ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
November 09, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006 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 of incorporation or organization)	*(IRS Employer Identification Number)*

385 East Colorado Boulevard, Suite 299, Pasadena, California 91101

(Address of principal executive offices) (Zip Code)

(626) 578-0777

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

As of November 6, 2006, 29,271,223 shares of common stock, par value $.01 per share, were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

Alexandria Real Estate Equities, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands)

	September 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Rental properties, net	$ 2,683,222	$ 1,788,818
Properties under development and development land	326,392	329,338
Cash and cash equivalents	7,821	3,911
Tenant security deposits and other restricted cash	43,772	21,013
Tenant receivables	5,012	4,764
Deferred rent	62,820	54,573

Investments	72,096	82,010
Other assets	104,707	78,023
Total assets	$ 3,305,842	$ 2,362,450
Liabilities and Stockholders' Equity		
Secured notes payable	$ 1,169,348	$ 666,666
Unsecured line of credit and unsecured term loan	552,000	740,000
Accounts payable, accrued expenses and tenant security deposits	149,278	86,391
Dividends payable	24,692	19,478
Total liabilities	1,895,318	1,512,535
Minority interests' share of income	57,389	20,115
Stockholders' equity:		
Series B preferred stock	57,500	57,500
Series C preferred stock	129,638	129,638
Common stock	290	224
Additional paid-in capital	1,140,088	607,405
Accumulated other comprehensive income	25,619	35,033
Total stockholders' equity	1,353,135	829,800
Total liabilities and stockholders' equity	$ 3,305,842	$ 2,362,450

See the accompanying Notes to Condensed Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Condensed Consolidated Income Statements
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		**Nine Mon Septe**
	2006	**2005**	**2006**
Revenues			
Rental	$ 64,250	$ 47,523	$ 171,535
Tenant recoveries	17,527	13,153	44,839
Other income	3,431	1,350	7,909
	85,208	62,026	224,283
Expenses			
Rental operations	19,868	13,950	49,641
General and administrative	6,653	5,993	19,374
Interest	19,041	13,160	50,223
Depreciation and amortization	19,973	13,744	51,416
	65,535	46,847	170,654
Minority interests' share of income	709	234	1,449
Income from continuing operations	18,964	14,945	52,180

Income from discontinued operations, net	--	1,046	701
Net income	18,964	15,991	52,881
Dividends on preferred stock	4,022	4,022	12,067
Net income available to common stockholders	$ 14,942	$ 11,969	$ 40,814
Earnings per share - basic			
Continuing operations (net of preferred stock dividends)	$ 0.57	$ 0.52	$ 1.68
Discontinued operations, net	--	0.05	0.03
Earnings per share - basic	$ 0.57	$ 0.57	$ 1.71
Earnings per share - diluted			
Continuing operations (net of preferred stock dividends)	$ 0.56	$ 0.51	$ 1.65
Discontinued operations, net	--	0.05	0.03
Earnings per share - diluted	$ 0.56	$ 0.56	$ 1.68
Weighted average shares of common stock oustanding			
Basic	26,323,345	21,091,183	23,848,661
Diluted	26,714,050	21,486,731	24,268,236

See the accompanying Notes to Condensed Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2006	**2005**
Operating Activities		
Net income	$ 52,881	$ 47,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of property	(59)	(36)
Minority interests' share of income	1,449	257
Depreciation and amortization	51,585	39,965
Amortization of loan fees and costs	3,389	5,211
Amortization of premiums on secured notes payable	(767)	(787)
Stock compensation expense	5,883	4,635
Equity in loss (income) related to investments	665	(404)
Gain on sale of investments	(5,609)	(1,288)
Changes in operating assets and liabilties:		
Tenant security deposits and other restricted cash	(22,759)	(1,765)
Tenant receivables	(248)	(715)
Deferred rent	(10,731)	(8,660)
Other assets	(21,663)	(19,546)

Accounts payable, accrued expenses and tenant security deposits	25,634	22,546
Net cash provided by operating activities	79,650	86,666
Investing Activities		
Purchase of rental properties	(509,636)	(169,129)
Proceeds from sale of rental property	33,040	1,182
Additions to rental properties	(76,972)	(56,073)
Additions to properties under development and development land	(95,661)	(60,519)
Additions to investments	(7,903)	(7,290)
Proceeds from investments	14,466	7,521
Net cash used in investing activities	(642,666)	(284,308)
Financing Activities		
Proceeds from secured notes payable	474,000	33,580
Principal reductions of secured notes payable	(194,271)	(27,080)
Principal borrowings from unsecured line of credit and unsecured term loan	670,600	279,000
Repayments of unsecured line of credit	(858,600)	(222,000)
Proceeds from issuance of common stock	535,262	185,562
Proceeds from exercise of stock options	3,634	3,424
Dividends paid on common stock	(50,454)	(41,109)
Dividends paid on preferred stock	(12,067)	(12,067)
Distributions to minority interest	(1,178)	(275)
Net cash provided by financing activities	566,926	199,035
Net increase in cash and cash equivalents	3,910	1,393
Cash and cash equivalents at beginning of period	3,911	3,158
Cash and cash equivalents at end of period	$ 7,821	$ 4,551

See the accompanying Notes to Condensed Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Background and Basis of Presentation

Background

As used in this Form 10-Q, references to the "Company", "we", "our" and "us" refer to Alexandria Real Estate Equities, Inc. and its subsidiaries.

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We are engaged principally in the ownership, operation, management, acquisition, and selective redevelopment and development for our Life Science Real Estate Niche[SM]. We refer to these properties as "life science properties". Our life science properties are designed and improved for lease primarily to institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, life science product, service, biodefense and translational research entities, as well as government agencies. As of September 30, 2006, we had 151 properties (148 properties located in eight life science markets in the United States and three properties located in Canada) with approximately 10.6 million rentable square feet of office/laboratory space, compared to 127 properties (126 properties in eight life science markets in the United States and one property located in Canada) with approximately 8.4 million rentable square feet of office/laboratory space as of September 30, 2005.

As of September 30, 2006, approximately 88% 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, as of September 30, 2006, approximately 5% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Additionally, as of September 30, 2006, approximately 91% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures and approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed or indexed based on the consumer price index or another index.

