LEASING COMMISSIONS

Leasing commissions are amortized on a straight-line basis over the term of the related lease. Leasing commissions, net of related amortization, totaled \$4,856,000 and \$847,000 as of December 31, 1998 and 1997, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents approximates fair value because their maturity is less than three months. 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, 1998 and 1997, the fair value of our secured notes payable was approximately \$118,310,000 and \$46,822,000, respectively.

NET INCOME (LOSS) PER SHARE

Historical per share data has not been presented for 1997 and 1996 because it is not meaningful due to the material changes in our capital structure as a result of the Offering. Instead, we have presented net income (loss) per share for these years on a pro forma basis, giving effect to the Offering and related transactions.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

NET INCOME (LOSS) PER SHARE (CONTINUED)

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

We have adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," and have restated pro forma net income per share for the year ended December 31, 1996. Basic and diluted net income per share are the same for 1997 because the stock options outstanding as of December 31, 1997 were antidilutive. There were no dilutive stock options on a pro forma basis for 1996.

The following table shows the computation of net income (loss) per share of common stock outstanding:

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net income (loss)	\$ 19,403	\$ (2,797)	\$ 2,175
Weighted average shares - basic (pro forma for 1997, pro forma and restated for 1996)	12,098,959	8,075,864	3,642,131
Add: dilutive effect of stock options	207,511	-	-
Weighted average shares - diluted (pro forma for 1997, pro forma and restated for 1996)	12,306,470	8,075,864	3,642,131
Net income (loss) per share - basic (pro forma for 1997, pro forma and restated for 1996)	\$ 1.60	\$ (0.35)	\$ 0.60
Net income (loss) per share - diluted (pro forma for 1997, pro forma and restated for 1996)	\$ 1.58	\$ (0.35)	\$ 0.60
Dividends declared per share (pro forma for 1997, pro forma and restated for 1996)	\$ 1.60	\$ 1.60	\$ 0.87

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

OPERATING SEGMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," which is effective for years beginning after December 15, 1997. Statement 131 establishes standards for the way that public business enterprises report information about operating segments. Statement 131 also establishes standards for related disclosure about products and services, geographic areas, and major customers. Since we operate as a single segment, the implementation of Statement 131 did not have an impact on how we report our results of operations.

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, 1998, 1997 and 1996. 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. For the years ended December 31, 1998 and 1996, we reported that none of our distributions with respect to common stock represented a return of capital for federal income tax purposes. For the year ended December 31, 1997, we reported that 37.6% of our distributions with respect to common stock represented a return of capital.

3. RENTAL PROPERTIES

Rental properties are as follows (in thousands):

	DECEMBER 31	
	1998	1997
Land	\$ 76,254	\$ 43,485
Building and improvements	393,728	189,528
Tenant and other improvements	20,536	2,867
	490,518	235,880
Less accumulated depreciation	(18,611)	(8,804)
	\$ 471,907	\$ 227,076

Nine of the 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, 1998 is \$174,185,000.

### 3. RENTAL PROPERTIES (CONTINUED)

We lease space under noncancelable leases with remaining terms of one to 18 years.

A majority of our leases require that the lessee pay all taxes, maintenance, insurance and certain other operating expenses applicable to the leased properties.

We capitalize interest to properties under construction and renovation during the period the asset is undergoing activities to prepare it for its intended use. Total interest capitalized for the years ended December 31, 1998 and 1997 was \$2,199,000 and \$96,000, respectively. Total interest incurred for the years ended December 31, 1998, 1997 and 1996 was \$16,232,000, \$7,139,000 and \$6,327,000, respectively.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 1998, are as follows (in thousands):

1999	\$	55,800
2000		50,759
2001		43,870
2002		38,459
2003		35,879
Thereafter		190,190
	\$	414,957

### 4. SECURED NOTE RECEIVABLE

In connection with the acquisition of a Life Science Facility in San Diego, California in March 1998, we made a \$6,000,000 loan to the sole tenant of the property, fully secured by a first deed of trust on certain improvements at the property. The loan bears interest at a rate of 11% per year, payable monthly, and 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.

### 5. UNSECURED LINE OF CREDIT

Alexandria has an unsecured line of credit which provides for borrowings of up to \$250 million. Prior to August 1998, our line of credit provided for borrowings of up to \$150 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.

## 5. UNSECURED LINE OF CREDIT (CONTINUED)

The line of credit contains financial covenants, including, among other things, maintenance of minimum market net worth, a total liabilities to gross asset value ratio, and a fixed charge coverage ratio. 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 additional unencumbered properties, borrowings available under the line of credit will increase, but may not exceed \$250 million. As of December 31, 1998, borrowings under the line of credit were limited to approximately \$214,000,000, and carried a weighted average interest rate of 6.48%.

The line of credit expires May 31, 2000 and provides for annual extensions (provided there is no default) for two additional one-year periods upon notice by the company and consent of the participating banks.

We enter into interest rate swap agreements to modify the interest characteristics of our outstanding debt. These agreements involve an exchange of fixed and floating interest payments without the exchange of the underlying principal amount (the "notional amount").

In September 1998, we entered into an interest rate swap agreement with BankBoston, N.A. (the "Bank") to hedge our exposure to variable interest rates associated with our line of credit. Interest paid is calculated at a fixed interest rate of 5.43% through May 31, 2000 on a notional amount of \$50 million and interest received is calculated at one month LIBOR. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense. The fair value of the swap agreement and changes in the fair value as a result of changes in market interest rates are not recognized in the financial statements. We are exposed to loss in the event the Bank is unable to perform under the swap agreement or in the event one month LIBOR is less than 5.43%.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in fiscal years beginning after June 15, 1999. When adopted, Statement 133 will require us to recognize all derivatives on the balance sheet at fair value. Based on the definitions provided in Statement 133, our interest rate swap agreement will be classified as a cash flow hedge, with changes in the fair value recorded as an adjustment to comprehensive income, which will be a separate component of shareholders' equity.

6. SECURED NOTES PAYABLE

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

	DECEMBER 31	
	1998	1997
9% note, due December 2014, secured by 3535/3565 General Atomics Court, San Diego, CA	\$ 17,578	\$ 18,050
7.75% note, due May 2016, secured by 1102/1124 Columbia Street, Seattle, WA	20,729	21,267
7.165% note, due January 2014, secured by 1431 Harbor Bay Parkway, Alameda, CA	8,500	8,500
8.68% note, due December 2006, secured by 100/800/801 Capitola Drive, Durham, NC	12,547	-
7.22% note, due May 2008, secured by 14225 Newbrook Avenue, Chantilly, VA and 3000/3018 Western Avenue, Seattle, WA	36,326	-
9.125% note due May 2007, with an effective interest rate of 7.25% (includes unamortized premium of \$2,262), secured by 620 Memorial Drive, Cambridge, MA	20,149	-
	\$ 115,829	\$ 47,817

All of our secured notes payable, except for the note secured by 1431 Harbor Bay Parkway, require monthly payments of principal and interest. The note secured by 1431 Harbor Bay Parkway required monthly payments of interest through December 31, 1998 and requires both monthly payments of interest and semi-annual principal payments beginning January 1999.

Future principal payments due on secured notes payable as of December 31, 1998, are as follows (in thousands):

1999	\$ 3,000
2000	2,907
2001	3,145
2002	3,395
2003	3,666
Thereafter	97,454
Subtotal	113,567
Unamortized premium	2,262
	\$115,829

## 7. ISSUANCE OF COMMON STOCK

On May 29, 1998, we sold 1,150,000 shares of our common stock to PaineWebber Incorporated for inclusion in the PaineWebber Equity Trust REIT Series I, a unit investment trust. The shares were issued at a price of \$30.5625 per share (before discounts and commissions) resulting in aggregate proceeds to us, net of offering costs of \$2.4 million, of approximately \$32.7 million.

## 8. NON-CASH TRANSACTIONS

During 1998, we assumed two secured notes payable in connection with the acquisition of the following properties (in thousands):

	100/800/801 Capitola Drive	620 Memorial Drive
Purchase price (including closing and transaction costs)	\$ 18,387	\$ 40,194
Cash paid for the properties	5,755	19,996
Secured notes payable assumed	\$ 12,632	\$ 20,198

Stock compensation expense in 1997 represents non-cash compensation expense associated with stock grants and stock options issued to our officers, directors and certain employees in connection with the Offering (see Note 11).

In connection with the Offering in 1997, all previously outstanding shares of Series U preferred stock and Series V preferred stock were converted into shares of common stock (see Note 1). The common stock issued was recorded at the book value of the Series U preferred stock and the Series V preferred stock (an aggregate of \$27,061,000).

## 9. PREFERRED STOCK AND EXCESS STOCK

### SERIES V CUMULATIVE CONVERTIBLE PREFERRED STOCK

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

#### 9. PREFERRED STOCK AND EXCESS STOCK (CONTINUED)

Prior to conversion, Series V preferred stockholders were entitled to dividends at an annual rate of 10% of the stated value per share during the first twelve dividend periods or such larger amount as would be payable on an as converted basis if the Series V preferred stock were converted to common stock. Dividends were cumulative and payable in quarterly equal installments on March 31, June 30, September 30, and December 31 of each year. Offering costs associated with the issuance of the Series V preferred stock in 1996 were deducted from the proceeds of the issuance. Until the conversion of the Series V preferred stock into shares of common stock in 1997, we accreted the amount of the offering costs and the difference between the minimum yield requirement on the Series V preferred stock (20% per annum) and the minimum dividend payment as a charge to additional paid-in capital.

#### SERIES T AND SERIES U PREFERRED STOCK

Holders of each of the Series T and Series U preferred stock were entitled to dividends at an annual rate of 8.5% of the stated value per share. In connection with the Offering, all of the previously outstanding shares of Series T preferred stock (12 shares) were redeemed at their stated value (\$1,200 in the aggregate). In connection with the Offering, all of the previously outstanding shares of Series U preferred stock (220 shares) were converted into an aggregate of 7,354 shares of common stock.

#### PREFERRED STOCK AND EXCESS STOCK AUTHORIZATIONS

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock and 200,000,000 shares of "excess stock" (as defined), none of which was issued and outstanding at December 31, 1998.

#### 10. COMMITMENTS AND CONTINGENCIES

##### LITIGATION

We currently are not subject to any material legal proceedings or claims, nor are we aware of any material legal proceedings or claims being threatened.

## 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### POST-RETIREMENT BENEFIT

In 1997, in connection with the Offering, an officer of Alexandria retired. In connection with the officer's retirement, we agreed to pay a post-retirement benefit equal to \$150,000 for each of the first three years following the Offering, and \$90,000 per year (plus an annual increase of 2% per year) thereafter for the remainder of the longer of the executive's life and the life of the executive's spouse as of the date of the agreement. In 1997 and 1996, a post-retirement expense was recorded for past services equal to \$632,000 and \$438,000, respectively (pursuant to a prior agreement). As of December 31, 1998 and 1997, the accrued liability for post-retirement benefit was \$1,110,000 and \$1,037,000, respectively. For the years ended December 31, 1998 and 1997, we paid \$150,000 and \$75,000, respectively, under the retirement agreement, of which \$77,000 and \$42,000, respectively, represented interest.

### 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 match the employees' contributions, which amounted to \$89,000 and \$36,000, respectively, for the years ended December 31, 1998 and 1997. Employees who participate in the plan are immediately vested in their contributions and in the matching 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, 1998, we had 158 leases with a total of 148 tenants, and 24 of our 51 properties were leased to a single tenant. At December 31, 1998, our three largest tenants accounted for approximately 18.4% of our aggregate annualized base rent.

We generally do not require collateral or other security from our tenants, other than security deposits. As of December 31, 1998, we have \$6.1 million in irrevocable letters of credit available from certain tenants as security deposits for 15 leases.

## 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### COMMITMENTS

We are committed to complete the construction of a building and certain related improvements in San Diego, California at a remaining cost of approximately \$4.9 million under the terms of two leases. In addition, we are committed to complete the construction of a building and certain related improvements in Gaithersburg, Maryland at a remaining cost of between \$7.8 million and \$16.8 million (depending on the level of improvements to the facility elected by the tenant) under the terms of a lease. Under the terms of the lease, the tenant's rental rate will be adjusted depending on the ultimate cost of the improvements.

We are also committed to fund approximately \$11.1 million for investments in limited partnerships and rental properties, including the construction of tenant improvements under the terms of various leases. Of this amount, approximately \$3.2 million has been set aside in restricted cash accounts to complete the conversion of existing space into higher rent generic laboratory space (as well as certain related improvements) at 1102/1124 Columbia Street and 3000/3018 Western Avenue.

### 11. STOCK OPTION PLANS AND STOCK GRANTS

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 director stock options, stock grants and stock appreciation rights. Under APB 25, because the exercise price of employee and director stock options we granted equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized.

#### 1997 STOCK OPTION PLAN

In connection with the Offering, we adopted a stock option and incentive plan (the "1997 Stock Option Plan") for the purpose of attracting and retaining the best personnel, providing for additional incentives, and promoting the success of the company by providing employees the opportunity to acquire common stock. 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 are exercisable immediately upon the date of grant.

The options outstanding under the 1997 Stock Option Plan expire at various dates through November 2008. As of December 31, 1998, a total of 379,793 shares were reserved for the granting of future options under the 1997 Stock Option Plan.

