ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
November 02, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

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)	(I.R.S. 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 such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of October 24, 2016, 79,414,121 shares of common stock, par value $.01 per share, were outstanding.

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GLOSSARY

The following abbreviations or acronyms that may be used in this document shall have the adjacent meanings set forth below:

ASU	Accounting Standards Update
ATM	At the Market
BBA	British Bankers' Association
CIP	Construction in Progress
EPS	Earnings per Share
FASB	Financial Accounting Standards Board
FFO	Funds from Operations
GAAP	U.S. Generally Accepted Accounting Principles
HVAC	Heating, Ventilation, and Air Conditioning
JV	Joint Venture
LEED®	Leadership in Energy and Environmental Design
LIBOR	London Interbank Offered Rate
NAREIT	National Association of Real Estate Investment Trusts
NYSE	New York Stock Exchange
R&D	Research and Development
REIT	Real Estate Investment Trust
RSF	Rentable Square Feet/Foot
SEC	Securities and Exchange Commission
SF	Square Feet/Foot
SoMa	South of Market (submarket of the San Francisco market)
U.S.	United States
VIE	Variable Interest Entity
YTD	Year to Date

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2016	December 31, 2015
Assets		
Investments in real estate	$7,939,179	$7,629,922
Investments in unconsolidated real estate joint ventures	133,580	127,212
Cash and cash equivalents	157,928	125,098
Restricted cash	16,406	28,872
Tenant receivables	9,635	10,485
Deferred rent	318,286	280,570
Deferred leasing costs	191,765	192,081
Investments	320,989	353,465
Other assets	206,133	133,312
Total assets	$9,293,901	$8,881,017
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$789,450	$809,818
Unsecured senior notes payable	2,377,482	2,030,631
Unsecured senior line of credit	416,000	151,000
Unsecured senior bank term loans	746,162	944,243
Accounts payable, accrued expenses, and tenant security deposits	605,181	589,356
Dividends payable	66,705	62,005
Total liabilities	5,000,980	4,587,053
Commitments and contingencies		
Redeemable noncontrolling interests	9,012	14,218
Alexandria Real Estate Equities, Inc.'s stockholders' equity:		
7.00% Series D cumulative convertible preferred stock	161,792	237,163
6.45% Series E cumulative redeemable preferred stock	130,000	130,000
Common stock	768	725
Additional paid-in capital	3,649,263	3,558,008
Accumulated other comprehensive (loss) income	(31,745)	49,191
Alexandria Real Estate Equities, Inc.'s stockholders' equity	3,910,078	3,975,087
Noncontrolling interests	373,831	304,659
Total equity	4,283,909	4,279,746
Total liabilities, noncontrolling interests, and equity	$9,293,901	$8,881,017

The accompanying notes are an integral part of these consolidated financial statements.

1

Alexandria Real Estate Equities, Inc.
Consolidated Statements of Income
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rental	$166,591	$155,311	$486,505	$450,724
Tenant recoveries	58,681	56,119	165,385	154,107
Other income	5,107	7,180	20,654	14,688
Total revenues	230,379	218,610	672,544	619,519
Expenses:				
Rental operations	72,002	68,846	205,164	192,319
General and administrative	15,854	15,143	46,426	44,519
Interest	25,850	27,679	75,730	77,583
Depreciation and amortization	77,133	67,953	218,168	189,044
Impairment of real estate	8,114	—	193,237	14,510
Loss on early extinguishment of debt	3,230	—	3,230	189
Total expenses	202,183	179,621	741,955	518,164
Equity in earnings (losses) of unconsolidated real estate joint ventures	273	710	(270)	1,825
Income (loss) from continuing operations	28,469	39,699	(69,681)	103,180
Loss from discontinued operations	—	—	—	(43)
Gain on sales of real estate – land parcels	90	—	90	—
Net income (loss)	28,559	39,699	(69,591)	103,137
Net income attributable to noncontrolling interests	(4,084)	(170)	(11,614)	(925)
Net income (loss) attributable to Alexandria Real Estate Equities, Inc.'s stockholders	24,475	39,529	(81,205)	102,212
Dividends on preferred stock	(5,007)	(6,247)	(16,388)	(18,740)
Preferred stock redemption charge	(13,095)	—	(25,614)	—
Net income attributable to unvested restricted stock awards	(921)	(623)	(2,807)	(1,736)
Net income (loss) attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$5,452	$32,659	$(126,014)	$81,736
Net income (loss) per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders – basic and diluted:				
Continuing operations	$0.07	$0.46	$(1.69)	$1.14
Discontinued operations	—	—	—	—
Net income (loss) per share	$0.07	$0.46	$(1.69)	$1.14
Dividends declared per share of common stock	$0.80	$0.77	$2.40	$2.28