2. Basis of Presentation

We have prepared the accompanying interim financial statements in accordance with accounting principles generally accepted in the United States and in conformity with the rules and regulations of the Securities and Exchange Commission. In our opinion, the interim financial statements presented herein reflect all adjustments, consisting solely of normal and recurring adjustments, which are necessary to fairly present the interim financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These financial statements should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

The accompanying condensed consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

We hold interests, together with certain third parties, in a limited partnership and in limited liability companies which we consolidate in our financial statements. Such interests are subject to provisions of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities", FASB Emerging Issues Task Force Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights", FASB Emerging Issues Task Force Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" and AICPA Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures". Based on the provisions set forth in these rules, we consolidate the limited partnership and limited liability companies because we exercise significant control over major decisions by these entities, such as investment activity and changes in financing.

Reclassifications

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

International Operations

The functional currency for our subsidiaries operating in the United States is the U.S. dollar. We own three operating properties in Canada through wholly-owned Canadian subsidiaries. The functional currency for our foreign subsidiaries operating in Canada is the local currency, the Canadian dollar. The assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect as of the financial statement date. Income statement accounts of our foreign subsidiaries are translated using the average exchange rate for the period presented. Gains resulting from the translation are included in accumulated other comprehensive income as a separate component of stockholders' equity.

The appropriate amounts of exchange gains or losses included in accumulated other comprehensive income are reflected in income when there is a sale or partial sale of our investment in these operations or upon a complete or substantially complete liquidation of the investment.

Rental Properties, Properties Under Development and Land Held For Development

In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations", we perform the following procedures when making an allocation of the purchase price of real estate: (1) estimate the fair value of the real estate as of the acquisition date on an "as if vacant" basis; (2) allocate the "as if vacant" value among land, land improvements, buildings, buildings improvements, tenant improvements and equipment; (3) calculate the value of the intangibles as the difference between the "as if vacant" value and the purchase price; and (4) allocate the intangible value to above, below, and at market leases, origination costs associated with in-place leases, tenant relationships and other intangible assets.

The purchase price of some of our acquisitions completed in 2006 has been allocated on a preliminary basis to the respective assets acquired and the liabilities assumed. We expect to finalize our purchase price accounting no later than twelve months from the date of acquisition.

Conditional Asset Retirement Obligations

Some of our properties may have asbestos which, under certain conditions, must be remediated. Although we believe that the asbestos is appropriately contained in accordance with environmental regulations, our practice is to remediate the asbestos upon the development or redevelopment of the affected property. In accordance with Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143" ("FIN No. 47"), we recognize a liability for the fair value of a conditional asset retirement obligation (including asbestos) when the fair value of the liability can be reasonably estimated. In addition, for certain properties, we have not recognized an asset retirement obligation when there is an indeterminate settlement date for the obligation because the period in which we may remediate the obligation may not be estimated with any level of precision to provide for a meaningful estimate of the retirement obligation.

Accumulated Other Comprehensive Income

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

	September 30, 2006	December 31, 2005
Unrealized gain on marketable securities	$ 20,078	$ 28,373
Unrealized gain on interest rate swap agreements	1,359	4,867
Unrealized foreign currency translation gain	4,182	1,793
	$ 25,619	$ 35,033

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

	Three Months Ended	Nine Months Ende

	September 30,		September 30,	
	2006	2005	2006	200
Net income	$ 18,964	$ 15,991	$ 52,881	$ 47,
Unrealized (loss) gain on marketable securities	(4,416)	2,646	(8,295)	8,
Unrealized (loss) gain on interest rate swap agreements	(10,509)	4,620	(3,508)	5,
Unrealized foreign currency translation gain	448	1,011	2,389	1,
Comprehensive income	$ 4,487	$ 24,268	$ 43,467	$ 62,

Earnings Per Share and Dividends Declared

The following table shows the computation of earnings per share, and dividends declared per common share (dollars in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income available to common stockholders	$ 14,942	$ 11,969	$ 40,814	$ 35,186
Weighted average shares of common stock outstanding - basic	26,323,345	21,091,183	23,848,661	20,504,633
Add: dilutive effect of stock options and stock grants	390,705	395,548	419,575	353,122
Weighted average shares of common stock outstanding - diluted	26,714,050	21,486,731	24,268,236	20,857,755
Earnings per share - basic	$ 0.57	$ 0.57	$ 1.71	$ 1.72
Earnings per share - diluted	$ 0.56	$ 0.56	$ 1.68	$ 1.69
Dividends declared per common share	$ 0.72	$ 0.68	$ 2.12	$ 2.02

Stock-Based Compensation Expense

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") under the modified-prospective transition method whereby compensation expense is recognized relating to the remaining unvested portion of outstanding stock options at the time of adoption, and the expense is recognized over the remaining service period. In addition, SFAS 123R requires that we account for an estimate of awards that are expected to vest and to revise the estimate for actual forfeitures. The adoption of SFAS 123R did not have a material impact on our financial statements since all awards accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") were fully vested prior to the adoption of SFAS 123R. Effective January 1, 2003, we had adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock- Based Compensation" ("SFAS 123") prospectively to all employee awards granted, modified or settled after January 1, 2003. For 2002 and all prior years, we had elected to follow ABP 25 and related interpretations in accounting for our employee and non-employee director stock options, stock grants and stock appreciation rights. We have not granted any stock options since 2002.

Under APB 25, because the exercise price of the options we granted equaled the market price of the underlying stock on the date of grant, no compensation expense related to stock options had been recognized prior to the adoption of SFAS 123R. Although we have elected to follow APB 25 for previously granted options prior to January 1, 2003, pro forma information regarding net income and net income per share is required by SFAS 123R for all periods presented prior to 2006. This information has been determined as if we had accounted for stock options under the fair value method under SFAS 123.