11. STOCK OPTION PLANS AND STOCK GRANTS (CONTINUED)

1997 STOCK OPTION PLAN (CONTINUED)

Although we have elected to follow APB 25, pro forma information regarding net income and net income (loss) 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 employee stock options under the fair value method under Statement 123. The fair value of the options issued under the 1997 Stock Option Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1998 and 1997:

	1998	1997
	-----	
Risk-free interest rate	4.66%	5.82%
Dividend yield	5.2%	5.5%
Volatility factor of the expected market price	24.5%	28.7%
Weighted average expected life of the options	5 years	5 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	
	1998	1997
	-----	
Pro forma net income (loss)	\$ 18,299	\$ (3,096)
Pro forma net income (loss) per share:		
- Basic	\$ 1.51	\$ (0.38)
- Diluted	\$ 1.49	\$ (0.38)

11. STOCK OPTION PLANS AND STOCK GRANTS (CONTINUED)

1997 STOCK OPTION PLAN (CONTINUED)

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

	1998		1997	
	STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding-beginning of year	701,000	\$ 20.80	-	\$ -
Granted	290,500	31.00	701,000	20.80
Exercised	(57,333)	20.00	-	-
Forfeited	(112,667)	20.64	-	-
Outstanding-end of year	821,500	\$ 24.49	701,000	\$ 20.80
Exercisable at end of year	252,834	\$ 23.33	30,000	\$ 20.00
Weighted-average fair value of options granted		\$ 4.88		\$ 2.93

Exercise prices for options outstanding as of December 31, 1998 range from \$20.00 to \$32.94. The weighted average contractual life of options outstanding is 8.8 years.

PRIOR STOCK OPTION PLAN

Prior to the Offering, we had a ten-year incentive and nonqualified stock option plan for certain of our employees and non-employee directors.

Under this prior plan, holders of options to purchase common stock of Holdings granted under stock option plans of Holdings ("Holdings Stock Options") were eligible, under certain circumstances (including the Offering), to receive substitute stock options of Alexandria in substitution for previously granted Holdings Stock Options. As such, in connection with the Offering, our officers, directors and certain employees received substitute stock options to purchase 57,000 shares of our common stock under the prior plan. These substitute stock options were exercised in connection with the Offering at a nominal exercise price. No further stock options were issued under the prior plan. In connection with the issuance of the substitute stock options, we recognized \$1,187,000 of stock compensation expense in 1997.

## 11. STOCK OPTION PLANS AND STOCK GRANTS (CONTINUED)

### PRIOR STOCK OPTION PLAN (CONTINUED)

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

### STOCK GRANTS

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

## 12. PURCHASE OF ACQUISITION LLC

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

The purchase price we paid for the membership interests (\$58,844,000) exceeded the cost incurred by the Acquisition LLC to acquire the properties (\$51,871,000). The excess of this purchase price over the cost of the Acquisition LLC to acquire the properties (\$6,973,000) is reflected as a financing cost in 1997 in our consolidated statement of operations.

## 13. RELATED PARTY TRANSACTIONS

During 1998, 1997 and 1996, we incurred \$2,762,000, \$3,358,000 and \$1,708,000, respectively, for legal services provided by a firm of which a minority shareholder of Holdings is a member.

During 1998, 1997 and 1996, we were reimbursed \$270,000, \$21,000 and \$18,000, respectively, for payroll, accounting and office space incurred on behalf of Holdings.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Following is a summary of consolidated financial information on a quarterly basis for 1998 and 1997:

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
1998				
- - - - -				
Revenues	\$ 11,696	\$ 15,160	\$ 15,811	\$ 18,349
Net income	\$ 4,635	\$ 4,724	\$ 5,117	\$ 4,927
Net income per share:				
- Basic	\$ 0.41	\$ 0.40	\$ 0.41	\$ 0.39
- Diluted	\$ 0.40	\$ 0.39	\$ 0.40	\$ 0.39
1997				
- - - - -				
Revenues	\$ 7,161	\$ 7,743	\$ 9,677	\$ 10,265
Net (loss) income	\$ (143)	\$ (10,989)	\$ 4,126	\$ 4,209
Net(loss) income per pro forma share (restated for the first and second quarters):				
- Basic	\$ (0.04)	\$ (1.80)	\$ 0.36	\$ 0.37
- Diluted	\$ (0.04)	\$ (1.80)	\$ 0.36	\$ 0.36

15. SUBSEQUENT EVENT

On February 23, 1999, we completed a follow-on offering of 1,150,000 shares of common stock (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of \$28.125 per share resulting in aggregate proceeds, net of underwriters' discount and commissions, advisory fees and offering costs, of approximately \$29.6 million.

ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES  
SCHEDULE III  
CONSOLIDATED FINANCIAL STATEMENT SCHEDULE OF RENTAL PROPERTIES AND ACCUMULATED DEPRECIATION  
DECEMBER 31, 1998  
(IN THOUSANDS, EXCEPT SQUARE FOOT DATA)

PROPERTY NAME	SQUARE FOOTAGE	INITIAL COSTS		COSTS
		LAND	BUILDINGS AND IMPROVEMENTS	CAPITALIZED SUBSEQUENT TO ACQUISITION
10933 N. Torrey Pines Road	107,753	\$ 3,903	\$ 5,960	\$ 1,051
11099 N. Torrey Pines Road	86,962	2,663	10,649	1,629
3535 General Atomics Court	76,084	2,651	18,046	152
3565 General Atomics Court	43,600	1,227	9,554	-
11025 Roselle Street	18,173	463	1,840	691
4757 Nexus Centre Drive	67,050	2,548	13,648	-
6166 Nancy Ridge Drive	29,333	733	2,273	1,708
10505 Roselle Street	16,000	443	1,699	42
3770 Tansy Street	13,000	650	1,375	65
1311 Harbor Bay Parkway	27,745	775	1,917	139
1401 Harbor Bay Parkway	47,777	1,200	3,880	35
1431 Harbor Bay Parkway	68,711	1,800	9,731	86
1201 Harbor Bay Parkway	61,015	1,507	5,357	880
819/863 Mitten Road	150,150	4,751	12,612	79
1102/1124 Columbia Street	210,163	6,566	23,528	5,615
3005 First Avenue	70,647	2,119	11,275	752
3000/3018 Western Avenue	47,746	1,432	7,497	2,499
150/154 Technology Parkway	37,080	370	4,191	28
100 Capitola Drive	66,861	334	5,795	100
800/801 Capitola Drive	119,916	570	11,688	398
5 Triangle Drive	32,120	161	3,410	90
1413 Research Boulevard	105,000	2,317	9,611	373
300 Professional Drive	47,558	871	5,362	57
401 Professional Drive	62,739	1,129	6,940	20
25/35/45 West Watkins Mill Road	138,938	3,281	14,416	50
1550 East Guide Drive	44,500	775	4,122	167
1330 Piccard Drive	131,511	2,800	11,533	196
708 Quince Orchard Road	49,225	1,267	3,031	4,526
940 Clopper Road	44,464	900	2,732	306
1401 Research Boulevard	48,800	1,533	4,391	219
1500 East Gude Drive	45,989	690	3,609	120
3 & 3 1/2 Taft Court	24,460	367	1,949	246
8000/9000/10000 Virginia Manor Road	188,379	-	13,679	28
10150 Old Columbia Road	75,500	1,510	5,210	1,499

PROPERTY NAME	TOTAL COSTS			ACCUMULATED DEPRECIATION(1)	ENCUMBRANCES	YEAR BUILT
	LAND	BUILDINGS AND IMPROVEMENTS	TOTAL			
10933 N. Torrey Pines Road	\$ 3,903	\$ 7,011	\$ 10,914	\$ 1,228	\$ -	1971/1994
11099 N. Torrey Pines Road	2,663	12,278	14,941	1,959	-	1986/1996
3535 General Atomics Court	2,651	18,198	20,849	2,575	11,557	1986/1991
3565 General Atomics Court	1,227	9,554	10,781	1,287	6,021	1986/1991
11025 Roselle Street	463	2,531	2,994	96	-	1983
4757 Nexus Centre Drive	2,548	13,648	16,196	616	-	1989
6166 Nancy Ridge Drive	733	3,981	4,714	67	-	1997
10505 Roselle Street	443	1,741	2,184	20	-	late 1970's
3770 Tansy Street	650	1,440	2,090	13	-	1978
1311 Harbor Bay Parkway	775	2,056	2,831	110	-	1984
1401 Harbor Bay Parkway	1,200	3,915	5,115	215	-	1986/1994
1431 Harbor Bay Parkway	1,800	9,817	11,617	529	8,500	1985/1994
1201 Harbor Bay Parkway	1,507	6,237	7,744	191	-	1983
819/863 Mitten Road	4,751	12,691	17,442	292	-	1962/1997
1102/1124 Columbia Street	6,566	29,143	35,709	1,749	20,729	1975/1997
3005 First Avenue	2,119	12,027	14,146	81	-	1980/1990
3000/3018 Western Avenue	1,432	9,996	11,428	215	36,326	1929/1990
150/154 Technology Parkway	370	4,219	4,589	75	-	1976/1985/1993
100 Capitola Drive	334	5,895	6,229	161	-	1986
800/801 Capitola Drive	570	12,086	12,656	279	12,547	1985
5 Triangle Drive	161	3,500	3,661	48	-	1981
1413 Research Boulevard	2,317	9,984	12,301	626	-	1967/1996
300 Professional Drive	871	5,419	6,290	321	-	1989
401 Professional Drive	1,129	6,960	8,089	424	-	1987
25/35/45 West Watkins Mill Road	3,281	14,466	17,747	842	-	1989/1997
1550 East Guide Drive	775	4,289	5,064	186	-	1981/1995
1330 Piccard Drive	2,800	11,729	14,529	487	-	1978/1994
708 Quince Orchard Road	1,267	7,557	8,824	449	-	1982/1997
940 Clopper Road	900	3,038	3,938	118	-	1989
1401 Research Boulevard	1,533	4,610	6,143	168	-	1966
1500 East Gude Drive	690	3,729	4,419	121	-	1981/1986
3 & 3 1/2 Taft Court	367	2,195	2,562	61	-	1981/1986
8000/9000/10000 Virginia Manor Road	-	13,707	13,707	362	-	1990
10150 Old Columbia Road	1,510	6,709	8,219	127	-	1983/1997



ALEXANDRIA REAL ESTATE EQUITIES, INC. AND SUBSIDIARIES  
SCHEDULE III (CONTINUED)  
CONSOLIDATED FINANCIAL STATEMENT SCHEDULE OF RENTAL PROPERTIES AND ACCUMULATED DEPRECIATION  
DECEMBER 31, 1998  
(IN THOUSANDS, EXCEPT SQUARE FOOT DATA)

PROPERTY NAME	SQUARE FOOTAGE	INITIAL COSTS		COSTS CAPITALIZED
		LAND	BUILDINGS AND IMPROVEMENTS	SUBSEQUENT TO ACQUISITION
19 Firstfield Road	25,175	376	3,192	42
15020 Shady Grove Road	41,062	840	3,115	34
2001 Aliceanna Street	179,397	1,848	6,120	108
50 West Watkins Mill Road	57,410	859	4,149	39
14225 Newbrook Drive	248,186	4,800	27,639	356
5100/5110 Campus Drive	42,782	654	4,234	38
702 Electronic Drive	40,000	600	3,110	3,062
215 College Road	110,666	1,943	9,764	63
170 Williams Drive	37,000	740	4,506	54
100 Phillips Parkway	80,000	1,840	2,298	139
279 Princeton Road	42,600	1,075	1,438	7
79/96 Charlestown Navy Yard	24,940	-	6,247	13
280 Pond Street	24,867	622	3,053	38
60 Westview Street	39,909	960	3,032	32
377 Plantation Street	92,711	2,351	14,173	6
620 Memorial Drive	96,500	2,440	37,754	53
	3,588,154	\$ 76,254	\$ 386,334	\$ 27,930

PROPERTY NAME	TOTAL COSTS			COSTS CAPITALIZED	ENCUMBRANCES	YEAR BUILT
	LAND	BUILDINGS AND IMPROVEMENTS	TOTAL	ACCUMULATED DEPRECIATION(1)		
19 Firstfield Road	376	3,234	3,610	58	-	1974
15020 Shady Grove Road	840	3,149	3,989	56	-	1987
2001 Aliceanna Street	1,848	6,228	8,076	63	-	early 1950's
50 West Watkins Mill Road	859	4,188	5,047	34	-	1988
14225 Newbrook Drive	4,800	27,995	32,795	1,171	-	1992
5100/5110 Campus Drive	654	4,272	4,926	90	-	1989
702 Electronic Drive	600	6,172	6,772	197	-	1983/1998
215 College Road	1,943	9,827	11,770	253	-	1968/1974/1984
170 Williams Drive	740	4,560	5,300	72	-	1982/1994
100 Phillips Parkway	1,840	2,437	4,277	-	-	late 1960's
279 Princeton Road	1,075	1,445	2,520	-	-	1984
79/96 Charlestown Navy Yard	-	6,260	6,260	157	-	1880/1991
280 Pond Street	622	3,091	3,713	59	-	1960's
60 Westview Street	960	3,064	4,024	33	-	1975
377 Plantation Street	2,351	14,179	16,530	109	-	1993
620 Memorial Drive	2,440	37,807	40,247	161	20,149	1920's/1997
	\$ 76,254	\$ 414,264	\$ 490,518	\$ 18,611	\$ 115,829	

(1) The depreciable life for buildings and improvements ranges from 30 to 40 years, 20 years for land improvements, and the term of the respective lease for tenant improvement.