The accompanying notes are an integral part of these consolidated financial statements.

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Alexandria Real Estate Equities, Inc.
Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$28,559	$39,699	$(69,591)	$103,137
Other comprehensive (loss) income:				
Unrealized (losses) gains on available-for-sale equity securities:				
Unrealized holding (losses) gains arising during the period	(38,621)	(29,832)	(70,055)	54,004
Reclassification adjustment for gains included in net income	(8,540)	(4,968)	(18,627)	(2,503)
Unrealized (losses) gains on available-for-sale equity securities, net	(47,161)	(34,800)	(88,682)	51,501
Unrealized gains (losses) on interest rate hedge agreements:				
Unrealized interest rate hedge gains (losses) arising during the period	2,982	(5,474)	(7,655)	(9,712)
Reclassification adjustment for amortization to interest expense included in net income	1,702	727	3,725	1,942
Unrealized gains (losses) on interest rate hedge agreements, net	4,684	(4,747)	(3,930)	(7,770)
Unrealized gains (losses) on foreign currency translation:				
Unrealized foreign currency translation (losses) gains arising during the period	(1,322)	(9,294)	842	(17,072)
Reclassification adjustment for losses included in net income	3,779	—	10,807	9,236
Unrealized gains (losses) on foreign currency translation, net	2,457	(9,294)	11,649	(7,836)
Total other comprehensive (loss) income	(40,020)	(48,841)	(80,963)	35,895
Comprehensive (loss) income	(11,461)	(9,142)	(150,554)	139,032
Less: comprehensive income attributable to noncontrolling interests	(4,081)	(71)	(11,587)	(954)
Comprehensive (loss) income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$(15,542)	$(9,213)	$(162,141)	$138,078

The accompanying notes are an integral part of these consolidated financial statements.

Alexandria Real Estate Equities, Inc.
Consolidated Statement of Changes in Stockholders' Equity and Noncontrolling Interests
(Dollars in thousands)
(Unaudited)

	Alexandria Real Estate Equities, Inc.'s Stockholders' Equity									
	7.00% Series D Cumulative Convertible Preferred Stock	6.45% Series E Cumulative Redeemable Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance as of December 31, 2015	$237,163	$130,000	72,548,693	$725	$3,558,008	$—	$49,191	$304,659	$4,279,746	$14,218
Net (loss) income	—	—	—	—	—	(81,205)	—	10,829	(70,376)	785
Total other comprehensive loss	—	—	—	—	—	—	(80,936)	(27)	(80,963)	—
Redemption of redeemable noncontrolling interests	—	—	—	—	—	—	—	—	—	(5,206)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(10,181)	(10,181)	(785)
Issuances of common stock	—	—	3,948,491	40	367,762	—	—	—	367,802	—
Issuances pursuant to stock plan	—	—	326,906	3	28,743	—	—	—	28,746	—
Sale of and contributions from noncontrolling interests	—	—	—	—	(537)	—	—	68,551	68,014	—
Repurchase of 7.00% Series D preferred stock	(75,371)	—	—	—	2,352	(25,614)	—	—	(98,633)	—
Dividends declared on common stock	—	—	—	—	—	(183,858)	—	—	(183,858)	—
Dividends declared on preferred stock	—	—	—	—	—	(16,388)	—	—	(16,388)	—
	—	—	—	—	(307,065)	307,065	—	—	—	—

Distributions in excess of earnings										
Balance as of September 30, 2016	$161,792	$130,000	76,824,090	$768	$3,649,263	$—	$(31,745)	$373,831	$4,283,909	$9,012

The accompanying notes are an integral part of these consolidated financial statements.