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net income available to common stockholders, as reported	$ 14,942	$ 11,969	$ 40,814	$ 35,186
Fair value of stock-based compensation cost	--	(22)	--	(152
Pro forma net income available to common stockholders	$ 14,942	$ 11,947	$ 40,814	$ 35,034
Income per common share:				
Basic - as reported	$ 0.57	$ 0.57	$ 1.71	$ 1.72
Basic - pro forma	$ 0.57	$ 0.57	$ 1.71	$ 1.71
Diluted - as reported	$ 0.56	$ 0.56	$ 1.68	$ 1.69
Diluted - pro forma	$ 0.56	$ 0.56	$ 1.68	$ 1.68

3. Rental Properties, Net

Rental properties, net consist of the following (in thousands):

	September 30, 2006	**December 31, 2005**
Land	$ 357,807	$ 296,841
Buildings and building improvements	2,389,842	1,559,385
Other improvements	195,668	153,482

	2,943,317	2,009,708
Less accumulated depreciation	(260,095)	(220,890)
	$ 2,683,222	$ 1,788,818

In July 2006, we completed the acquisition of a 90% equity interest in the leasehold interest in 10.4 acres commonly known as Technology Square ("Tech Square") at Massachusetts Institute of Technology ("MIT") in Cambridge, Massachusetts. The remaining 10% equity interest was retained by MIT. MIT is also a tenant at Tech Square occupying 178,952 rentable square feet as of September 30, 2006. The results of Tech Square's operations have been included in the Company's consolidated financial statements since that date. Tech Square consists of a seven building campus (including a 1,593 space covered car parking garage and a 49 space surface parking lot) containing approximately 1.2 million square feet and is subject to a ground lease with an affiliate of MIT through December 31, 2064.

In accordance with FAS 141, we allocated the purchase price based upon the relative fair values of the assets acquired and liabilities assumed including rental properties of $620 million, other assets of $5 million, secured notes payable of $233 million, accounts payable, accrued expenses and tenant security deposits of $26 million and minority interest of $37 million.

On an unaudited pro forma basis, reflecting the acquisitions of Tech Square, the issuance of common 2.5 million shares of common stock with proceeds of approximately $232 million and borrowings on our unsecured line of credit of approximately $106 million as if it had occurred on January 1, 2006 and 2005, the Company would have reflected total consolidated revenues of $255.0 million and $211.4 million for the nine months ended September 30, 2006 and 2005, respectively. Net income available to common stockholders would have been approximately $43.9 million and $38.4 million for the nine months ended September 30, 2006 and 2005, respectively. Net income available to common stockholders on a diluted per share basis would have been $1.64 for the nine months ended September 30, 2006 and 2005.

4. Investments

We hold equity investments in certain publicly-traded companies and privately held entities primarily involved in the life science industry. All of our investments in publicly-traded companies are considered "available for sale" in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and are recorded at fair value. Investments in privately held entities are generally

accounted for under the cost method because we do not influence any operating and financial policies of the entities in which we invest. Certain investments are accounted for under the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" ("APB 18") and Emerging Issues Task Force Topic D- 46, "Accounting for Limited Partnerships" ("EITF Topic D-46"). For all our investments, if a decline in the fair value of an investment below its carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash charge to current earnings. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements.

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

	September 30, 2006	December 31, 2005
Adjusted cost of available-for-sale securities	$ 4,793	$ 4,740
Gross unrealized gains	21,487	29,135
Gross unrealized losses	(1,409)	(762)
Fair value of available-for-sale securities	$ 24,871	$ 33,113

We believe that the gross unrealized losses shown above are temporary and accordingly we have not recognized an other-than-temporary impairment related to available-for-sale securities as of September 30, 2006 and December 31, 2005.

Our investments in privately held entities as of September 30, 2006 and December 31, 2005 totaled $47,225,000 and $48,897,000, respectively. Of these totals, $46,628,000 and $47,164,000 are accounted for under the cost method. The remainder ($597,000 and $1,733,000 as of September 30, 2006 and December 31, 2005, respectively) are accounted for under the equity method in accordance with APB 18 and EITF Topic D-46. As of September 30, 2006, there were no unrealized losses in our investments in privately held entities.

5. Unsecured Line of Credit and Unsecured Term Loan

As of September 30, 2006, we had an unsecured line of credit that provides for borrowings of up to $500 million. As of September 30, 2006, we had borrowings of $52 million outstanding on the unsecured line of credit with a weighted average interest rate of 6.48% and a maturity date of December 2007. As of September 30, 2006, we had an unsecured term loan with outstanding borrowings of $500 million with a weighted average interest rate of 6.48% and a maturity date of December 2009.

In October 2006, we entered into an amendment to our amended and restated credit agreement to increase the maximum permitted borrowings under our unsecured credit facilities from $1 billion to $1.4 billion consisting of a $800 million unsecured revolving credit facility and a $600 million unsecured term loan. We may in the future elect to increase commitments under the unsecured credit facilities by up to an additional $350 million.

Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate, plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months. The unsecured line of credit and unsecured term loan, as amended, matures in October 2010 and October 2011, respectively. The unsecured line of credit and unsecured term loan may be extended at our sole option for an additional one-year period.

Our unsecured line of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net worth, a leverage ratio and a fixed charge coverage ratio. In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other things, certain investments, indebtedness, distributions and mergers.

Aggregate borrowings under the unsecured line of credit and unsecured term loan may be limited to an amount based primarily on the net operating income derived from a pool of unencumbered properties. Accordingly, as we acquire or complete the development or redevelopment of additional unencumbered properties, aggregate borrowings available under the unsecured line of credit and unsecured term loan may increase up to a maximum combined amount of $1.4

billion.

6. Interest Rate Swaps

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

The following table summarizes our interest rate swap agreements as of September 30, 2006 (dollars in thousands):

Transaction Dates	Effective Dates	Notional Amounts	Effective at Sept. 30, 2006	Interest Pay Rates	Termination Dates	
December 2003	December 30, 2005	50,000	$ 50,000	4.150%	December 29, 2006	$
December 2003	December 29, 2006	50,000	--	5.090%	October 31, 2008	
March 2004	December 31, 2004	25,000	25,000	2.956%	December 31, 2006	
March 2004	December 31, 2004	25,000	25,000	2.956%	December 31, 2006	
April 2004	April 28, 2006	50,000	50,000	4.230%	April 30, 2007	
April 2004	April 30, 2007	50,000	--	4.850%	April 30, 2008	
June 2004	June 30, 2005	50,000	50,000	4.343%	June 30, 2007	
December 2004	December 31, 2004	50,000	50,000	3.590%	January 2, 2008	
December 2004	January 3, 2006	50,000	50,000	3.927%	July 1, 2008	
May 2005	December 30, 2005	25,000	25,000	4.120%	November 30, 2006	
May 2005	June 30, 2006	50,000	50,000	4.270%	June 29, 2007	
May 2005	November 30, 2006	25,000	--	4.330%	November 30, 2007	
May 2005	June 29, 2007	50,000	--	4.400%	June 30, 2008	
May 2005	November 30, 2007	25,000	--	4.460%	November 28, 2008	
May 2005	June 30, 2008	50,000	--	4.509%	June 30, 2009	
May 2005	November 28, 2008	25,000	--	4.615%	November 30, 2009	
December 2005	December 29, 2006	50,000	--	4.730%	November 30, 2009	
December 2005	December 29, 2006	50,000	--	4.740%	November 30, 2009	
December 2005	January 2, 2008	50,000	--	4.768%	December 31, 2010	
June 2006	June 30, 2006	125,000	125,000	5.299%	September 30, 2009	