A summary of activity of consolidated rental properties and accumulated depreciation is as follows (in thousands):

	RENTAL PROPERTIES DECEMBER 31		
	1998	1997	1996
Balance at beginning of period	\$ 235,880	\$ 151,154	\$ 56,254
Improvements	21,218	3,566	1,578
Acquisition of land, building and improvements	233,420	81,160	93,322
Balance at end of period	\$ 490,518	\$ 235,880	\$ 151,154

	ACCUMULATED DEPRECIATION DECEMBER 31		
	1998	1997	1996
Balance at beginning of period	\$ 8,804	\$ 4,194	\$ 1,901
Depreciation expense	9,807	4,610	2,293
Balance at end of period	\$ 18,611	\$ 8,804	\$ 4,194

EXHIBIT INDEX

EXHIBIT NUMBER -----	EXHIBIT -----
3.1++	Articles of Amendment and Restatement of Alexandria
3.2++	Certificate of Correction of Alexandria
3.3++	Amended and Restated Bylaws of Alexandria
3.4	Amendment to Amended and Restated Bylaws of Alexandria
4.1+	Specimen Certificate representing shares of Common Stock
10.1*	Second Amendment to the Executive Employment Agreement and General and Special Release by and between Alexandria and Jerry M. Sudarsky, dated May 30, 1997
10.2*	Amended and Restated Executive Employment Agreement by and between Alexandria and Joel S. Marcus, dated January 5, 1994, and amended as of March 28, 1997
10.3+++	Executive Employment Agreement between Alexandria and James H. Richardson, dated July 31, 1997
10.4***	Amended and Restated Executive Employment Agreement between Alexandria and Peter J. Nelson, dated May 20, 1998
10.5	Severance Agreement between Alexandria and Lynn Anne Shapiro, dated January 1, 1999
10.6	Executive Employment Agreement between Alexandria and Vincent R. Ciruzzi, dated April 20, 1998
10.7*	Registration Rights Agreement by and between Alexandria and Health Science Properties Holding Corporation, dated June 2, 1997
10.8**	Amended and Restated 1997 Stock Award and Incentive Plan of Alexandria
10.9+	Form of Non-Employee Director Stock Option Agreement for use in connection with options issued pursuant to the 1997 Stock Option Plan
10.10+	Form of Incentive Stock Option Agreement for use in connection with Options issued pursuant to the 1997 Stock Option Plan
10.11+	Form of Nonqualified Stock Option Agreement for use in connection with Options issued pursuant to the 1997 Stock Option Plan
10.12*+	First Amended and Restated Revolving Loan Agreement among Alexandria, the Operating Partnership, ARE-QRS Corp., ARE Acquisitions, LLC, the Other Borrowers Then or Thereafter a Party Thereto, the Banks therein named, the Other Banks Which May Become Parties Thereto, and BankBoston, N.A., dated August 4, 1998
10.13	First Amendment to First Amended and Restated Revolving Loan Agreement among Alexandria, the Operating Partnership, ARE-QRS Corp., ARE Acquisitions, LLC, the Other Borrowers Then or Thereafter a Party Thereto, the Banks therein named and BankBoston, N.A., dated October 21, 1998
10.14	Form of International Swap Dealers Association, Inc. Master Agreement and related Schedule and Confirmation between BankBoston, N.A. and Alexandria, dated as of August 31, 1998
12.1	Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
21.1	List of Subsidiaries of Alexandria
23.1	Consent of Ernst & Young LLP
27.1	Financial Data Schedule

- -----
- + Incorporated by reference to Alexandria's Registration Statement on Form S-11 (No. 333-23545), declared effective by the Commission on May 27, 1997
  - ++ Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended June 30, 1997, filed with the Commission on August 14, 1997
  - +++ Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended September 30, 1997, filed with the Commission on November 14, 1997

- \* Incorporated by reference to Alexandria's Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Commission on March 31, 1998
- \*\* Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended June 30, 1998, filed with the Commission on August 14, 1998
- \*\*\* Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q/A for the period ended June 30, 1998, filed with the Commission on August 18, 1998
- \*+ Incorporated by reference to Alexandria's Quarterly Report on Form 10-Q for the period ended September 30, 1998, filed with the Commission on November 13, 1998

RESOLUTION OF THE BOARD OF DIRECTORS OF  
ALEXANDRIA REAL ESTATE EQUITIES, INC.  
ADOPTED 11/24/98

AMENDMENT OF BYLAWS

RESOLVED, that Article II, Section 2, of the Corporation's Amended and Restated Bylaws be, and it hereby is, amended in its entirety by deleting such section and replacing it with the following:

"Section 2. ANNUAL MEETING. An annual meeting of the stockholders for the election of directors and the transaction of any business within the powers of the Corporation shall be held on a date and at the time set by the Board of Directors during the 30-day period beginning on the fifteenth (15th) day of April and ending on the fourteenth (14th) day of May in each year."

## SEVERANCE AGREEMENT

THIS AGREEMENT, dated January 1, 1999, (the "Effective Date") is made by and between Alexandria Real Estate Equities, Inc., a Maryland corporation (the "Company"), and Lynn A. Shapiro ("Executive").

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continued employment of key management personnel; and

WHEREAS, the Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including Executive, who shall serve as General Counsel and Assistant Secretary of the Company.

NOW, THEREFORE, the Company and Executive hereby agree as follows:

1. TERM OF AGREEMENT.

The term of this Agreement shall commence on the Effective Date and shall continue in effect through the first anniversary of the Effective Date (the "Term"); PROVIDED, HOWEVER, that on each anniversary of the Effective Date during the Term, the Term shall automatically be extended for one additional year unless, not later than 90 days prior to any such anniversary, the Company or Executive shall have given written notice not to extend the Term.

2. COMPENSATION OTHER THAN SEVERANCE PAYMENTS.

If Executive's employment shall be terminated for any reason during the Term, the Company shall pay Executive's full salary to Executive accrued through the date of Executive's termination of employment (the "Date of Termination") at the rate in effect immediately prior to the Date of Termination.

3. SEVERANCE PAYMENTS.

If Executive's employment is terminated by the Company other than for Cause (as defined below), then the Company shall pay Executive a severance payment equal to nine (9) months ("Severance Period") of Executive's annualized base salary ("Severance Payments"), in addition to any payments to which Executive is entitled under Section 2 hereof. Such Severance Payments shall be payable in substantially equal semimonthly installments during the Severance Period in accordance with the standard policies of the Company in existence from time-to-time; provided, that if such termination is within six months following a Change in Control (as defined below), the Company shall pay Executive such Severance Payment in a lump sum within sixty (60) days following a Change in Control. In addition, if Executive's employment is terminated by the Company other than for Cause within six months following a Change in Control, the vesting of any options held by Executive to purchase shares of stock of the Company shall immediately accelerate upon such termination following a Change in Control.

Executive shall not be entitled to receive a Severance Payment hereunder if she voluntarily terminates her employment or is terminated by reason of death or disability or for Cause.

3.1 CAUSE. For purposes of this Agreement, "Cause" shall mean the following:

- (i) Executive's Material breach, repudiation or failure to comply with or perform any of the terms of this Agreement, any of Executive's duties, or any of the Company's policies or procedures (including without limitation any such policies or procedures relating to conflicts of interests or standards of business conduct) or deliberate interference with the compliance by any other employee of the Company with any of the foregoing;
- (ii) the conviction of Executive for, or pleading by Executive of no contest (or similar plea) to, fraud, embezzlement, misappropriation of assets, malicious mischief, or any felony, other than a crime for which vicarious liability is imposed upon Executive solely by reason of Executive's position with the Company and not by reason of Executive's conduct; or

- (iii) any other act, omission, event or condition constituting cause for the discharge of any employee under applicable law.

Before terminating the Agreement for Cause, the Company first shall have given Executive written notice specifying the nature of the breach, repudiation or failure to comply and thirty (30) days thereafter in which to cure such breach, repudiation or failure to comply, and Executive shall have failed to cure. For purposes of this Section 3, "Material" shall mean a breach, repudiation or failure that the Board determines has resulted or could result in material injury to the Company.

3.2 CHANGE IN CONTROL for purposes of this agreement, a "Change in Control" shall be deemed to have occurred if:

(i) Any Person, as such term is used in section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time-to-time (the "Exchange Act"), as modified and used in sections 13(d) and 14(d) thereof, (other than (A) the Company or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, (D) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (E) a person or group as used in Rule 13d-1(b) under the Exchange Act) is or becomes the Beneficial Owner, as such term is defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) The following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended

by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(iii) There is consummated a merger or consolidation of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least seventy-five percent (75%) of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities; or

(iv) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least seventy-five (75%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

4. OFFSET.

Although Executive shall not be required to mitigate damages under this Agreement by seeking other comparable employment or otherwise, the amount of any payment or benefit provided for in this Agreement shall be reduced by any compensation earned by or provided to Executive as the result of employment by an employer other than the Company prior to the expiration of the Term.

5. NONCOMPETITION.

During the Term, including the period, if any, with respect to which Executive shall be entitled to Severance Payments, Executive shall not engage in any activity that is or may be competitive with the business of the Company, directly or indirectly, whether or not for compensation, including, but not limited to, providing services similar to those provided by the Company; offering or soliciting or accepting an offer, to provide such services or taking any action to form, or become employed by, a firm or business to provide such services.

6. MISCELLANEOUS.

6.1. CONFIDENTIALITY. Without limiting the scope of the Agreement Regarding Proprietary Information between the Parties, dated as of May 13, 1998 (the "Proprietary Information Agreement"), Executive agrees that all confidential and proprietary information relating to the business of the Company shall be kept and treated as confidential both during and after the Term of this Agreement, except as may be permitted in writing by the Board or as such information is within the public domain or comes within the public domain without any breach of this Agreement.

6.2. WAIVER. The waiver of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of the same or other provision hereof.

6.3. ENTIRE AGREEMENT; MODIFICATIONS. Except as otherwise provided herein, this Agreement (together with the Proprietary Information Agreement and any other agreements and plans referred to herein) represents the entire understanding between Executive and the Company with respect to the subject matter hereof, and this Agreement supersedes any and all prior understandings, agreements, plans and negotiations, whether written or oral, with respect to the subject matter hereof, including without limitation any understandings, agreements or obligations respecting any past or future compensation, bonuses, reimbursements or other payments to Executive from the Company. All modifications to this Agreement must be in writing and signed by the party against whom enforcement of such modification is sought.

6.4. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by facsimile or first-class mail,

certified or registered with return receipt requested, and shall be deemed to have been duly given three (3) days after mailing or twenty-four (24) hours after transmission of a facsimile to the respective persons named below:

If to The Company: Alexandria Real Estate Equities, Inc.  
135 North Los Robles Avenue, Suite 250  
Pasadena, CA 91101  
Phone: (626) 578-0777  
Facsimile: (626) 578-0770  
Attn: Joel S. Marcus, CEO

If to Executive: Lynn A. Shapiro  
22 Bermuda Court  
Manhattan Beach, CA 90266  
Phone: (310) 546-7920

6.5. HEADINGS. The Paragraph headings herein are intended for reference only and shall not determine the construction or interpretation of this Agreement.

6.6. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to its principles of conflicts of laws.

6.7. ARBITRATION. Any dispute arising out of or relating to this Agreement that cannot be settled by good faith negotiation between the Parties shall be submitted to ENDISPUTE for final and binding arbitration pursuant to ENDISPUTE's Arbitration Rules incorporated herein by reference, which arbitration shall take place in Los Angeles, California and shall be the exclusive remedy of the Parties hereto. The resulting arbitration shall be deemed a final order of a court having jurisdiction over the subject matter, shall not be appealable, and shall be enforceable in any court of competent jurisdiction. Submission to arbitration shall not preclude the right of any party hereto involved in a dispute regarding this Agreement (each a "Disputing Party" and collectively, the "Disputing Parties") to institute proceedings at law or in equity for injunctive or other relief pending the arbitration of a matter subject to arbitration pursuant to this Agreement. Any documentation and information submitted by any party in the

arbitration proceeding shall be kept strictly confidential by the Parties and the arbitrator.

In addition to any other relief or award granted by the arbitrator to either Disputing Party, the arbitrator shall determine the extent to which each Disputing Party has prevailed as to the material issues raised in the arbitration, and, based upon such determination, shall apportion to each Disputing Party its ratable share of (i) the Disputing Parties' reasonable attorneys' fees and other costs reasonably incurred in the arbitration, (ii) the expense of the arbitrator, and (iii) all other expenses of the arbitration. The arbitrator shall make such determination and apportionment whether or not the dispute proceeds to a final award.

6.8. SEVERABILITY. Should a court or other body of competent jurisdiction determine that any provision of this Agreement is excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, and all other provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

6.9. COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Parties hereto have executed this

Agreement.