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

	Nine Months Ended September 30, 2016	2015
Operating Activities		
Net (loss) income	$(69,591)	$103,137
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	218,168	189,044
Loss on early extinguishment of debt	3,230	189
Gain on sales of real estate – land parcels	(90)	—
Impairment of real estate	193,237	14,510
Equity in losses (earnings) of unconsolidated real estate joint ventures	270	(1,825)
Distributions of earnings from unconsolidated real estate joint ventures	286	740
Amortization of loan fees	8,792	8,348
Amortization of debt premiums	(117)	(282)
Amortization of acquired below-market leases	(2,905)	(5,121)
Deferred rent	(30,679)	(34,421)
Stock compensation expense	19,007	12,922
Investment gains	(28,721)	(22,368)
Investment losses	10,670	11,157
Changes in operating assets and liabilities:		
Restricted cash	(278)	24
Tenant receivables	843	380
Deferred leasing costs	(21,621)	(47,725)
Other assets	(14,813)	(13,721)
Accounts payable, accrued expenses, and tenant security deposits	6,163	31,423
Net cash provided by operating activities	291,851	246,411
Investing Activities		
Proceeds from sales of real estate (Note 3)	27,332	92,455
Additions to real estate	(638,568)	(362,215)
Purchase of real estate	(18,108)	(248,933)
Deposits for investing activities	(54,998)	(6,707)
Investments in unconsolidated real estate joint ventures	(6,924)	(7,979)
Additions to investments	(68,384)	(67,965)
Sales of investments	35,295	39,590
Repayment of notes receivable	9,054	4,264
Net cash used in investing activities	$(715,301)	$(557,490)

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

	Nine Months Ended September 30,	
	2016	2015
Financing Activities		
Borrowings from secured notes payable	$215,330	$47,375
Repayments of borrowings from secured notes payable	(234,096)	(12,217)
Proceeds from issuance of unsecured senior notes payable	348,604	—
Borrowings from unsecured senior line of credit	2,349,000	1,432,000
Repayments of borrowings from unsecured senior line of credit	(2,084,000)	(893,000)
Repayments of borrowings from unsecured senior bank term loans	(200,000)	(25,000)
Change in restricted cash related to financing activities	7,742	(4,737)
Payment of loan fees	(16,499)	(4,182)
Repurchase of 7.00% Series D preferred stock	(98,633)	—
Proceeds from the issuance of common stock	367,802	5,052
Dividends on common stock	(177,966)	(162,280)
Dividends on preferred stock	(17,487)	(18,740)
Financing costs paid for sale of noncontrolling interests	(8,093)	—
Contributions from and sale of noncontrolling interests (Note 3)	68,621	340
Distributions to and purchase of noncontrolling interests	(62,605)	(62,973)
Net cash provided by financing activities	457,720	301,638
Effect of foreign exchange rate changes on cash and cash equivalents	(1,440)	(187)
Net increase (decrease) in cash and cash equivalents	32,830	(9,628)
Cash and cash equivalents as of the beginning of period	125,098	86,011
Cash and cash equivalents as of the end of period	$157,928	$76,383
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest, net of interest capitalized	$58,820	$64,197
Non-Cash Investing Activities:		
Change in accrued construction	$23,023	$(7,305)
Assumption of secured notes payable in connection with purchase of real estate	$—	$(82,000)
Non-Cash Financing Activities:		
Redemption of redeemable noncontrolling interest	$(5,000)	$—
Payable for purchase of noncontrolling interest	$—	$(51,887)

The accompanying notes are an integral part of these consolidated financial statements.

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

1. Background

As used in this quarterly report on Form 10-Q, references to the “Company,” “Alexandria,” “ARE,” “we,” “us,” and “our” refe
Alexandria Real Estate Equities, Inc., and its consolidated subsidiaries.