June 2006	October 31, 2008	50,000	--	5.340%	December 31, 2010	
June 2006	October 31, 2008	50,000	--	5.347%	December 31, 2010	
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	
Total Notional Amount in Effect at Sept. 30, 2006			$ 500,000			$

7. Minority Interest

Minority interest represents the third party interests in certain entities, which own nine properties and one development parcel and are included in our consolidated financial statements. We have a controlling interest in these entities. Minority interest is adjusted for additional contributions, distributions to minority holders and the minority holders' proportionate share of the net earnings or losses of each respective entity. Distributions, profits and losses related to these entities are allocated in accordance with the respective operating agreements. As of September 30, 2006 and December 31, 2005 the aggregate minority interest balances related to these entities were approximately $57.4 million and $20.1 million, respectively, and are classified as minority interest in the accompanying condensed consolidated balance sheets.

8. Stockholders' Equity

In September 2006, we sold 2,500,000 shares of our common stock in an underwritten offering. The shares were issued at a price of $94.75 per share, resulting in aggregate proceeds of approximately $232.2 million (after deducting underwriting discounts and other offering costs).

In June 2006, we sold 3,795,000 shares of our common stock in an underwritten offering (including the shares issued upon exercise of the underwriter's over- allotment option). The shares were issued at a price of $84.00 per share, resulting in aggregate proceeds of approximately $303.1 million (after deducting underwriting discounts and other offering costs).

In September 2006, we declared a cash dividend on our common stock aggregating $21,012,000 ($0.72 per share) for the calendar quarter ended September 30, 2006. In September 2006, we also declared cash dividends on our 9.10% Series B Cumulative Redeemable Preferred Stock ("Series B preferred stock") and 8.375% Series C Cumulative Redeemable Preferred Stock ("Series C preferred stock") aggregating $1,308,000 ($0.56875 per share) and $2,714,000 ($0.5234375 per share), respectively, for the period July 15, 2006 through October 13, 2006. The dividends on our common stock, Series B preferred stock and Series C preferred stock were paid on October 13, 2006.

9. Non-Cash Transactions

During the nine months ended September 30, 2006, we assumed one secured note payable and minority interest in connection with the acquisition of seven properties, in one transaction, located in the Eastern Massachusetts market. During the nine months ended September 30, 2005, we assumed six secured notes payable in connection with the acquisition of six properties, in six separate transactions, located in the San Francisco Bay, Suburban Washington D.C., Eastern Massachusetts and Washington - Seattle markets. The following table summarizes these transactions (in thousands):

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Aggregate purchase price	$ 600,000	$ 44,959
Minority interest	36,898	--
Secured notes payable assumed	224,998	25,466
Cash paid for properties	$ 338,104	$ 19,493

10. Discontinued Operations

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), we classify a property as "held for sale" when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the property; (2) the property is available for immediate sale in its present condition, subject only to the terms that are usual and customary; (3) an active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated; (4) the sale of the property is probable and is expected to be completed within one year; (5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When the property is classified as "held for sale", its operations are classified as discontinued operations in our consolidated statements of income. When a property is designated as "held for sale", amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. A loss is recognized for any initial adjustment of the asset's carrying amount to fair value less costs to sell in the period the asset qualifies as "held for sale". Depreciation of assets is discontinued commencing on the date they are designated as "held for sale".

The following is a summary of income from discontinued operations, net and net assets of discontinued operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total revenue	$ --	$ 1,753	$ 1,202	$ 3,777
Operating expenses	--	414	391	951
Revenue less operating expenses	--	1,339	811	2,826
Depreciation expense	--	329	169	627
Income before gain/(loss) on sales of property	--	1,010	642	2,199
Gain/(loss) on sales of property	--	36	59	36
Income from discontinued operations, net	$ --	$ 1,046	$ 701	$ 2,235

	September 30, 2006	December 31, 2005

Properties held for sale, net	$ --	$ 37,329
Other assets	--	3,403
Total assets	$ --	$ 40,732
Total liabilities	--	373
Net assets of discontinued operations	$ --	$ 40,359

Income from discontinued operations, net includes the results of operations of one property we sold during the third quarter of 2005, and three properties we sold during the second quarter of 2006. During the second quarter of 2006, we sold one property located in the New Jersey/Suburban Philadelphia market and we sold two properties located in the Suburban Washington D.C. market that had been designated as "held for sale" during the first quarter of 2006. The total sale price for the properties sold in the second quarter of 2006 was approximately $41.8 million. In connection with these sales, we recorded a gain on sales of property of approximately $59,000. During the third quarter of 2005, we sold one property located in the Southeast market. The total sale price for the property sold in the third quarter of 2005 was approximately $1.3 million. In connection with this sale, we recorded a gain of approximately $36,000.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain information and statements included in this Quarterly Report on Form 10-Q, including, without limitation, statements containing the words "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", "plans", "estimates" or "anticipates", or the negative of these words or similar words, constitute "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. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by the forward-looking statements, including, but not limited to, those described below in this report and under the headings "Business Risks" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2005. We do not take any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements contained in this or any other document, whether as a result of new information, future events or otherwise. Readers of this Form 10-Q should also read our Securities and Exchange Commission and other publicly filed documents for further discussion regarding such factors.

As used in this Form 10-Q, references to the "Company", "we", "our" and "us" refer to Alexandria Real Estate Equities, Inc. and its subsidiaries.