The Company:

ALEXANDRIA REAL ESTATE  
EQUITIES, INC.  
a Maryland corporation

By: /s/ JOEL S. MARCUS

-----  
Joel S. Marcus  
Chief Executive Officer

Date: May [ ], 1998

EXECUTIVE:

/s/ LYNN ANNE SHAPIRO

-----  
Lynn A. Shapiro

Date: January 1, 1999

## EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of this 20th day of April, 1998, effective as of the 1st day of January, 1998 (the latter date shall be referred to as the "Effective Date"), by and between ALEXANDRIA REAL ESTATE EQUITIES, INC., a Maryland corporation ("Corporation"), and VINCENT R. CIRUZZI, an individual ("Officer") (hereinafter, Corporation and Officer will be referred to collectively as the "Parties").

## RECITAL

WHEREAS, Corporation desires to employ Officer as its Vice President and Director of Construction and Capital Improvements, and Officer is willing to accept such employment by Corporation, on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

1. POSITION AND DUTIES; LOCATION.

During the Term (as defined below) of this Agreement, Officer agrees to be employed by and to serve Corporation as its Vice President and Director of Construction and Capital Improvements. Corporation agrees to employ and retain Officer in such capacities. Officer shall devote such of his full business time, energy, and skill to the affairs of Corporation as shall be necessary to perform the duties of such positions. Officer shall report to the Chief Executive Officer of the Corporation or such other officer as the Chief Executive Officer shall direct with the approval of the Board of Directors of the Corporation (the "Board").

2. TERM OF EMPLOYMENT.

The Term of this Agreement shall commence on the Effective Date and shall continue until December 31, 1998 (the "Term");

PROVIDED, HOWEVER, that on December 31, 1998, and on each anniversary thereof, the Term of this Agreement shall automatically be extended for one (1) additional year unless, not later than ninety (90) days prior to December 31, 1998 or such anniversary thereof, either party shall have given written notice to the other that it does not wish to extend the Term of the Agreement. If Officer's employment hereunder shall terminate by reason of the expiration of the Term (including any extensions thereof), the date of such termination shall be referred to as the "Termination Date."

3. COMPENSATION, BENEFITS AND REIMBURSEMENT.

3.1. BASE SALARY. During the Term of this Agreement and subject to the terms and conditions set forth herein, Corporation agrees to pay to Officer an initial annual "Base Salary" of One Hundred Five Thousand Dollars (\$105,000), or such other amount as may from time-to-time be determined by Corporation. Unless otherwise agreed in writing by Officer and Corporation, the Base Salary shall be payable in substantially equal semimonthly installments in accordance with the standard policies of Corporation in existence from time-to-time.

3.2. ADJUSTMENTS IN BASE SALARY. Officer's Base Salary shall be reviewed for the possibility of adjustments no less frequently than on each anniversary of the Effective Date during the Term of this Agreement.

3.3. DISCRETIONARY BONUS. If Officer is in good standing, as finally determined by the Chief Executive Officer with the concurrence of the Board, Officer shall be eligible to receive a discretionary bonus for each fiscal year of Corporation during the Term of this Agreement, with the actual amount of any such bonus to be determined by the Chief Executive Officer with the concurrence of the Board (or a committee of the Board) based upon an evaluation of Officer's and Corporation's performance during such year and such other factors and conditions as the Board (or a committee of the Board) deems relevant.

3.4. STOCK OPTIONS. Subject to the determination of the Board (or a committee of the Board) and pursuant to the terms of a stock option agreement issued under a stock option plan of the Corporation,

Corporation may grant to Officer the right and option to purchase shares of the authorized but unissued Common Stock of Corporation on the terms and conditions set forth therein. Nothing contained herein shall be construed to increase or decrease Officer's compensation and/or benefits in existence at the time the options are granted.

3.5. ADDITIONAL BENEFITS. Officer shall be entitled to the following additional benefits under this Agreement:

(a) OFFICER BENEFITS. During the Term of this Agreement, Officer shall be eligible to participate in Corporation's existing medical plan and 401(k) plan and such existing stock incentive plans available to senior management of the Corporation in accordance with the terms and conditions of such plans. For purposes of establishing the length of service under any benefit plans or programs of Corporation, Officer's employment with the Corporation will be deemed to have commenced on September 9, 1996. During the Term of this Agreement, Corporation shall pay one hundred percent (100%) of Officer's medical premiums under Corporation's medical plan and any other welfare benefit plans for which Officer qualifies that are in existence from time-to-time.

(b) VACATION. During the Term of this Agreement, Officer shall be entitled to up to three (3) weeks paid vacation annualized during each calendar year during the Term of this Agreement. Limits on accrual of vacation not taken during any calendar year shall be subject to and in accordance with Corporation's existing policy.

(c) REIMBURSEMENT FOR EXPENSES. During the Term of this Agreement, Corporation shall reimburse Officer for all reasonable out-of-pocket business and/or entertainment expenses incurred by Officer for the purpose of and in connection with the performance of his services pursuant to this Agreement and in accordance with any existing travel and expense reimbursement policies of Corporation. Officer shall be entitled to such reimbursement upon the presentation by Officer to Corporation of vouchers or other statements itemizing such expenses in reasonable detail consistent with Corporation's policies. In addition, Officer shall be entitled to reimbursement for (i) dues and membership fees in professional organizations and/or industry associations in which

Officer is currently a member or becomes a member, and (ii) appropriate industry seminars and mandatory continuing education.

(d) WITHHOLDING. Compensation and benefits paid to Officer under this Agreement shall be subject to applicable federal, state and local wage deductions and other deductions required by law.

#### 4. TERMINATION OF THE AGREEMENT.

4.1. TERMINATION WITHOUT CAUSE. In the event that Corporation terminates this Agreement without Cause (as defined below), Officer shall be entitled to a severance payment equal to seven and one half (7 1/2) months ("Severance Period") of Officer's annualized Base Salary ("Severance Payment"). Such Severance Payment shall be payable in monthly installments during the Severance Period, in accordance with the provisions set forth in Paragraph 3.1 above. Officer shall not be entitled to receive a Severance Payment hereunder if he voluntarily terminates his employment or is terminated by reason of death or disability or for Cause.

4.2. TERMINATION FOR CAUSE. Prior to the Termination Date, the Corporation shall have the right to terminate this Agreement for Cause immediately after written notice has been delivered to Officer, which notice shall specify the reason for and the effective date of such Termination. For purposes of this Agreement, "Cause" shall mean the following:

- (i) Officer's Material breach, repudiation or failure to comply with or perform any of the terms of this Agreement, any of Officer's duties, or any of Corporation's policies or procedures (including without limitation any such policies or procedures relating to conflicts of interests or standards of business conduct) or deliberate interference with the compliance by any other employee of Corporation with any of the foregoing;
- (ii) The conviction of Officer for, or pleading by Officer of no contest (or similar plea) to, fraud, embezzlement, misappropriation of assets, malicious mischief, or any felony, other

than a crime for which vicarious liability is imposed upon Officer solely by reason of Officer's position with Corporation and not by reason of Officer's conduct;

- (iii) Any other act, omission, event or condition constituting cause for the discharge of any employee under applicable law.

Before terminating the Agreement pursuant to this Paragraph 4.2(i), Corporation first shall have given Officer written notice specifying the nature of the breach, repudiation or failure to comply and thirty (30) days thereafter in which to cure such breach, repudiation or failure to comply, and Officer shall have failed to cure. For purposes of this Paragraph 4.2, "Material" shall mean a breach, repudiation or failure that the Board determines has resulted in material injury to Corporation.

4.3. OFFSET. Although Officer shall not be required to mitigate damages under this Agreement by seeking other comparable employment or otherwise, the amount of any payment or benefit provided for in this Agreement shall be reduced by any compensation earned by or provided to Officer as the result of employment by an employer other than Corporation prior to the expiration of the Term of this Agreement.

## 5. NONCOMPETITION.

During the Term of this Agreement, including the period, if any, with respect to which Officer shall be entitled to Severance Payments, Officer shall not engage in any activity that is or may be competitive with the business of Corporation, directly or indirectly, whether or not for compensation, including, but not limited to, providing services similar to those provided by the Company; offering or soliciting or accepting an offer, to provide such services or taking any action to form, or become employed by, a firm or business to provide such services.

6. MISCELLANEOUS.

6.1. CONFIDENTIALITY. Without limiting the scope of the Agreement Regarding Proprietary Information between the Parties, dated as of December 30, 1997 (the "Proprietary Information Agreement"), Officer agrees that all confidential and proprietary information relating to the business of Corporation shall be kept and treated as confidential both during and after the Term of this Agreement, except as may be permitted in writing by the Board or as such information is within the public domain or comes within the public domain without any breach of this Agreement.

6.2. WAIVER. The waiver of the breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of the same or other provision hereof.

6.3. ENTIRE AGREEMENT; MODIFICATIONS. Except as otherwise provided herein, this Agreement (together with the Proprietary Information Agreement and any other agreements and plans referred to herein) represents the entire understanding between the Parties with respect to the subject matter hereof, and this Agreement supersedes any and all prior understandings, agreements, plans and negotiations, whether written or oral, with respect to the subject matter hereof, including without limitation any understandings, agreements or obligations respecting any past or future compensation, bonuses, reimbursements or other payments to Officer from Corporation. All modifications to this Agreement must be in writing and signed by the party against whom enforcement of such modification is sought.

6.4. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be given by facsimile or first-class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three (3) days after mailing or twenty-four (24) hours after transmission of a facsimile to the respective persons named below:

If to Corporation: Alexandria Real Estate Equities, Inc.  
135 North Los Robles Avenue, Suite 250  
Pasadena, CA 91101  
Phone: (626) 578-0777  
Facsimile: (626) 578-0770  
Attn: Joel S. Marcus, CEO

If to Officer: Vincent Ciruzzi  
11914 Briarleaf Way  
San Diego, California 92128  
Phone: (619) 486-8607

6.5. HEADINGS. The Paragraph headings herein are intended for reference only and shall not determine the construction or interpretation of this Agreement.

6.6. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to its principles of conflicts of laws.

6.7. ARBITRATION. Any dispute arising out of or relating to this Agreement that cannot be settled by good faith negotiation between the Parties shall be submitted to ENDISPUTE for final and binding arbitration pursuant to ENDISPUTE's Arbitration Rules incorporated herein by reference, which arbitration shall take place in Los Angeles, California and shall be the exclusive remedy of the Parties hereto. The resulting arbitration shall be deemed a final order of a court having jurisdiction over the subject matter, shall not be appealable, and shall be enforceable in any court of competent jurisdiction. Submission to arbitration shall not preclude the right of any party hereto involved in a dispute regarding this Agreement (each a "Disputing Party" and collectively, the "Disputing Parties") to institute proceedings at law or in equity for injunctive or other relief pending the arbitration of a matter subject to arbitration pursuant to this Agreement. Any documentation and information submitted by any party in the arbitration proceeding shall be kept strictly confidential by the Parties and the arbitrator.

In addition to any other relief or award granted by the arbitrator to either Disputing Party, the arbitrator shall determine the extent to which each Disputing Party has prevailed as to the material issues raised in the arbitration, and, based upon such determination, shall apportion to each Disputing Party its ratable share of (i) the Disputing Parties' reasonable attorneys' fees and other costs reasonably incurred in the arbitration, (ii) the expense of the arbitrator, and (iii) all other expenses of the arbitration. The arbitrator shall make such determination and apportionment whether or not the dispute proceeds to a final award.

6.8. SEVERABILITY. Should a court or other body of competent jurisdiction determine that any provision of this Agreement is excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, and all other provisions of this Agreement shall be deemed valid and enforceable to the extent possible.

6.9. COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one and the same Agreement.

6.10 INDEMNIFICATION. In addition to any rights to indemnification to which Officer is entitled under the Corporation's Articles of Incorporation and By-Laws, Corporation shall indemnify Officer at all times during and after the Term of this Agreement to the maximum extent permitted under Section 2-418 of the General Corporation Law of the State of Maryland or any successor provision thereof and any other applicable state law, and shall pay Officer's expenses in defending any civil or criminal action, suit, or proceeding in advance of the final disposition of such action, suit, or proceeding, to the maximum extent permitted under such applicable state laws.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement.

CORPORATION:

ALEXANDRIA REAL ESTATE  
EQUITIES, INC.  
a Maryland corporation

By: /s/ JOEL S. MARCUS

-----  
Joel S. Marcus  
Chief Executive Officer

Date: April 23, 1998

OFFICER:

/s/ VINCENT R. CIRUZZI

-----  
Vincent Ciruzzi

Date: April 20, 1998

FIRST AMENDMENT TO FIRST AMENDED AND RESTATED  
REVOLVING LOAN AGREEMENT

THIS FIRST AMENDMENT TO FIRST AMENDED AND RESTATED REVOLVING LOAN AGREEMENT (this "Amendment") made this 21st day of October, 1998, by and among ALEXANDRIA REAL ESTATE EQUITIES, INC., a Maryland corporation ("Parent"), ALEXANDRIA REAL ESTATE EQUITIES, L.P., a Delaware limited partnership ("Operating Partnership"), ARE-QRS CORP., a Maryland corporation ("QRS"), ARE ACQUISITIONS, LLC, a Delaware limited liability company ("ARE"), the other Borrowers whose names are set forth on the signature pages of this Amendment (collectively, with Parent, Operating Partnership, QRS and ARE, the "Borrowers", all on a joint and several basis), each lender whose name is set forth on the signature pages of this Amendment as "Banks" (collectively, the "Banks" and individually, a "Bank") and BANKBOSTON, N.A., as Managing Agent (the "Managing Agent").