Alexandria Real Estate Equities, Inc. (NYSE:ARE), is an urban office REIT uniquely focused on world-class collaborative science and technology campuses in AAA innovation cluster locations with a total market capitalization of $13.0 billion and an asset base in North America of 24.5 million square feet as of September 30, 2016. The asset base in North America includes 18.8 million RSF of operating properties and development and redevelopment projects (under construction or pre-construction) and 5.7 million square feet of future ground-up development projects. Alexandria pioneered this niche in 1994 and has since established a significant market presence in key locations, including Greater Boston, San Francisco, New York City, San Diego, Seattle, Maryland, and Research Triangle Park. Alexandria is known for our high-quality and diverse tenant base, with 54% of our total annualized base rent as of September 30, 2016, generated from investment-grade tenants. Alexandria has a longstanding and proven track record of developing Class A properties clustered in urban science and technology campuses that provide its innovative tenants with highly dynamic and collaborative environments that enhance their ability to successfully recruit and retain world-class talent and inspire productivity, efficiency, creativity, and success. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value. For additional information on Alexandria, please visit www.are.com.

Our asset base in North America (including consolidated and unconsolidated real estate joint ventures) consisted of the following, as of September 30, 2016:

	Square Feet		
	Consolidated	Unconsolidated	Total
Operating properties	16,052,751	313,407	16,366,158
Projects under construction or pre-construction:			
Projects to be delivered during the three months ending December 31, 2016	366,081	100,392	466,473
Projects to be delivered in 2017 and 2018	1,564,968	422,980	1,987,948
Development and redevelopment projects	1,931,049	523,372	2,454,421
Operating properties and development and redevelopment projects	17,983,800	836,779	18,820,579
Future value-creation projects	5,678,707	—	5,678,707
Asset base in North America	23,662,507	836,779	24,499,286

As of September 30, 2016:

- Investment-grade tenants represented 54% of our total annualized base rent;
- Approximately 97% of our leases (on an RSF basis) were triple net leases, requiring tenants to pay substantially all real estate taxes, insurance, utilities, common area expenses, and other operating expenses (including increases thereto) in addition to base rent;
- Approximately 95% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index; and
- Approximately 95% of our leases (on an RSF basis) provided for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement, and parking lot resurfacing) that we believe would typically be borne by the landlord in traditional office leases.

Any references to the number of buildings, square footage, number of leases, occupancy, and tenants, and any amounts derived from these values in the notes to consolidated financial statements are unaudited.

2. Basis of presentation and summary of significant accounting policies (continued)

2. Basis of presentation and summary of significant accounting policies

We have prepared the accompanying interim consolidated financial statements in accordance with GAAP and in conformity with the rules and regulations of the SEC. In our opinion, the interim consolidated financial statements presented herein reflect all adjustments, of a normal recurring nature, that are necessary to fairly present the interim consolidated 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, 2016. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2015.

Basis of presentation and consolidation

The accompanying consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated. Certain prior-period amounts have been reclassified to conform to current-period presentation.

Consolidation

On an ongoing basis, as circumstances indicate the need for reconsideration, we evaluate each legal entity that is not wholly owned by us, under the consolidation guidance, first under the variable interest model, then under the voting model. Our evaluation considers all of our variable interests, including equity ownership, as well as fees paid to us for our involvement in the management of each partially owned entity. The variable interest model applies to entities that meet both of the following criteria:

- A legal structure has been established to conduct business activities and to hold assets; such entity can be in the form of a partnership, limited liability company, or corporation, among others; and
- The entity established has variable interests – i.e., it has variable interests that are contractual, such as equity ownership or other financial interests that change with changes in the fair value of the entity’s net assets.

If an entity meets both criteria above, we then evaluate such entity under the variable interest model. If an entity does not meet these criteria, we then evaluate such entity under the voting model or apply other GAAP, such as the cost or equity method of accounting.

Variable interest model

A legal entity is determined to be a VIE if it has any of the following three characteristics:

1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support;
2) The entity is established with non-substantive voting rights (i.e., where the entity deprives the majority economic interest holder(s) of voting rights); or
3) The equity holders, as a group, lack the characteristics of a controlling financial interest. Equity holders meet this criterion if they lack any of the following:
- The power, through voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity’s economic performance, as evidenced by:
- Substantive participating rights in day-to-day management of the entity’s activities; or
- Substantive kick-out rights over the party responsible for significant decisions
- The obligation to absorb the entity’s expected losses; and

- The right to receive the entity's expected residual returns.