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

Overview

Since our formation in October 1994, we have devoted substantially all of our resources to the ownership, operation, management, acquisition and selective redevelopment and development for the Life Science Real Estate Niche℠. Such properties are designed and improved for lease primarily to institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, life science product, service, biodefense and translational research entities, as well as government agencies.

As of September 30, 2006, we had 151 properties containing approximately 10.6 million rentable square feet of office/laboratory space. As of that date, our properties were approximately 93% leased, excluding spaces at properties undergoing a permanent change in use to office/laboratory space through redevelopment. Our primary sources of revenue are rental income and tenant recoveries from leases of our properties. The comparability of financial data from period to period is affected by the timing of our property acquisition, development and redevelopment activities.

As of September 30, 2006, approximately 88% 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, as of September 30, 2006, approximately 5% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Additionally, as of September 30, 2006, approximately 91% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures and approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed or indexed based on the consumer price index or another index.

Results of Operations

Comparison of Three Months Ended September 30, 2006 ("Third Quarter 2006") to Three Months Ended September 30, 2005 ("Third Quarter 2005")

Rental revenues increased by $16.7 million, or 35%, to $64.3 million for Third Quarter 2006 compared to $47.5 million for Third Quarter 2005. The increase resulted primarily from rental revenues from properties acquired, placed in service or redeveloped after July 1, 2005 and increases in rental rates related to renewed and/or releasable space leased.

Tenant recoveries increased by $4.4 million, or 33%, to $17.5 million for Third Quarter 2006 compared to $13.2 million for Third Quarter 2005. The increase resulted primarily from tenant recoveries from properties acquired, placed in service or redeveloped after July 1, 2005.

Other income for Third Quarter 2006 of $3.4 million and $1.4 million for Third Quarter 2005 represents construction management fees, storage, interest and investment income. The increase in other income from Third Quarter 2006 compared to Third Quarter 2005 is due to overall increases from each of these sources of other income. As a percentage of total revenues, other income for Third Quarter 2006 remained relatively consistent with Third Quarter 2005 at approximately 2-4% of total revenues.

Rental operating expenses increased by $5.9 million, or 42%, to $19.9 million for Third Quarter 2006 compared to $14.0 million for Third Quarter 2005. The increase resulted primarily from rental operating expenses (primarily property taxes and utilities) from properties acquired, placed in service or redeveloped after July 1, 2005. The majority of the increase in rental operating expenses is recoverable from our tenants through tenant recoveries.

General and administrative expenses increased by $0.7 million, or 11%, to $6.7 million for Third Quarter 2006 compared to $6.0 million for Third Quarter 2005 primarily due to the growth in both the depth and breadth of our operations in multiple markets, including internationally, from 127 properties with approximately 8.4 million rentable square feet at September 30, 2005 to 151 properties with approximately 10.6 million rentable square feet at September 30, 2006. As a percentage of total revenues, general and administrative expenses for Third Quarter 2006 remained relatively consistent with Third Quarter 2005 at approximately 8-9% of total revenues.

Interest expense increased by $5.9 million, or 45%, to $19.0 million for Third Quarter 2006 compared to $13.2 million for Third Quarter 2005. The increase resulted primarily from increases in indebtedness on our unsecured line of credit, unsecured term loan and secured notes payable, and increases in the variable interest rates on our unsecured line of credit, unsecured term loan and other variable rate debt. These borrowings were utilized to finance the acquisition of properties in 2005 and 2006, and the development and redevelopment of properties. The weighted average interest rate on our unsecured line of credit and unsecured term loan (not including the effect of interest rate swap agreements) increased from 5.17% as of September 30, 2005 to 6.48% as of September 30, 2006. We have entered into certain swap agreements to hedge a portion of our exposure to variable interest rates with our unsecured line of credit and unsecured term loan (see "Liquidity and Capital Resources - Interest Rate Swaps").

Depreciation and amortization increased by $6.2 million, or 45%, to $20.0 million for Third Quarter 2006 compared to $13.7 million for Third Quarter 2005. The increase resulted primarily from depreciation associated with the properties acquired, placed in service or redeveloped after July 1, 2005.

Income from discontinued operations of $1.0 million for Third Quarter 2005 reflects the results of operations of three properties that were designated as "held for sale" as of March 31, 2006, and one property that was designated as "held for sale" as of June 30, 2005. There were no properties designated as "held for sale" as of September 30, 2006.

Comparison of Nine Months Ended September 30, 2006 ("Nine Months 2006") to Nine Months Ended September 30, 2005 ("Nine Months 2005")

Rental revenues increased by $35.9 million, or 27%, to $171.5 million for Nine Months 2006 compared to $135.6 million for Nine Months 2005. The increase resulted primarily from rental revenue from properties acquired, placed in service or redeveloped after January 1, 2005 and increases in rental rates related to renewed and/or releasable space leased.

Tenant recoveries increased by $9.2 million, or 26%, to $44.8 million for Nine Months 2006 compared to $35.6 million for Nine Months 2005. The increase resulted primarily from properties acquired, placed in service or redeveloped after January 1, 2005.

Other income for Nine Months 2006 of $7.9 million and $3.1 million for Nine Months 2005 represents construction management fees, storage, interest and investment income. The increase in other income from Nine Months 2006 compared to Nine Months 2005 is due to overall increases in each of these sources of other income. As a percentage of total revenues, other income for Nine Months 2006 remained relatively consistent with Nine Months 2005 at approximately 2-4% of total revenues.

Rental operating expenses increased by $10.8 million, or 28%, to $49.6 million for Nine Months 2006 compared to $38.8 million for Nine Months 2005. The increase resulted primarily from increases in rental operating expenses (primarily property taxes and utilities) from properties acquired, placed in service or redeveloped after January 1, 2005. The majority of the increase in rental operating expenses is recoverable from our tenants through tenant recoveries.

General and administrative expenses increased by $4.2 million, or 28%, to $19.4 million for Nine Months 2006 compared to $15.2 million for Nine Months 2005 primarily due to the growth in both the depth and breadth of our operations in multiple markets, including internationally, from 127 properties with approximately 8.4 million rentable square feet at September 30, 2005 to 151 properties with approximately 10.6 million rentable square feet at September 30, 2006. As a percentage of total revenues, general and administrative expenses for Nine Months 2006 remained relatively consistent with Nine Months 2005 at approximately 8-9% of total revenues.