## W I T N E S S E T H:

WHEREAS, Borrowers, Managing Agent and certain of the Banks entered into that certain First Amended and Restated Revolving Loan Agreement dated as of August 4, 1998 (the "Loan Agreement"); and

WHEREAS, BankBoston has assigned a portion of its Commitment to certain of the other Banks;

WHEREAS, Borrowers have requested that Managing Agent and the Banks modify certain provisions of the Loan Agreement; and

WHEREAS, as a condition to such modification, Managing Agent and the Banks have required that Borrowers execute this Amendment;

NOW, THEREFORE, for and in consideration of the sum of TEN and NO/100 DOLLARS (\$10.00), and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby covenant and agree as follows:

1. DEFINITIONS. All the terms used herein which are not otherwise defined herein shall have the meanings set forth in the Loan Agreement.

2. MODIFICATION OF THE LOAN AGREEMENT. Borrowers, the Banks and Managing Agent do hereby modify and amend the Loan Agreement as follows:

(a) By deleting in its entirety the definition of the term "Borrowing Base" appearing in Section 1.1 of the Loan Agreement, and inserting in lieu thereof the following:

"'BORROWING BASE' means, as of any date of determination, the LESSER OF (a) the maximum amount which, when added to the total outstanding balance of all unsecured Indebtedness of Parent and its Subsidiaries (including the Loans), would not exceed fifty-seven and one-half percent (57.5%) of the aggregate Asset Value of the Unencumbered Asset Pool, and (b) the maximum amount which would not cause the Test Debt Service Coverage Amount for the Unencumbered Asset Pool to be less than two (2). Notwithstanding the foregoing, commencing on the first to occur of (i) the occurrence of (A) any Equity Offering or (B) the encumbrance of any Real Estate which as of October 1, 1998 was Unencumbered (excluding the Encumbrance of any such Real Estate for the purpose of obtaining a construction loan to finance the construction of improvements to such Real Estate) if such event (i.e. (A) or (B)) results in net proceeds greater than \$20,000,000.00 and if, after giving effect to such occurrence the Borrowers would be in compliance with all of their obligations and covenants relating to the Borrowing Base if the figure 'fifty-seven and one-half percent (57.5%)' appearing in clause (a) of this definition were reduced to 'fifty percent (50%)', and (ii) June 1, 1999, and continuing at all times thereafter, the figure 'fifty-seven and one-half percent (57.5%)' appearing in clause (a) of this definition shall be reduced to 'fifty percent (50%)'."; and

(b) By deleting in its entirety Schedule 1 to EXHIBIT E, and inserting in lieu thereof Schedule 1 attached hereto and made a part hereof.

3. MODIFICATION FEE. Upon the execution hereof, Borrowers shall pay to the Managing Agent for the account of the Banks in accordance with their separate agreement a fee as set forth in a separate agreement between the Borrowers and the Managing Agent. Managing Agent shall pay to each of the Banks a portion of such fee in accordance with their separate agreement. Such fee shall be fully earned when paid and non-refundable under any circumstances.

4. REFERENCES TO LOAN AGREEMENT. All references in the Loan Documents to the Loan Agreement shall be deemed a reference to the Loan Agreement, as modified and amended herein.

5. REPRESENTATIONS. Borrowers represent and warrant to Managing Agent and the Banks as follows:

(a) Each of the Borrowers has all requisite power and authority to execute and deliver this Amendment and to perform its obligations hereunder.

(b) The execution, delivery and performance by each of Borrowers of this Amendment have been duly authorized by all necessary corporate, partnership or limited liability company action, as applicable, and do not and will not:

- (i) Require any consent or approval not heretofore obtained of any partner, director, stockholder, security holder or creditor of Borrowers;
- (ii) Violate or conflict with any provision of Borrowers' charter, articles of incorporation, bylaws or other organizational agreements, as applicable;
- (iii) Result in or require the creation or imposition of any Lien or Right of Others upon or with respect to any Property now owned or leased or hereafter acquired by Borrowers;
- (iv) Violate any Requirement of Law applicable to Borrowers; or
- (v) Result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement or any other Contractual Obligation to which Borrowers are a party or by which Borrowers or any of their Property is bound or affected.

(c) Except as previously obtained or made, no authorization, consent, approval, order, license or permit from, or filing, registration or qualification with, any Governmental Agency is or will be required to authorize or permit under applicable Laws the execution, delivery and performance by any of Borrowers of this Amendment.

(d) This Amendment will, when executed and delivered by Borrowers, constitute the legal, valid and binding obligation of Borrowers, enforceable against Borrowers in accordance with its terms, EXCEPT as enforcement may be limited by Debtor Relief Laws or equitable principles relating to the granting of specific performance and other equitable remedies as a matter of judicial discretion.

6. CONDITIONS TO EFFECTIVENESS. The effectiveness of this Amendment is subject to the satisfaction of each of the following conditions precedent:

(a) The Managing Agent shall have received all of the following, each of which shall be originals unless otherwise specified, each properly executed by a Responsible Official of each party thereto, and each in form and substance satisfactory to the Managing Agent and its legal counsel (unless otherwise specified or, in the case of the date of any of the following, unless the Managing Agent otherwise agrees or directs):

- (i) at least one (1) executed counterpart of this Amendment, together with arrangements satisfactory to the Managing Agent for

additional executed counterparts, sufficient in number for distribution to the Banks and Borrowers;

- (ii) with respect to each of Borrowers, such documentation as the Managing Agent may require to establish its authority to execute, deliver and perform this Amendment, the identity, authority and capacity of each Responsible Official thereof authorized to act on its behalf, INCLUDING certified copies of articles of incorporation and amendments thereto, bylaws and amendments thereto (or certifications acceptable to Managing Agent that there have been no changes to any of such items from those previously delivered to the Managing Agent pursuant to the Loan Agreement), certificates of good standing and/or qualification to engage in business, tax clearance certificates, certificates of corporate resolutions, incumbency certificates, Certificates of Responsible Officials, and the like; and
- (iii) opinions of counsel to the Borrowers in form and substance satisfactory to the Managing Agent;

(b) The fee payable pursuant to Paragraph 3 shall have been paid.

(c) The Managing Agent shall have reviewed such other documents, instruments, certificates, opinions, assurances, consents and approvals as the Managing Agent or the Managing Agent's special counsel may reasonably have requested.

7. NO DEFAULT. By execution hereof, each of the Borrowers certifies that such Persons are and will be in compliance with all covenants under the Loan Documents after the execution and delivery of this Amendment, and that no Default or Event of Default has occurred and is continuing.

8. WAIVER OF CLAIMS. Each of the Borrowers acknowledges, represents and agrees that none of such Persons has any defenses, setoffs, claims, counterclaims or causes of action of any kind or nature whatsoever with respect to the Loan Documents, the administration or funding of the Loan or with respect to any acts or omissions of Managing Agent or any Bank, or any past or present officers, Managing Agents or employees of Managing Agent or any Bank, and each of such Persons does hereby expressly waive, release and relinquish any and all such defenses, setoffs, claims, counterclaims and causes of action, if any.

9. RATIFICATION. Except as hereinabove set forth, all terms, covenants and provisions of the Loan Agreement remain unaltered and in full force and effect, and the parties hereto do hereby expressly ratify and confirm the Loan Documents and the Loan Agreement as modified and amended herein. Nothing in this Amendment shall be deemed or construed to constitute, and there has not otherwise occurred, a novation, cancellation, satisfaction, release, waiver, extinguishment or substitution of the indebtedness evidenced by the Notes or the other obligations of Borrowers under the Loan Documents.

10. AMENDMENT AS LOAN DOCUMENT. This Amendment shall constitute a Loan Document.

11. COUNTERPARTS. This Amendment may be executed in any number of counterparts which shall together constitute but one and the same agreement.

12. MISCELLANEOUS. This Amendment shall be construed and enforced in accordance with the laws of the State of California. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective permitted successors, successors-in-title and assigns as provided in the Loan Agreement.

[Signatures on Following Pages.]

IN WITNESS WHEREOF, the parties hereto have hereto set their hands and affixed their seals as of the day and year first above written.

BORROWERS:

ALEXANDRIA REAL ESTATE EQUITIES, INC.

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

ALEXANDRIA REAL ESTATE EQUITIES, L.P.

By: ARE-QRS Corp., its general partner

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

ARE-QRS CORP.

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

ARE ACQUISITIONS, LLC  
ARE-708 QUINCE ORCHARD, LLC  
ARE-940 CLOPPER ROAD, LLC  
ARE-1201 HARBOR BAY, LLC  
ARE-1401 RESEARCH BOULEVARD, LLC  
ARE-1500 EAST GUDE, LLC

By: ARE-QRS Corp., their managing member

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

ARE-4757 NEXUS CENTRE, LLC  
ARE-215 COLLEGE ROAD, LLC  
ARE-819/863 MITTEN ROAD, LLC  
ARE-6166 NANCY RIDGE, LLC  
ARE-150/154 TECHNOLOGY PARKWAY, LLC  
ARE-8000/9000/10000 VIRGINIA MANOR, LLC  
ARE-19 FIRSTFIELD ROAD, LLC  
ARE-10150 OLD COLUMBIA, LLC  
ARE-11025 ROSELLE STREET, LLC  
ARE-100/800/801 CAPITOLA, LLC  
ARE-170 WILLIAMS DRIVE, LLC  
ARE-3005 FIRST AVENUE, LLC  
ARE-15020 SHADY GROVE, LLC

By: Alexandria Real Estate Equities, L.P., their  
sole member

By: ARE-QRS Corp., its general partner

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

ARE-79/96 CHARLESTOWN NAVY YARD, LLC  
ARE-280 POND STREET, LLC

By: AREE-Holdings, L.P., their managing member

By: ARE-GP Holdings QRS Corp., its general  
partner

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

ARE-5100/5110 CAMPUS DRIVE, L.P.  
ARE-702 ELECTRONIC DRIVE

By: AREE-Holdings, L.P., their general partner

By: ARE-GP Holdings QRS Corp., its general partner

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

ARE-10933 NORTH TORREY PINES, LLC  
ARE-11099 NORTH TORREY PINES, LLC

By: Alexandria Real Estate Equities, Inc., their sole member

By: /s/ PETER J. NELSON

-----  
Its: C.F.O.

BANKS AND MANAGING AGENT:

BANKBOSTON, N.A., individually and as Managing Agent

By: /s/ DANIEL P. STEGEMOELLER

-----  
Its: Vice President

SOCIETE GENERALE SOUTHWEST AGENCY, individually and as Syndication Agent

By: /s/ SCOTT GOSSLEE

-----  
Its: Vice President

KEYBANK NATIONAL ASSOCIATION,  
individually and as Documentation Agent

By: /s/ MARY ELLEN FOWLER

-----  
Its: Vice President

DRESDNER BANK AG, New York Branch and Grand Cayman  
Branch, individually and as Co-Agent

By: /s/ CHRISTOPHER E. SARISKY

-----  
Its: Assistant Vice President

Attest: /s/ BEVERLY G. CARSON

-----  
Its:

THE LONG-TERM CREDIT BANK OF JAPAN, LTD., LOS  
ANGELES AGENCY

By: /s/ BRIAN H. KELLEY

-----  
Its: Deputy General Manager

CRESTAR BANK

By: /s/ GREGORY T. HORSTMAN

-----  
Its: Vice President

RIGGS BANK, N.A.

By:

-----  
Its:

SUMMIT BANK

By: [ILLEGIBLE]

-----  
Its: Regional Vice President

FIRST AMERICAN BANK TEXAS, S.S.B.

By: /s/ JEFFREY SCHULTZ

-----  
Its: Vice President

SOVEREIGN BANK

By: /s/ THOMAS W. NADEAU

-----  
Its: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN, LIMITED, LOS ANGELES  
AGENCY

By: [ILLEGIBLE]

-----  
Its: Vice President

NATIONSBANK, N.A.

By: /s/ DONALD H. MOSES

-----  
Its: Senior Vice President

CEDARS BANK

By: [ILLEGIBLE]

-----  
Its: Senior Vice President, C.E.O.

ADDITIONAL BORROWERS:

ARE-5 TRIANGLE DRIVE, LLC  
ARE-50 WEST WATKINS MILL, LLC  
ARE-100 PHILLIPS PARKWAY, LLC  
ARE-279 PRINCETON ROAD, LLC  
ARE-2001 ALICEANNA STREET, LLC  
ARE-3770 TANSY STREET, LLC  
ARE-10505 ROSELLE STREET, LLC

By: Alexandria Real Estate Equities, L.P., their  
sole member

By: ARE-QRS Corp., a Maryland corporation,  
its general partner

By: /s/ PETER J. NELSON

-----  
Name: Peter J. Nelson  
Title: Senior Vice President &  
Chief Financial Officer

ARE-60 WESTVIEW, LLC  
ARE-377 PLANTATION STREET, LLC

By: AREE-Holdings, L.P., a Delaware limited  
partnership, their managing member

By: ARE-GP Holdings QRS Corp., a Delaware  
corporation, its general partner

By: /s/ PETER J. NELSON

-----  
Name: Peter J. Nelson  
Title: Senior Vice President &  
Chief Financial Officer

(Multicurrency -- Cross Border)

I S D A -Registered Trademark-

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of August 31, 1998  
-----

BankBoston, N.A. and Alexandria Real Estate Equities, Inc. have  
-----  
entered and/or anticipate entering into one or more transactions (each a  
"Transaction") that are or will be governed by this Master Agreement, which  
includes the schedule (the "Schedule"), and the documents and other  
confirming evidence (each a "Confirmation") exchanged between the parties  
confirming those Transactions.