2. Basis of presentation and summary of significant accounting policies (continued)

Once we consider the sufficiency of equity and voting rights of each legal entity, we then evaluate the characteristics of the equity holders' interests, as a group, to see if they qualify as controlling financial interests. Our real estate joint ventures consist of limited partnerships or limited liability companies. For entities structured as limited partnerships or limited liability companies, our evaluation of whether the equity holders (equity partners other than us in each of our real estate joint ventures) lack the characteristics of a controlling financial interest includes the determination of whether the limited partners or non-managing members (the noncontrolling equity holders) lack both substantive participating rights and substantive kick-out rights, defined as follows:

- Participating rights – provide the noncontrolling equity holders the ability to direct significant financial and operating decisions made in the ordinary course of business that most significantly impact the entity's economic performance.
- Kick-out rights – allow the noncontrolling equity holders to remove the general partner or managing member without cause.

If we conclude that any of the three characteristics of a VIE are met, including whether equity holders lack the characteristics of a controlling financial interest because they lack both substantive participating rights and substantive kick-out rights, we also then conclude that the entity is a VIE and evaluate it for consolidation under the variable interest model.

If an entity is determined to be a VIE, we evaluate whether we are the primary beneficiary. The primary beneficiary analysis is a qualitative analysis based on power and benefits. We consolidate a VIE if we have both power and benefits – that is, (i) we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance (power), and (ii) we have the obligation to absorb losses of the VIE that could potentially be significant to the VIE, or the right to receive benefits from the VIE that potentially could be significant to the VIE (benefits). We consolidate VIEs whenever we determine that we are the primary beneficiary. Refer to Note 3 – "Investments in Real Estate" to these unaudited consolidated financial statements for information on specific real estate joint ventures that qualify as VIEs. If we have a variable interest in a VIE but we are not the primary beneficiary, we account for our investment using the equity method of accounting.

Voting model

If a legal entity fails to meet any of the three characteristics of a VIE (insufficiency of equity, non-substantive voting rights, or lack of controlling financial interest), we then evaluate such entity under the voting model. Under the voting model, we consolidate the entity if we determine that we, directly or indirectly, have greater than 50% of the voting shares, and we determine that other equity holders do not have substantive participating rights. Refer to Note 4 – "Investments in Unconsolidated Real Estate Joint Ventures" to these unaudited consolidated financial statements for further information on our unconsolidated real estate joint ventures that qualify for evaluation under the voting model.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, and equity; the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements; and the amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

2. Basis of presentation and summary of significant accounting policies (continued)

Investments in real estate and properties classified as held for sale

We recognize real estate acquired (including the intangible value of acquired above- or below-market leases, acquired in-place leases, tenant relationships, and other intangible assets or liabilities), liabilities assumed, and any noncontrolling interest in an acquired entity at their fair value as of the acquisition date. If there is a bargain fixed-rate renewal option for the period beyond the non-cancelable lease term of an in-place lease, we evaluate factors such as the business conditions in the industry in which the lessee operates, the economic conditions in the area in which the property is located, and the ability of the lessee to sublease the property during the renewal term, in order to determine the likelihood that the lessee will renew. When we determine there is reasonable assurance that such bargain purchase option will be exercised, we consider its impact in determining the intangible value of such lease and its related amortization period. The value of tangible assets acquired is based upon our estimation of value on an "as if vacant" basis. The value of acquired in-place leases includes the estimated costs during the hypothetical lease-up period and other costs that would have been incurred in the execution of similar leases under the market conditions at the acquisition date of the acquired in-place lease. We assess the fair value of tangible and intangible assets based on numerous factors, including estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including the historical operating results, known trends, and market/economic conditions that may affect the property. We also recognize the fair values of assets acquired, the liabilities assumed, and any noncontrolling interest in acquisitions of less than a 100% interest when the acquisition constitutes a change in control of the acquired entity. Acquisition-related costs related to the acquisition of businesses, including real estate acquired with in-place leases, are expensed as incurred.