Interest expense increased by $14.5 million, or 41%, to $50.2 million for Nine Months 2006 compared to $35.7 million for Nine Months 2005. The increase resulted from increases in indebtedness on our unsecured line of credit, unsecured term loan and secured notes payable, and increases in the floating interest rates on our unsecured line of credit, unsecured term loan and other floating rate debt. These borrowings were utilized to finance the acquisition of properties in 2005 and 2006, and the development and redevelopment of properties. The weighted average effective interest rate on our unsecured line of credit and unsecured term loan (not including the effect of interest rate swap agreements) increased from 5.17% as of September 30, 2005 to 6.48% as of September 30, 2006. We have entered into certain swap agreements to hedge a portion of our exposure to variable interest rates with our unsecured line of credit and unsecured term loan (see "Liquidity and Capital Resources - Interest Rate Swaps ").

Depreciation and amortization increased by $12.1 million, or 31%, to $51.4 million for Nine Months 2006 compared to $39.3 million for Nine Months 2005. The increase resulted primarily from depreciation associated with the properties acquired, placed in service or redeveloped after January 1, 2005.

Income from discontinued operations, net was $0.7 million and $2.2 million for Nine Months 2006 and Nine Months 2005, respectively. It reflects the results of operations of three properties that were designated as "held for sale" as of March 31, 2006, and one property that was designated as "held for sale" as of June 30, 2005.

Liquidity and Capital Resources

Cash flows

Net cash provided by operating activities for Nine Months 2006 decreased by $7.0 million to $79.7 million compared to $86.7 million for Nine Months 2005. The decrease resulted primarily from an increase in tenant security deposits and other restricted cash offset by an increase in cash flows from our operating activities.

Net cash used in investing activities for Nine Months 2006 increased by $358.4 million to $642.7 million compared to $284.3 million for Nine Months 2005. This increase was primarily due to a higher amount of purchases of rental properties including redevelopment properties, and additions to properties under development and development land for the Nine Months 2006.

Net cash provided by financing activities for Nine Months 2006 increased by $367.9 million to $566.9 million compared to $199.0 million for Nine Months 2005. This increase was primarily due to the net proceeds from the issuance of common stock and proceeds from secured debt financings offset by repayment of debt during the Nine Months 2006.

Contractual obligations and commitments

Contractual obligations as of September 30, 2006, consist of the following (dollars in thousands):

		Payments by Period			
	Total	2006	2007-2008	2009-2010	Thereafter
Contractual Obligations					
Secured notes payable (1)	$ 1,167,162	$ 14,034	$ 375,054	$ 139,313	$ 638,761
Unsecured line of credit and unsecured term loan	552,000	--	52,000	500,000	--
Ground lease obligations	177,977	933	7,538	7,664	161,842
Other obligations	6,121	273	2,051	1,963	1,834
Total	$ 1,903,260	$ 15,240	$ 436,643	$ 648,940	$ 802,437

(1) Excludes unamortized premiums of $2.2 million as of September 30, 2006.

Secured notes payable as of September 30, 2006 included 35 notes secured by 79 properties and 11 land development parcels.

As of September 30, 2006, the unsecured line of credit matures in December 2007 and may be extended at our sole option for an additional one-year period. The unsecured term loan matures in December 2009.

Ground lease obligations as of September 30, 2006 include leases for fourteen of our properties and one land development parcel. These lease obligations have remaining lease terms of 27 to 58 years, exclusive of extension options.

In addition to the above, we were committed as of September 30, 2006 under the terms of contracts to complete the construction of properties under development at a remaining aggregate cost of approximately $80.5 million.

As of September 30, 2006, we were also committed to fund approximately $35.3 million for the construction of building infrastructure improvements under the terms of leases and/or construction contracts and approximately $24.1 million for certain investments.

Tenant security deposits and other restricted cash

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

	September 30, 2006	December 31, 2005
Funds held in trust under the terms of certain secured notes payable	$ 32,071	$ 13,838
Other funds	11,701	5,128
	$ 43,772	$ 18,966

Secured notes payable

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

	September 30, 2006	December 31, 2005
Secured notes payable (1)	$ 1,167,162	$ 662,147
Unamortized premiums	2,186	4,519
Total secured notes payable	$ 1,169,348	$ 666,666

- Interest rates varying from 3.73% to 8.71%, (weighted average interest rates of 6.26% and 6.31% at September 30, 2006 and December 31, 2005, respectively), maturity dates ranging from December 2006 to August 2016.

Our secured notes payable generally require monthly payments of principal and interest. At September 30, 2006, our secured notes payable were comprised of $949.7 million and $219.6 million of fixed and variable rate debt, respectively, compared to $595.9 million and $70.8 million of fixed and variable rate debt, respectively, at December 31, 2005.

The following is a summary of the scheduled principal payments for our secured debt and the weighted average interest rates as of September 30, 2006 (in thousands):

Year	Amount	Weighted Average Interest Rate (1)
2006	$ 14,034	6.26%
2007	85,144	6.23%
2008	289,910	6.17%
2009	45,955	6.26%
2010	93,358	6.23%
Thereafter	638,761	6.09%
Subtotal	1,167,162	
Unamortized premiums	2,186	
Total	$ 1,169,348	

(1) The weighted average interest rate is calculated based on the outstanding debt as of October 1st for 2006, and as of January 1st for each year thereafter.

Unsecured line of credit and unsecured term loan

As of September 30, 2006, we had an unsecured line of credit that provides for borrowings of up to $500 million. As of September 30, 2006, we had borrowings of $52 million outstanding on the unsecured line of credit with a weighted average interest rate of 6.48% and a maturity date of December 2007. As of September 30, 2006, we had an unsecured term loan with outstanding borrowings of $500 million with a weighted average interest rate of 6.48% and a maturity date of December 2009.

In October 2006, we entered into an amendment to our amended and restated credit agreement to increase the maximum permitted borrowings under our unsecured credit facilities from $1 billion to $1.4 billion consisting of a $800 million unsecured revolving credit facility and a $600 million unsecured term loan. We may in the future elect to increase commitments under the unsecured credit facilities by up to an additional $350 million.

Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate, plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months. The unsecured line of credit and unsecured term loan, as amended, matures in October 2010 and October 2011, respectively. The unsecured line of credit and unsecured term loan may be extended at our sole option for an additional one-year period.