Accordingly, the parties agree as follows: --

1. INTERPRETATION

(a) DEFINITIONS. The terms defined in Section 14 and in the Schedule will  
have the meanings therein specified for the purpose of this Master Agreement.

(b) INCONSISTENCY. In the event of any inconsistency between the provisions  
of the Schedule and the other provisions of this Master Agreement, the  
Schedule will prevail. In the event of any inconsistency between the  
provisions of any Confirmation and this Master Agreement (including the  
Schedule), such Confirmation will prevail for the purpose of the relevant  
Transaction.

(c) SINGLE AGREEMENT. All Transactions are entered into in reliance on the  
fact that this Master Agreement and all Confirmations form a single  
agreement between the parties (collectively referred to as this "Agreement"),  
and the parties would not otherwise enter into any Transactions.

2. OBLIGATIONS

(a) GENERAL CONDITIONS.

(i) Each party will make each payment or delivery specified in each  
Confirmation to be made by it, subject to the other provisions of this  
Agreement.

(ii) Payments under this Agreement will be made on the due date for  
value on that date in the place of the account specified in the relevant  
Confirmation or otherwise pursuant to this Agreement, in freely  
transferable funds and in the manner customary for payments in the  
required currency. Where settlement is by delivery (that is, other than  
by payment), such delivery will be made for receipt on the due date in  
the manner customary for the relevant obligation unless otherwise  
specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to  
(1) the condition precedent that no Event of Default or Potential Event  
of Default with respect to the other party has occurred and is  
continuing, (2) the condition precedent that no Early Termination Date  
in respect of the relevant Transaction has occurred or been effectively  
designated and (3) each other applicable condition precedent specified  
in this Agreement.

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(b) CHANGE OF ACCOUNT. Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) NETTING. If on any date amounts would otherwise be payable: --

- (i) in the same currency; and
- (ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) DEDUCTION OR WITHHOLDING FOR TAX.

(i) GROSS-UP. All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will: --

- (1) promptly notify the other party ("Y") of such requirement;
- (2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;
- (3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and
- (4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for: --

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) LIABILITY, If: --

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) DEFAULT INTEREST; OTHER AMOUNTS. Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. REPRESENTATIONS

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that: --

(a) BASIC REPRESENTATIONS.

(i) STATUS. It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) POWERS. It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;

(iii) NO VIOLATION OR CONFLICT. Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) CONSENTS. All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) OBLIGATIONS BINDING. Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) ABSENCE OF CERTAIN EVENTS. No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) ABSENCE OF LITIGATION. There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) ACCURACY OF SPECIFIED INFORMATION. All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) PAYER TAX REPRESENTATION. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) PAYEE TAX REPRESENTATIONS. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

#### 4. AGREEMENTS

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party: --

(a) FURNISH SPECIFIED INFORMATION. It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs: --

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification.

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) MAINTAIN AUTHORISATIONS. It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) COMPLY WITH LAWS. It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) TAX AGREEMENT. It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) PAYMENT OF STAMP TAX. Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

## 5. EVENTS OF DEFAULT AND TERMINATION EVENTS

(a) EVENTS OF DEFAULT. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:--

(i) FAILURE TO PAY OR DELIVER. Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) BREACH OF AGREEMENT. Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) CREDIT SUPPORT DEFAULT.

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) MISREPRESENTATION. A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) DEFAULT UNDER SPECIFIED TRANSACTION. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or any early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) CROSS DEFAULT. If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) **BANKRUPTCY.** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:--

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) **MERGER WITHOUT ASSUMPTION.** The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer:--

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) **TERMINATION EVENTS.** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event

Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:--

(i) ILLEGALITY. Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):--

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) TAX EVENT. Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(1)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) TAX EVENT UPON MERGER. The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) CREDIT EVENT UPON MERGER. If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) ADDITIONAL TERMINATION EVENT. If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule of such Confirmation).

(c) EVENT OF DEFAULT AND ILLEGALITY. If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. EARLY TERMINATION

(a) RIGHT TO TERMINATE FOLLOWING EVENT OF DEFAULT. If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) RIGHT TO TERMINATE FOLLOWING TERMINATION EVENT.

(i) NOTICE. If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) TRANSFER TO AVOID TERMINATION EVENT. If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) TWO AFFECTED PARTIES. If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) RIGHT TO TERMINATE, IF:--

(1) a transfer under Section 6(b)(ii) or an agreement under Section (6)(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then

continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) EFFECT OF DESIGNATION.

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) CALCULATIONS.

(i) STATEMENT. On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) PAYMENT DATE. An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) PAYMENTS ON EARLY TERMINATION. If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) EVENTS OF DEFAULT. If the Early Termination Date results from an Event of Default:--

(1) FIRST METHOD AND MARKET QUOTATION. If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) FIRST METHOD AND LOSS. If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) SECOND METHOD AND MARKET QUOTATION. If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) SECOND METHOD AND LOSS. If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) TERMINATION EVENTS. If the Early Termination Date results from a Termination Event:--

(1) ONE AFFECTED PARTY. If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) TWO AFFECTED PARTIES. If there are two Affected Parties:--

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) ADJUSTMENT FOR BANKRUPTCY. In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) PRE-ESTIMATE. The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

## 7. TRANSFER

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:--

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

## 8. CONTRACTUAL CURRENCY

(a) PAYMENT IN THE CONTRACTUAL CURRENCY. Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) JUDGMENTS. To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) SEPARATE INDEMNITIES. To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) EVIDENCE OF LOSS. For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

## 9. MISCELLANEOUS

(a) ENTIRE AGREEMENT. This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) AMENDMENTS. No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) SURVIVAL OF OBLIGATIONS. Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) REMEDIES CUMULATIVE. Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) COUNTERPARTS AND CONFIRMATIONS.

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) NO WAIVER OF RIGHTS: A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) HEADINGS. The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

## 10. OFFICES; MULTIBRANCH PARTIES

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.

(b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.

(c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

## 11. EXPENSES

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document

to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

## 12. NOTICES

(a) EFFECTIVENESS. Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:--

(i) if in writing and delivered in person or by courier, on the date it is delivered;

(ii) if sent by telex, on the date the recipient's answerback is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received.

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) CHANGE OF ADDRESSES. Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

## 13. GOVERNING LAW AND JURISDICTION

(a) GOVERNING LAW. This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) JURISDICTION. With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:--

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) SERVICE OF PROCESS. Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) WAIVER OF IMMUNITIES. Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

#### 14. DEFINITIONS

As used in this Agreement:--

"ADDITIONAL TERMINATION EVENT" has the meaning specified in Section 5(b).

"AFFECTED PARTY" has the meaning specified in Section 5(b).

"AFFECTED TRANSACTIONS" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"AFFILIATE" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"APPLICABLE RATE" means:--

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"BURDENED PARTY" has the meaning specified in Section 5(b).

"CHANGE IN TAX LAW" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"CONSENT" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"CREDIT EVENT UPON MERGER" has the meaning specified in Section 5(b).

"CREDIT SUPPORT DOCUMENT" means any agreement or instrument that is specified as such in this Agreement.

"CREDIT SUPPORT PROVIDER" has the meaning specified in the Schedule.

"DEFAULT RATE" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"DEFAULTING PARTY" has the meaning specified in Section 6(a).

"EARLY TERMINATION DATE" means the date determined in accordance with Section 6(a) or 6(b)(iv).

"EVENT OF DEFAULT" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"ILLEGALITY" has the meaning specified in Section 5(b).

"INDEMNIFIABLE TAX" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"LAW" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and "LAWFUL" and "UNLAWFUL" to be construed accordingly.

"LOCAL BUSINESS DAY" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"LOSS" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"MARKET QUOTATION" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"NON-DEFAULT RATE" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"NON-DEFAULTING PARTY" has the meaning specified in Section 6(a).

"OFFICE" means a branch or office of a party, which may be such party's head or home office.

"POTENTIAL EVENT OF DEFAULT" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"REFERENCE MARKET-MAKERS" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"RELEVANT JURISDICTION" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"SCHEDULED PAYMENT DATE" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"SET-OFF" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"SETTLEMENT AMOUNT" means, with respect to a party and any Early Termination Date, the sum of:--

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"SPECIFIED ENTITY" has the meaning specified in the Schedule.

"SPECIFIED INDEBTEDNESS" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"SPECIFIED TRANSACTION" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"STAMP TAX" means any stamp, registration, documentation or similar tax.

"TAX" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"TAX EVENT" has the meaning specified in Section 5(b).

"TAX EVENT UPON MERGER" has the meaning specified in Section 5(b).

"TERMINATED TRANSACTIONS" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"TERMINATION CURRENCY" has the meaning specified in the Schedule.

"TERMINATION CURRENCY EQUIVALENT" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"TERMINATION EVENT" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"TERMINATION RATE" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"UNPAID AMOUNTS" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that become payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

BankBoston, N.A.

Alexandria Real Estate Equities, Inc.

.....

.....

(Name of Party)

(Name of Party)

By: .....

By: .....

Name:

Name:

Title:

Title:

Date:

Date:

ISDA -Registered Trademark- 1992

(Multicurrency - Cross Border)

SCHEDULE

to the

ISDA MASTER AGREEMENT

dated as of August 31, 1998

between

BANKBOSTON, N.A.  
("Party A")

and

ALEXANDRIA REAL ESTATE EQUITIES, INC.  
("Party B")

PART 1. TERMINATION PROVISIONS.

(a) "SPECIFIED ENTITY" means in relation to Party A for the purpose of:

Section 5(a)(v): Not Applicable.  
Section 5(a)(vi): Not Applicable.  
Section 5(a)(vii): Not Applicable.  
Section 5(b)(iv): Not Applicable.

and in relation to Party B for the purpose of:

Section 5(a)(v): All Affiliates.  
Section 5(a)(vi): All Affiliates.  
Section 5(a)(vii): All Affiliates.  
Section 5(b)(iv): All Affiliates.

(b) "SPECIFIED TRANSACTION" will have the meaning specified in Section 14.

(c) The "CROSS DEFAULT" provisions of Section 5(a)(vi) will not apply to Party A and will apply to Party B, subject to the following proviso being inserted at the end thereof:

"; provided, however, that notwithstanding the foregoing, an Event of Default shall not occur under either (1) or (2) above, if (a) the event or condition referred to in (1) or the failure to pay referred to in (2) is a failure to pay caused by an error or omission of an administrative or operational nature, (b) funds were available to such party to enable it to make the relevant payment when due, and (c) such relevant payment is made within three Local Business Days following receipt of written notice from an interested party of such failure to pay".

If such provisions apply:

"SPECIFIED INDEBTEDNESS" will have the meaning specified in Section 14, except that such term shall not include obligations in respect of deposits received in the ordinary course of business.

"THRESHOLD AMOUNT" shall mean (x) with respect to Party A, not applicable, and (y) with respect to Party B, USD 5,000,000 or the equivalent amount in any other currency.

- (d) The "CREDIT EVENT UPON MERGER" provisions of Section 5(b)(iv) will not apply to Party A and will apply to Party B.
- (e) The "AUTOMATIC EARLY TERMINATION" provisions of Section 6(a) will not apply to Party A and will not apply to Party B, PROVIDED, HOWEVER, that where the Event of Default specified in Sections 5(a)(vii)(1), (3), (4), (5), (6) or, to the extent analogous thereto, (8) is governed by a system of law which does not permit termination to take place after the occurrence of the relevant Event of Default, the Automatic Early Termination provisions of Section 6(a) will apply to the relevant party. If Automatic Early Termination of the Agreement does occur as a result of this provision, the Defaulting Party shall fully indemnify the Non-Defaulting Party on demand against all expense, loss, damage or liability that the Non-Defaulting Party may incur in respect of the Agreement and each transaction as a consequence of movements in interest, currency, exchange or other relevant rates or prices between the Business Day on which such Automatic Early Termination occurs and the Business Day on which the Non-Defaulting Party first becomes aware that the Agreement has been terminated pursuant to this provision. The Non-Defaulting Party may for this purpose convert any such expense, loss, damage or liability to the Termination Currency.
- (f) PAYMENTS ON EARLY TERMINATION. For the purpose of Section 6(e) of this Agreement:
  - (i) Market Quotation will apply.
  - (ii) The Second Method will apply.
- (g) "TERMINATION CURRENCY" means U.S. dollars.
- (h) ADDITIONAL TERMINATION EVENT. In addition to the Termination Events specified in Section 5(b), the occurrence of any of the following shall constitute an Additional Termination Event:
  - 1) Impossibility. means due to the occurrence of a natural or man-made disaster, armed conflict, act of terrorism, riot, labor disruption or any other circumstance beyond its control after the date on which a Transaction is entered into, it becomes impossible (other than as a result of its own misconduct) for such a party (which will be the Affected Party):
    - (x) to perform any absolute or contingent obligation, to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or
    - (y) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction.

2) Sovereign Event. A party is not able to discharge its obligations with respect to a Transaction through the relevant Specified Office (which will be the Affected Party) as a result of any law (other than bankruptcy, insolvency or similar laws), order or other act or threat of any authority (de jure or de facto) at the location of such Specified Office.