The values allocated to buildings and building improvements, land improvements, tenant improvements, and equipment are depreciated on a straight-line basis using the shorter of the term of the respective ground lease and up to 40 years for buildings and building improvements, an estimated life of up to 20 years for land improvements, the respective lease term for tenant improvements, and the estimated useful life for equipment. The values of acquired above- and below-market leases are amortized over the terms of the related leases and recognized as either an increase (for below-market leases) or a decrease (for above-market leases) to rental revenue. The values of acquired above- and below-market ground leases are amortized over the terms of the related ground leases and recognized as either an increase (for below-market ground leases) or a decrease (for above-market ground leases) to rental operating expense. The values of acquired in-place leases are classified in other assets in the accompanying consolidated balance sheets and amortized over the remaining terms of the related leases.

We capitalize project costs, including predevelopment costs, interest, property taxes, insurance, and other costs directly related and essential to the development, redevelopment, predevelopment, or construction of a project. Capitalization of development, redevelopment, predevelopment, and construction costs is required while activities are ongoing to prepare an asset for its intended use. Fluctuations in our development, redevelopment, predevelopment, and construction activities could result in significant changes to total expenses and net income. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Should development, redevelopment, predevelopment, or construction activity cease, interest, property taxes, insurance, and certain other costs would no longer be eligible for capitalization and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

A property is classified as held for sale when all of the following criteria for a plan of sale have been met: (i) management, having the authority to approve the action, commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale of the property is probable and is expected to be completed within one year; (v) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) 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. Depreciation of assets ceases upon designation of a property as held for sale.

If the disposal of the property represents a strategic shift that has (or will have) a major effect on our operations or financial results, such as (i) a major line of business, (ii) a major geographic area, (iii) a major equity method investment, or (iv) other major parts of an entity, then the operations of the property, including any interest expense directly attributable to it, are classified as discontinued operations in our consolidated statements of income, and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. The disposal of an individual property generally will not represent a strategic shift and, therefore, will typically not meet the criteria for classification as discontinued operations.

2. Basis of presentation and summary of significant accounting policies (continued)

Impairment of long-lived assets

On a quarterly basis, we review current activities and changes in the business conditions of all of our properties prior to and subsequent to the end of each quarter to determine the existence of any triggering events requiring an impairment analysis. If triggering events are identified, we review an estimate of the future undiscounted cash flows for the properties, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration.

Long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators or triggering events for long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are assessed by project and include significant fluctuations in estimated rental revenues less rental operating expenses, occupancy changes, significant near-term lease expirations, current and historical operating and/or cash flow losses, construction costs, estimated completion dates, rental rates, and other market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, current and historical operating results, known trends, current market/economic conditions that may affect the property, and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recognized to reduce the carrying amount to its estimated fair value. If an impairment loss is not required to be recognized, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives.

We use the held for sale impairment model for our properties classified as held for sale. The held for sale impairment model is different from the held and used impairment model. Under the held for sale impairment model, an impairment loss is recognized if the carrying amount of the long-lived asset classified as held for sale exceeds its fair value less cost to sell. Because of these two different models, it is possible for a long-lived asset previously classified as held and used to require the recognition of an impairment charge upon classification as held for sale.

Investments

We hold equity investments in certain publicly traded companies and investments in certain privately held entities and limited partnerships primarily involved in the science and technology industries. All of our equity investments in actively traded public companies are considered available-for-sale and are reflected in the accompanying consolidated balance sheets at fair value. Fair value has been determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of other comprehensive income. The classification of each investment is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of each investment sold is determined by the specific identification method, with realized gains or losses classified in other income in the accompanying consolidated statements of income. Investments in privately held entities are generally accounted for under the cost method when our interest in the entity is so minor that we have virtually no influence over the entity’s operating and financial policies. Certain investments in privately held entities require accounting under the equity method unless our interest in the entity is deemed to be so minor that we have virtually no influence over the entity’s operating and financial policies. Under the equity method of accounting, we recognize our investment initially at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. Additionally, we limit our ownership percentage in the voting stock of each individual entity to less than 10%. As of September 30, 2016, and December 31, 2015, our ownership percentage in the voting stock of each individual entity was less than 10%.