Our unsecured line of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net worth, a leverage ratio and a fixed charge coverage ratio. In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other things, certain investments, indebtedness, distributions and mergers.

Aggregate borrowings under the unsecured line of credit and unsecured term loan may be limited to an amount based primarily on the net operating income derived from a pool of unencumbered properties. Accordingly, as we acquire or complete the development or redevelopment of additional unencumbered properties, aggregate borrowings available under the unsecured line of credit and unsecured term loan may increase up to a maximum combined amount of $1.4 billion.

Interest Rate Swaps

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

The following table summarizes our interest rate swap agreements as of September 30, 2006 (dollars in thousands):

Transaction Dates	Effective Dates	Notional Amounts	Effective at Sept. 30, 2006	Interest Pay Rates	Termination Dates	
December 2003	December 30, 2005	50,000	$ 50,000	4.150%	December 29, 2006	$
December 2003	December 29, 2006	50,000	--	5.090%	October 31, 2008	
March 2004	December 31, 2004	25,000	25,000	2.956%	December 31, 2006	
March 2004	December 31, 2004	25,000	25,000	2.956%	December 31, 2006	
April 2004	April 28, 2006	50,000	50,000	4.230%	April 30, 2007	
April 2004	April 30, 2007	50,000	--	4.850%	April 30, 2008	
June 2004	June 30, 2005	50,000	50,000	4.343%	June 30, 2007	
December 2004	December 31, 2004	50,000	50,000	3.590%	January 2, 2008	
December 2004	January 3, 2006	50,000	50,000	3.927%	July 1, 2008	
May 2005	December 30, 2005	25,000	25,000	4.120%	November 30, 2006	
May 2005	June 30, 2006	50,000	50,000	4.270%	June 29, 2007	
May 2005	November 30, 2006	25,000	--	4.330%	November 30, 2007	
May 2005	June 29, 2007	50,000	--	4.400%	June 30, 2008	
May 2005	November 30, 2007	25,000	--	4.460%	November 28, 2008	
May 2005	June 30, 2008	50,000	--	4.509%	June 30, 2009	
May 2005	November 28, 2008	25,000	--	4.615%	November 30, 2009	
December 2005	December 29, 2006	50,000	--	4.730%	November 30, 2009	
December 2005	December 29, 2006	50,000	--	4.740%	November 30, 2009	

December 2005	January 2, 2008	50,000	--	4.768%	December 31, 2010	
June 2006	June 30, 2006	125,000	125,000	5.299%	September 30, 2009	
June 2006	October 31, 2008	50,000	--	5.340%	December 31, 2010	
June 2006	October 31, 2008	50,000	--	5.347%	December 31, 2010	
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	
Total Notional Amount in Effect at Sept. 30, 2006			$ 500,000			$

We do not believe we are exposed to a significant amount of credit risk in our interest rate swap agreements as our counterparties are established, well- capitalized financial institutions. In addition, we have entered into master derivative agreements with each counterparty. These master derivative agreements (all of which are on the standard International Swaps & Derivatives Association, Inc. form) define certain terms between us and each counterparty to address and minimize certain risks associated with our swap agreements, including a default by a counterparty.

As of September 30, 2006 and December 31, 2005, our interest rate swap agreements were classified in other assets and accounts payable, accrued expenses, and tenant security deposits at their fair values aggregating approximately $1.4 million and $4.9 million, respectively, with the offsetting adjustment reflected as net unrealized gains in accumulated other comprehensive income in stockholders' equity. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made.

Other Resources and Liquidity Requirements

In September 2006, we sold 2,500,000 shares of our common stock in an underwritten offering. The shares were issued at a price of $94.75 per share, resulting in aggregate proceeds of approximately $232.2 million (after deducting underwriting discounts and other offering costs).

In June 2006, we sold 3,795,000 shares of our common stock in an underwritten offering (including the shares issued upon exercise of the underwriters' over- allotment option). The shares were issued at a price of $84.00 per share, resulting in aggregate proceeds of approximately $303.1 million (after deducting underwriting discounts and other offering costs).

Under our current shelf registration statement filed with the Securities and Exchange Commission on April 24, 2006, we may offer common stock, preferred stock, debt and other securities. These securities may be issued from time to time and at our discretion based on our needs and market conditions.

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

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

Capital Expenditures and Leasing Costs

The following provides additional information with respect to capital expenditures and leasing costs incurred during the nine months ended September 30, 2006 (in thousands):

Property-related capital expenditures (1)	$ 952
Leasing costs (2)	$ 289
Property-related redevelopment costs (3)	$ 81,610
Property-related development costs (3)	$ 96,971

- Property-related capital expenditures include all capital and recurring capital expenditures except capital expenditures that are recoverable from tenants, revenue-enhancing capital expenditures, or costs related to the redevelopment of a property. Major capital expenditures consist of roof replacements and HVAC systems which are typically identified and considered at the time the property is acquired. Capital expenditures fluctuate in any given period due to the nature, extent or timing of improvements required and the extent to which they are recoverable from tenants. Approximately 91% of our leases (based on rentable square feet) provide for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing). In addition, we implement an active preventative maintenance program at each of our properties to minimize capital expenditures.
- Leasing costs consist of tenant improvements and leasing commissions related to leasing of acquired vacant space and second generation space.
- Amount includes leasing costs related to development and redevelopment projects.

Inflation

As of September 30, 2006, approximately 88% 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, as of September 30, 2006, approximately 5% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed (generally ranging from 3% to 3.5%) or indexed based on the consumer price index or another index. Accordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk from inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including our unsecured line of credit and unsecured term loan.

Funds from Operations

GAAP basis accounting for real estate assets utilizes historical cost accounting and assumes real estate values diminish over time. In an effort to overcome the difference between real estate values and historical cost accounting for real estate assets, the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") established the measurement tool of Funds From Operations ("FFO"). Since its introduction, FFO has become a widely used non-GAAP financial measure by REITs. We believe that FFO is helpful to investors as an additional measure of the performance of an equity REIT. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper (the "White Paper") and related implementation guidance, which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. While FFO is a relevant and widely used measure of operating performance for REITs, it should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of 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 "Liquidity and Capital Resources - Cash Flows" above for information regarding these measures of cash flow.)