3) Both (a) all of the principal, interest, fees and other amounts owing by Party B (which will be the Affected Party) under or in respect of the Credit Agreement shall have been paid in full and (b) all commitments of Party A to make extensions of credit under or in respect of, or as contemplated by, the Credit Agreement shall have expired or been terminated

For the purposes of such Additional Termination Event(s),

(i) The definitions listed above shall be added to Section 14 of the Agreement in alphabetical order.

(ii) An Impossibility or Sovereign Event shall be treated as an Illegality for purposes of Section 5(c) of the Agreement.

## PART 2. TAX REPRESENTATIONS.

(a) PAYER REPRESENTATIONS. For the purpose of Section 3(e), Party A and Party B will make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority of any Relevant Jurisdiction to make any deduction or withholding for or on account of any tax from any payment (other than interest under Sections 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on:-

(i) the accuracy of any representation made by the other party pursuant to Section 3(f);

(ii) the satisfaction of the agreement of the other party contained in Section 4(a)(i) or 4(a)(iii) and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii); and

(iii) the satisfaction of the agreement of the other party contained in Section 4(d), provided that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(b) PAYEE REPRESENTATIONS. For the purpose of Section 3(f) of this Agreement, Party A and Party B make the representations specified below, if any:

(i) Party A represents that it is a national banking association organized under the laws of the United States of America.

(ii) Party B represents that it is a Maryland Corporation.

PART 3. AGREEMENT TO DELIVER DOCUMENTS.

For the purposes of Section 4(a) of the Agreement the other documents to be delivered are:

PARTY REQUIRED TO DELIVER DOCUMENT	FORM/DOCUMENT/CERTIFICATE	DATE BY WHICH TO BE DELIVERED	COVERED BY SECTION 3(d) REPRESENTATION
Party A, Party B and any Credit Support Provider	Evidence of the authority, incumbency and specimen signature of each person executing this Agreement, any Credit Support Document and any Confirmation on its behalf.	Upon execution of this Agreement, any Credit Support Document and, upon request, any Confirmation.	Yes.
Party A	A copy of BankBoston Corporation's most recent annual report containing consolidated year end financial statements, certified by independent public accountants.	Promptly upon request by Party B.	Yes.
Party B	A copy of Party B's most recent annual report containing year end financial statements, certified by independent public accountants.	Promptly upon request by Party A.	Yes.
Party B	A copy of Party B's quarterly financial statements.	Promptly upon request by Party A.	Yes.
Party B	A legal opinion substantially in the form of Exhibit A attached hereto.	Upon execution of this Agreement.	Yes.

PART 4. MISCELLANEOUS.

(a) ADDRESS FOR NOTICES. For the purpose of Section 12(a) of this Agreement:

I. ADDRESS FOR NOTICES TO PARTY A:

FOR CONFIRMATIONS/SETTLEMENTS/COLLATERAL TRANSFERS/RESETS:

(i) acting through its Boston Head Office

Address: BankBoston, N.A.  
100 Federal Street  
Boston, MA 02110

Attn: Senior Manager, Derivatives Operations, 01-13-08

Tel No: (617) 434-3964

Fax No: (617) 434-4284

(ii) acting through any other office or branch as provided in the relevant Confirmation or as otherwise advised by Party A.

FOR ALL NOTICES OR COMMUNICATIONS GIVEN IN RESPECT OF SECTION 5, 6, 7, 11 OR 13 OF THIS AGREEMENT:

Address: BankBoston, N.A.  
100 Federal Street  
Boston, MA 02110

Attn: Managing Director, Derivatives, 01-12-08

Tel No: (617) 434-7529

Fax No: (617) 434-1149 or 639-9342

with a copy to:

BankBoston, N.A.

Attn: Law Office-Derivatives/FX Counsel

100 Federal Street, 01-19-02

Boston, MA 02110

Fax No: (617) 434-7980

II. ADDRESS FOR NOTICES OR COMMUNICATIONS TO PARTY B:

Address: Alexandria Real Estate Equities, Inc.  
135 N. Los Robles Avenue, Suite 250  
Pasadena, CA 91101

Attention: Peter Nelson, Chief Financial Officer

Tel No: 626-578-0777

Fax No: 626-578-0770

(b) PROCESS AGENT. For the purpose of Section 13(c) of this Agreement:

PARTY A APPOINTS AS ITS PROCESS AGENT:

BankBoston International  
590 Madison Avenue, 22nd Floor  
New York, NY 10022

with a copy to:

BankBoston, N.A.  
100 Federal Street, 01-19-02  
Boston, MA 02110  
Attn: Law Office-Derivatives/FX Counsel

PARTY B APPOINTS AS ITS PROCESS AGENT: Not Applicable.

(c) OFFICES. The provisions of Section 10(a) will apply to this Agreement.

(d) MULTIBRANCH PARTY. For the purpose of Section 10(c) of this Agreement:

Party A is a Multibranch Party and will act for purposes of this Agreement through the following Offices (and any other branch, office or agency as agreed by the parties and specified in a Confirmation):

Boston, London, Singapore, Buenos Aires

Party B is not a Multibranch Party.

(e) CALCULATION AGENT. The Calculation Agent is Party A.

(f) CREDIT SUPPORT DOCUMENT. Details of any Credit Support Document: Not applicable

(g) CREDIT SUPPORT PROVIDER. Credit Support Provider means (x) in relation to Party A, not applicable, and (y) in relation to Party B, not applicable.

(h) GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO CHOICE OF LAW DOCTRINE.

(i) NETTING OF PAYMENTS. Subparagraph (ii) of Section 2(c) of this Agreement will not apply to any Transactions under this Agreement and therefore the netting specified in Section 2(c) of this Agreement will apply across all Transactions with effect from the date of this Agreement.

"AFFILIATE" will have the meaning specified in Section 14.

PART 5. OTHER PROVISIONS.

(a) SET-OFF.

Any amount (the "EARLY TERMINATION AMOUNT") payable to one party (the Payee) by the other party (the Payer) under Section 6(e), in circumstances where there is a Defaulting Party or one Affected Party in the case where a Termination Event under Section 5(b)(iv) has occurred, will, at the option of the party ("X") other than the Defaulting Party or the Affected Party (and without prior notice to the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the "Other Agreement Amount") payable (whether at such time or in the

future or upon the occurrence of a contingency) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) between the Payee and the Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give notice to the other party of any set-off effected under this Section 5(a).

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this Section 5(a) shall be effective to create a charge or other security interest. This Section 5(a) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

(b) DEFINITIONS.

(i) This Agreement, each Confirmation and each Transaction are subject to the 1991 ISDA DEFINITIONS (as published by the International Swaps and Derivatives Association, Inc.) as amended, supplemented or restated from time to time (the "DEFINITIONS"), and will be governed in all respects by the provisions set forth in the Definitions. The Definitions are incorporated by reference in, and shall be deemed to be part of, this Agreement and each Confirmation, as if set forth in full in this Agreement or in each such Confirmation. In the event of any inconsistency between the provisions of this Agreement and the Definitions, this Agreement will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Agreement, such Confirmation will prevail for the purpose of the relevant Transaction.

(ii) With effect from and including the date of this Agreement (A) any reference to a "Swap Transaction" in the Definitions is deemed to be a reference to a "Transaction" for the purpose of interpreting this Agreement or any Confirmation and (B) any reference to a "Transaction" in this Agreement or any Confirmation is deemed to be a reference to a "Swap Transaction" for the purpose of interpreting the Definitions.

(c) ADDITIONAL PARTY B EVENT OF DEFAULT.

IT SHALL CONSTITUTE AN ADDITIONAL EVENT OF DEFAULT UNDER SECTION 5(A) OF THIS AGREEMENT IN RESPECT OF WHICH PARTY B SHALL BE THE DEFAULTING PARTY UPON THE FAILURE BY PARTY B TO observe, perform and fulfill each and every covenant, term and provision applicable to it in that certain First Amended and Restated Revolving Loan Agreement, dated as of August 4, 1998, as amended and/or restated from time to time, by and among Party A and Party B (the "Credit Agreement").

(d) ADDITIONAL REPRESENTATIONS.

For purposes of Section 3 of this Agreement, the following shall be added immediately following paragraph (f) thereof:

"(g) This Agreement and each Transaction constitutes a "swap agreement" within the meaning of Commodity Futures Trading Commission ("CFTC") Regulations Section 35.1(b)(1).

(h) It is an "eligible swap participant" within the meaning of CFTC Regulations Section 35.1(b)(2).

(i) Neither this Agreement nor any Transaction is one of a fungible class of agreements that are standardized as to their material economic terms, within the meaning of CFTC Regulations Section 35.2(b).

(j) The creditworthiness of the other party was or will be a material consideration in entering into or determining the terms of this Agreement and each Transaction, including pricing, cost or credit enhancement terms of the Agreement or Transaction, within the meaning of CFTC Regulations Section 35.2(c).

(k) It has entered into this Agreement (including each Transaction evidenced hereby) in conjunction with its line of business (including financial intermediation services) or the financing of its business.

(l) It engages, will engage and holds itself out as engaging in "financial contracts", as defined in Regulation EE of the Federal Reserve Board, as a counterparty on both sides of one or more "financial markets" (as defined in such regulation) and it fulfills at least one of the quantitative tests contained in such regulation.

(m) RELATIONSHIP BETWEEN PARTIES. Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for the Transaction):

(i) NON-RELIANCE. It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. It has not received from the other party any assurance or guarantee as to the expected results of that Transaction.

(ii) ASSESSMENT AND UNDERSTANDING. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(iii) STATUS OF PARTIES. The other party is not acting as a fiduciary for or as an advisor to it in respect of that Transaction.

(e) RECORDING.

Each party hereto consents to the monitoring or recording, at any time and from time to time, by the other party of any and all communications between officers or employees of the parties, waives any further notice of such monitoring or recording, and agrees to notify its officers and employees of such monitoring or recording.

(f) NEGATIVE INTEREST RATES.

(i) Floating Amounts. "Swap Transaction" means, for the purposes of this provision concerning Negative Interest Rates, a rate exchange or swap transaction, including transactions involving a single currency or two or more currencies. Party A and Party B agree that, if with respect to a Calculation Period for a Swap Transaction either party is obligated to pay a Floating Amount that is a negative number (either due to a quoted negative Floating Rate or by operation of a Spread that is subtracted from the Floating Rate), the Floating Amount with respect to that party for that Calculation Period will be deemed to be zero, and the other party will pay to that party the absolute value of the negative Floating Amount as calculated, in addition to any amounts otherwise owed by the other party for that Calculation Period with respect to that Swap Transaction, on the Payment Date that the Floating Amount would have been due if it had been a positive number. Any amounts paid by the other party with respect to the absolute value of a negative Floating Amount will be paid to such account as the receiving party may designate (unless such other party gives timely notice of a reasonable objection to such designation) in the currency in which that Floating Amount would have been paid if it had been a positive number (and without regard to the currency in which the other party is otherwise obligated to make payments).

(ii) Compounding. Party A and Party B agree that, if with respect to one or more Compounding Periods for a Swap Transaction where "Compounding" or "Flat Compounding" is specified to be applicable, the Compounding Period Amount, the Basic Compounding Period Amount or the Additional Compounding Period Amount is a negative number (either due to a quoted negative Floating Rate or by operation of a Spread that is subtracted from the Floating Rate), then the Floating Amount for the Calculation Period in which that Compounding Period or those Compounding Periods occur will be either the sum of all the Compounding Period Amounts or the sum of all the Basic Compounding Period Amounts and all the Additional Compounding Period Amounts in that Calculation Period (whether positive or negative). If such sum is positive, then the Floating Rate Payer with respect to the Floating Amount so calculated will pay that Floating Amount to the other party. If such sum is negative, the Floating Amount with respect to the party that would be obligated to pay that Floating Amount will be deemed to be zero, and the other party will pay to that party the absolute value of the negative Floating Amount as calculated, such payment to be made in accordance with (i) above.

PART 6. ADDITIONAL TERMS FOR FORWARD RATE AGREEMENTS.

Any forward rate agreement into which the parties have entered and in respect of which the confirmation or other confirming evidence refers to or incorporates the British Bankers' Association London Interbank Forward Rate Agreements Recommended Terms and Conditions (1985 edition) ("FRABBA Terms") will be governed by this Agreement. Any forward rate agreement into which the parties may enter and in respect of which the confirmation or other confirming evidence refers to or incorporates the FRABBA Terms will be governed by this Agreement in all circumstances except when the parties expressly agree otherwise. Each such transaction will be deemed to be a Transaction and each such confirmation or other confirming evidence will be deemed to constitute a Confirmation for purposes of this Agreement. Sections B, C, and E and clauses 1, 4, 5, and 6 of Section D of the FRABBA Terms are hereby incorporated by reference in this Agreement. Those Sections are applicable only to transactions to which this provision relates and will prevail in the event of any inconsistency with any other provision of this Agreement. In the event of any other inconsistency between the FRABBA Terms and this Agreement, this Agreement will govern. Clauses 2, 3, 7, 8, 9, and 10 of Section D of the FRABBA Terms are not applicable to any transaction to which this provision relates.

PART 7. EMU PROTOCOL; CONTINUITY OF CONTRACT.

The parties agree that the definitions and provisions contained in Annexes 1 to 5 and Section 6 of the EMU Protocol published by the International Swaps and Derivatives Association, Inc. on May 6, 1998 are incorporated into and apply to this Agreement. References in those definitions and provisions to any "ISDA Master Agreement" will be deemed to be references to this Agreement.