The following table presents a reconciliation of net income available to common stockholders to funds from operations available to common stockholders for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	For the Three Months Ended September 30, 2006	For the Three Months Ended September 30, 2005	For the Nine Months En September 30, 2006	For the Nine Months En September 30, 2005
Net income available to common stockholders	$14,942	$11,969	$40,814	$35,18
Add:				
Depreciation and amortization (1)	19,973	14,073	51,585	39,96
Minority interests' share of income	709	234	1,449	25
Subtract:				
Gain on sales of property (2)	--	(36)	(59)	(3
FFO allocable to minority interest	(394)	(271)	(1,178)	(27
Funds from operations available to common stockholders	$35,230	$25,969	$92,611	$75,09

1. Includes depreciation and amortization on assets sold or "held for sale" reflected as discontinued operations (for the periods prior to when such assets were sold or designated as "held for sale").
2. Gain on sales of property relates to the disposition of one property in the New Jersey/Suburban Philadelphia market and two properties in the Suburban Washington D.C. market during the second quarter of 2006 and one property in the Southeast market during the third quarter of 2005.

Property and Lease Information

The following table is a summary of our property portfolio as of September 30, 2006 (dollars in thousands):

	Number of Properties	Rentable Square Feet Operating	Rentable Square Feet Redevelopment	Rentable Square Feet Total	Annualized Base Rent (1)	O Pe
Markets						
California - Los Angeles Metro	2	40,443	20,560	61,003	$ 882	
California - San Diego	27	1,151,606	158,650	1,310,256	29,955	
California - San Francisco Bay	21	1,493,891	88,400	1,582,291	44,853	
Eastern Massachusetts	35	2,722,031	207,526	2,929,557	92,433	
New Jersey/Suburban Philadelphia	8	443,349	--	443,349	8,906	
Southeast	11	539,203	45,841	585,044	8,802	
Suburban Washington D.C.	32	2,575,370	--	2,575,370	53,805	
Washington - Seattle	12	837,335	12,719	850,054	24,937	

International - Canada	3	296,362	--	296,362	6,490
Total	151	10,099,590	533,696	10,633,286	$ 271,063

* Excludes spaces at properties totaling 533,696 square feet undergoing a permanent change in use to office/laboratory space through redevelopment. Including spaces undergoing a permanent change in use to office/laboratory space through redevelopment, occupancy as of September 30, 2006 was 88.4%.
* All, or substantially all, of the vacant space is office or warehouse space.

The following table provides information with respect to the lease expirations at our properties as of September 30, 2006:

Year of Lease Expiration	Number of Expiring Leases		Square Footage of Expiring Leases	Percentage of Aggregate Portfolio Leased Square Feet	Annualized Base Rent of Expiring Leases (per square foot)
2006	44	(1)	440,647	4.7%	$23.21
2007	55		1,007,782	10.7%	$27.71
2008	37		717,550	7.6%	$26.85
2009	43		658,136	7.0%	$21.81
2010	34		795,862	8.5%	$26.50
Thereafter	126		5,777,835	61.5%	$30.84

* Includes month-to-month leases for approximately 58,000 square feet.

Item 3. 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 believe we are exposed is interest rate risk, which may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

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

Our future earnings and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, our interest rate swap agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our swap agreements in effect on, September 30, 2006, we estimate that a 1% increase in interest rates on our variable debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements, would decrease annual future earnings by approximately $1.2 million. We further estimate that a 1% decrease in interest rates on our variable debt, including our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements in effect on September 30, 2006 would increase annual future earnings by approximately $1.2 million. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their aggregate fair values by approximately $59.5 million at September 30, 2006. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their aggregate fair values by approximately $62.6 million at September 30, 2006.

These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on September 30, 2006. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

We have exposure to equity price market risk because of our equity investments in certain publicly-traded companies and privately held entities. We classify investments in publicly-traded companies as available-for-sale and, consequently, record them on our balance sheets at fair value with unrealized gains or losses reported as a component of comprehensive income or loss. Investments in privately held entities are generally accounted for under the cost method because we do not influence any of the operating or financial policies of the entities in which we invest. For all investments, we recognize other than temporary declines in value against earnings in the same period the decline in value was deemed to have occurred. There is no assurance that future declines in values will not have a material adverse impact on our future results of operations.

By way of example, a 10% decrease in the fair values of our equity investments as of September 30, 2006 would decrease their fair values by approximately $7.2 million.

We have exposure to foreign currency exchange rate market risk related to our wholly-owned subsidiaries operating in Canada. The functional currency of our foreign subsidiaries operating in Canada is the local currency, the Canadian dollar. Gains or losses resulting from the translation of our foreign subsidiaries' balance sheets and income statements are included in accumulated other comprehensive income as a separate component of stockholders' equity. Gains or losses will be reflected in our income statement when there is a sale or partial sale of our investment in these operations or upon a complete or substantially complete liquidation of the investment.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2006, we performed an evaluation, under the supervision of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures. These controls and procedures have been designed to ensure that information required for disclosure is recorded, processed, summarized and reported within the requisite time periods. Based on our evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2006.

Changes in Internal Control Over Financial Reporting

There has not been any change in our internal control over financial reporting during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. EXHIBITS

10.1	Purchase and Sale Contract Between Technology Square Finance, LLC as Seller and ARE-MA Region No. 31, LLC as Buyer as of July 3, 2006
10.2	First Amendment to Purchase and Sale Contract Between Technology Square Finance, LLC and ARE-MA Region No. 31, LLC as of July 10, 2006
10.3	Second Amendment to Purchase and Sale Contract Between Technology Square Finance, LLC and ARE-MA Region No. 31, LLC as of July 14, 2006
10.4	Third Amendment to Purchase and Sale Contract Between Technology Square Finance, LLC and ARE-MA Region No. 31, LLC as of July 26, 2006
10.5	Fourth Amendment to Purchase and Sale Contract Between Technology Square Finance, LLC and ARE-MA Region No. 31, LLC as of July 27, 2006
12.1	Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 9, 2006.

ALEXANDRIA REAL ESTATE EQUITIES INC.

/s/ Joel S. Marcus

Joel S. Marcus
Chief Executive Officer
(Principal Executive Officer)

/s/ Dean A. Shigenaga
Dean A. Shigenaga
Chief Financial Officer
(Principal Financial and Accounting Officer)