IN WITNESS WHEREOF, the parties have executed this Schedule as of the date specified on the first page hereof.

BANKBOSTON, N.A.

ALEXANDRIA REAL ESTATE EQUITIES, INC.

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

Approval (for BankBoston, N.A. internal purposes only):

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Schedule A  
List of Authorized Signatures  
BankBoston, N.A. - Derivatives

NAME -----	TITLE -----	SIGNATURE -----
Cade, Kathryn E.	Group Managing Director, Global Capital Mkts.	/s/ Kathryn E. Cade -----
Buenaventura, Jaime P.	Director	/s/ J Buenaventura -----
Conley, Diane L.	Director	/s/ Diane L. Conley -----
Corcoran, Thomas P.	Director	/s/ Thomas P. Corcoran -----
Hughes, E. James	Vice President	/s/ E. James Hughes -----
LePard, William K.	Managing Director	/s/ William K. LePard -----
McInerney, Ann F.	Vice President	/s/ Ann McInerney -----
Scott, Robert G.	Managing Director, Derivative Sales	/s/ Robert Scott -----
Kaufman, Randy A.	Managing Director, Derivatives Structuring	/s/ Randy Kaufman -----
Ross, Renee A.	Managing Director, Global Capital Markets	/s/ Renee A. Ross -----
Stokes, Liam G.*	Director	/s/ Liam G. Stokes -----
Fehrenbach, Brian	Trader	/s/ Brian Fehrenbach -----
Hutchinson, Robert	Trader	/s/ Robert Hutchinson -----
Kautz, John	Trader	/s/ John D. Kautz -----
Mather, James V.	Managing Director, Derivatives Trading	/s/ J Mather -----
Boisson, Francois	Director	/s/ Francois Boisson -----
Oakes, David	Vice President	/s/ David Oakes -----

\* Authorized Signer for BBNA and BSI

DATE: Aug 31, 1998

TO: ALEXANDRIA REAL ESTATE EQUITIES  
ATTN: PETE WILSON  
FAX: 626 578 0770  
PHONE: 626 578 0777

FROM: BANKBOSTON, N.A.  
ATTN: Derivatives Confirmation Unit  
FAX: (617) 434-4284  
PHONE: (617) 434-4405 or 9929

RE: INTEREST RATE SWAP  
Our Ref: 5801608/19209

The purpose of this letter agreement is to set forth the terms and conditions of the Transaction entered into between BankBoston, N.A. and ALEXANDRIA REAL ESTATE EQUITIES on the Trade Date specified below (the "Transaction"). This letter constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 1991 ISDA Definitions (the "Definitions"), each as published by the International Swaps and Derivatives Association, Inc. ("ISDA"), are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and provisions in this Confirmation, this Confirmation will govern.

1. This Confirmation evidences a complete and binding agreement between you and us as to the terms of the Transaction to which this Confirmation relates. In addition, you and we agree to use our best efforts promptly to negotiate, execute, and deliver an agreement in the form of the ISDA Master Agreement (Multicurrency-Cross Border) (the "ISDA Form") published by ISDA, with such modifications as you and we shall in good faith agree (such agreement, the "Agreement"). Upon the execution by you and us of the Agreement, this Confirmation will supplement, form a part of, and be subject to the Agreement. All provisions contained or incorporated by reference in the Agreement, upon its execution, shall govern this Confirmation except as expressly modified below. Until we execute and deliver the Agreement, this Confirmation shall supplement, form a part of, and be subject to an agreement in the form of the ISDA Form as if we had executed an agreement in such form (with a Schedule thereto which provides that Market Quotation and the Second Method apply for purposes of Section 6(e) of such agreement) on the Trade Date hereof. In the event of any inconsistency between this Confirmation and either the ISDA Form or the Agreement, this Confirmation will govern.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

Trade Date	: Aug 31, 1998
Effective Date	: Sep 02, 1998
Termination Date	: May 31, 2000 subject to adjustment in accordance with the Modified Following Business Day Convention.
Notional Amount	: USD 50,000,000.00
Floating Amounts	
Floating Rate Payer	: BANKBOSTON, N.A.
Floating Rate Payment Dates	: Monthly on the 31st, commencing Sep 30, 1998 and ending on the Termination Date subject to adjustment in accordance with the Modified Following Business Day Convention.
Floating Rate for initial Calculation Period	: 5.644530 %
Floating Rate Option	: USD-LIBOR-ISA
Designated Maturity	: 1 month
Spread	: None
Floating Rate Day Count Fraction	: ACTUAL /360

Floating Rate Reset Dates : The first Business Day of each Calculation Period

Compounding : Inapplicable

Business Days : New York and London

Fixed Amounts

Fixed Rate Payer : ALEXANDRIA REAL ESTATE EQUITIES

Fixed Rate Payment Dates : Monthly on the 31st, commencing Sep 30, 1998 and ending on the Termination Date subject to adjustment in accordance with the Modified Following Business Day Convention.

Fixed Rate : 5.430000 %

Fixed Rate Day Count Fraction : ACTUAL /360

Business Days : New York and London

Calculation Agent : BANKBOSTON, N.A.

Governing Law : New York law

Documentation : ISDA Master Agreement to be provided by BANKBOSTON, N.A.

3. Relationship Between Parties

Each party represents to the other party that:

(a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to enter this Transaction and as to whether this Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) from the other party as investment advice or as a recommendation to enter into this Transaction; it being understood that information and explanations related to the terms and conditions of this Transaction shall not be considered investment advice or a recommendation to enter into this Transaction. It has not received from the other party any assurance or guarantee as to the expected results of this Transaction.

(b) Evaluation and Understanding. It is capable of evaluating and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of this Transaction. It is also capable of assuming, and assumes, the financial and other risks of this Transaction.

(c) Status of Parties. The other party is not acting as a fiduciary or an advisor for it in respect of this Transaction.

(d) Risk Management. It has entered into this Transaction for the purpose of (i) managing its borrowings or investments, (ii) hedging its underlying assets or liabilities or (iii) in connection with its line of business.

(e) It is an "eligible swap participant" within the meaning of Commodity Futures Trading Commission Regulations Section 35.1(b)(2).

4. Settlement Instructions

Payments to ALEXANDRIA REAL ESTATE EQUITIES in USD

\*\*\* Payment Instructions To Be Advised \*\*\*

Payments to BANKBOSTON, N.A. in USD

\*\*\* Payment Instructions To Be Advised \*\*\*

5. Contact Instructions

BANKBOSTON, N.A.: Resets/Payments Tel: 617-434-3183  
 Confirmations Fax: 617-434-0505  
 Tel: 617-434-4405  
 Fax: 617-434-4284

ALEXANDRIA REAL ESTATE EQUITIES: Tel: 626 578 0777  
 Fax: 626 578 0770

Very truly yours,

BANKBOSTON, N.A.

By: \_\_\_\_\_ By: \_\_\_\_\_

Name: Jaime Buenaventura  
Title: Director

Name: John D. Kautz  
Title: V.P.

Agreed and accepted as of the date first above written:  
ALEXANDRIA REAL ESTATE EQUITIES

By: -----

Name: Peter J. Nelson  
Title: C.F.O.

PLEASE COUNTERSIGN AND FAX TO: (617) 434-4284  
ATTN: Derivatives Confirmations  
REQUEST CORRECTIONS: (617) 434-4405

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5801608

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BankBoston Document - Page 3

EXHIBIT 12.1

ALEXANDRIA REAL ESTATE EQUITIES, INC.

COMPUTATION OF CONSOLIDATED RATIO OF EARNINGS TO COMBINED FIXED  
CHARGES AND PREFERRED STOCK DIVIDENDS  
(in thousands, except ratios)

	Year Ended December 31,				The Period October 27, 1994 (inception) through December 31, 1994
	1998	1997	1996	1995	
Earnings (Loss):.....	19,403	\$(2,797)	\$2,175	\$ 866	\$(648)
Add back:					
Interest Expense.....	14,033	7,043	6,327	3,553	328
Write-Off of Unamortized Loan Costs.....	--	2,295	--	--	--
Acquisition LLC Financing Costs.....	--	6,973	--	--	--
Earnings Available for Fixed Charges.....	33,436	\$13,514	\$8,502	\$4,419	\$(320)
Combined Fixed Charges:					
Interest Incurred.....	16,232	\$ 7,139	\$6,327	\$3,553	\$ 328
Write-Off of Unamortized Loan Costs(a).....	--	2,295	--	--	--
Acquisition LLC Financing Costs(b).....	--	6,973	--	--	--
Preferred Dividends.....	--	3,038	1,590	--	--
Fixed Charges.....	16,232	\$19,445	\$7,917	\$3,553	\$ 328
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends(c).....	2.06	0.69	1.07	1.24	--
Excess of Fixed Charges Over Earnings.....	\$ --	\$ 5,931	\$ --	\$ --	\$ 648

(a) This amount represents unamortized loan costs associated with debt retired in connection with the IPO.

(b) This amount represents the portion of the purchase price of the membership interests in ARE Acquisitions, LLC (the "Acquisition LLC") paid by the Company in excess of the cost incurred by the Acquisition LLC to acquire the three Life Science Facilities owned by it.

(c) For purposes of calculating the consolidated ratio of earnings to combined fixed charges and preferred stock dividends, earnings consist of earnings before income taxes and fixed charges. Fixed charges consist of interest incurred (including amortization of deferred financing costs and capitalized interest), write-off of unamortized loan costs, Acquisition LLC Financing Costs (see Note (b)), and preferred stock dividends.

## List of Subsidiaries of Alexandria Real Estate Equities, Inc.

ARE-QRS Corp.  
ARE-GP Holdings QRS Corp.  
ARE-GP/II Holdings QRS Corp.  
ARE-GP/III Holdings QRS Corp.  
ARE 3535/3565 General Atomics Court, LLC  
ARE-10933 North Torrey Pines, LLC  
ARE-11099 North Torrey Pines, LLC  
Alexandria Real Estate Equities, L.P.  
ARE Acquisitions, LLC  
ARE-1431 Harbor Bay, LLC  
ARE-John Hopkins Court, LLC  
ARE-708 Quince Orchard, LLC  
ARE-940 Clopper Road, LLC  
ARE-1201 Harbor Bay, LLC  
ARE-1401 Research Boulevard, LLC  
ARE-1500 East Gude, LLC  
AREE-Holdings, L.P.  
AREE-Holdings II, L.P.  
ARE-100/800/801 Capitola, LLC  
ARE-215 College Road, LLC  
ARE-4757 Nexus Centre, LLC  
ARE-819/863 Mitten Road, LLC  
ARE-Nexus Centre II, LLC  
ARE-8000/9000/10000 Virginia Manor, LLC  
ARE-10150 Old Columbia, LLC  
ARE-11025 Roselle Street, LLC  
ARE-Metropolitan Grove I, LLC  
ARE-6166 Nancy Ridge, LLC  
ARE-79/96 Charlestown Navy Yard, LLC  
ARE-5100/5110 Campus Drive, L.P.  
ARE-702 Electronic Drive, L.P.  
ARE-280 Pond Street, LLC  
ARE-150/154 Technology Parkway, LLC  
ARE-19 Firstfield Road, LLC  
ARE-3005 First Avenue, LLC  
ARE-170 Williams Drive, LLC  
ARE-Western Newbrook, LLC  
ARE-15020 Shady Grove, LLC  
ARE-2001 Aliceanna Street, LLC  
ARE-5 Triangle Drive, LLC  
ARE-279 Princeton Road, LLC  
ARE-100 Phillips Parkway, LLC  
ARE-50 West Watkins Mill, LLC  
ARE-3770 Tansy Street, LLC  
ARE-10505 Roselle Street, LLC  
ARE-620 Memorial Drive, LLC  
ARE-377 Plantation Street, LLC  
ARE-60 Westview, LLC  
ARE-One Innovation Drive, LLC  
ARE-Five Biotech, LLC

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-34223 and Form S-8 No. 333-60075) pertaining to the Amended and Restated 1997 Stock Award and Incentive Plan of Alexandria Real Estate Equities, Inc., the Amended Registration Statement (Form S-3/A No. 333-56449) of Alexandria Real Estate Equities, Inc. and the related Prospectus, and the Amended Registration Statement (Form S-3/A No. 333-56451) of Alexandria Real Estate Equities, Inc. and the related Prospectus, of our report dated January 23, 1999, except for Note 15, as to which the date is February 23, 1999, with respect to the consolidated balance sheets of Alexandria Real Estate Equities, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1998, 1997 and 1996 and the consolidated financial statement Schedule III, rental properties and accumulated depreciation, which are included in the Form 10-K of Alexandria Real Estate Equities, Inc. for the year ended December 31, 1998.

/s/ ERNST & YOUNG LLP  
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Los Angeles, California  
March 12, 1999



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEETS AND CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS OF THE COMPANY'S FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

12-MOS		
	DEC-31-1998	
	JAN-01-1998	
	DEC-31-1998	
		1,554,000
		0
	14,479,000	0
		0
		512,357,000
	18,611,000	
	530,296,000	
20,698,000		
	309,829,000	
0		0
		126,000
	199,643,000	
530,296,000		
		0
	61,016,000	
		0
	13,390,000	
	14,190,000	
		0
	14,033,000	
	19,403,000	
		0
19,403,000		
		0
		0
		0
	19,403,000	
		1.60
		1.58