We monitor each of our investments throughout the year for new developments, including operating results, results of clinical trials, capital-raising events, and merger and acquisition activities. Individual investments are evaluated for impairment when changes in conditions may indicate an impairment exists. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, available financing, prospects for favorable or unfavorable clinical trial results, new product initiatives, and new collaborative agreements. If there are no identified events or changes in circumstances that might have an adverse effect on our cost method investments, we do not estimate the investment's fair value. For all of our investments, if a decline in the fair value of an investment below the carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a charge to current earnings.

2. Basis of presentation and summary of significant accounting policies (continued)

Recognition of rental revenue and tenant recoveries

Rental revenue from leases is recognized on a straight-line basis over the respective lease terms. We classify amounts currently recognized as revenue, and expected to be received in later years, as deferred rent in the accompanying consolidated balance sheets. Amounts received currently but recognized as revenue in future years are classified in accounts payable, accrued expenses, and tenant security deposits in the accompanying consolidated balance sheets. We commence recognition of rental revenue at the date the property is ready for its intended use and the tenant takes possession of or controls the physical use of the property.

Tenant recoveries related to reimbursement of real estate taxes, insurance, utilities, repairs and maintenance, common area expenses, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred.

Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes, and other expenses recoverable from tenants. Tenant receivables are expected to be collected within one year. We may maintain an allowance for estimated losses that may result from the inability of our tenants to make payments required under the terms of the lease and for tenant recoveries due. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of uncollectible tenant receivables and deferred rent arising from the straight-lining of rent. As of September 30, 2016, and December 31, 2015, we had no allowance for uncollectible tenant receivables and deferred rent.

Monitoring tenant credit quality

During the term of each lease, we monitor the credit quality of our tenants by (i) monitoring the credit rating of tenants that are rated by a nationally recognized credit rating agency, (ii) reviewing financial statements of the tenants that are publicly available or that are required to be delivered to us pursuant to the applicable lease, (iii) monitoring news reports regarding our tenants and their respective businesses, and (iv) monitoring the timeliness of lease payments. We have a research team consisting of employees who, among them, have graduate and undergraduate degrees in biology, chemistry, and industrial biotechnology and experience in the science and technology industries, as well as in finance. Our research team is responsible for assessing and monitoring the credit quality of our tenants and any material changes in their credit quality.

Income taxes

We are organized and qualify as a REIT pursuant to the Internal Revenue Code (the “Code”). Under the Code, a REIT that distributes at least 90% of its REIT taxable income to its shareholders annually and meets certain other conditions is not subject to federal income taxes but could be subject to certain state and local taxes. We distribute 100% of our taxable income annually; therefore, a provision for federal income taxes is not required. In addition to our REIT returns, we file federal, state, and local tax returns for our subsidiaries. We file with jurisdictions located in the U.S., Canada, India, China, and other international locations. Our tax returns are subject to routine examination in various jurisdictions for the 2010-2015 calendar years.

Other income

The following is a summary of other income in the accompanying consolidated statements of income for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Management fee income	$46	$530	$380	$1,341
Interest and other income	795	1,272	2,223	2,136
Investment income	4,266	5,378	18,051	11,211
Total other income	$5,107	$7,180	$20,654	$14,688

2. Basis of presentation and summary of significant accounting policies (continued)

Recent accounting pronouncements

On January 1, 2016, we adopted an ASU that requires debt issuance costs, excluding debt issuance costs associated with a line of credit, to be classified in our consolidated balance sheet as a direct deduction from the face amount of the related debt. As a result of adopting the ASU, unamortized deferred financing costs aggregating $30.1 million as of January 1, 2016, were classified with the corresponding debt instrument appearing on our consolidated balance sheet, and deferred financing costs related to our unsecured senior line of credit, aggregating $11.9 million as of January 1, 2016, were classified in other assets. The ASU was applied retrospectively to all prior periods presented in the financial statements. The adoption of this ASU had no impact on our consolidated statements of income.

In January 2016, the FASB issued an ASU that amended the accounting for equity investments and the presentation and disclosure requirements for financial instruments. The ASU requires equity investments that have a readily determinable fair value (except those accounted for under the equity method of accounting or that result in consolidation) to be measured at fair value, with the changes in fair value recognized in earnings. Available-for-sale equity securities that under current GAAP require the recognition of unrealized gains and losses in other comprehensive income will no longer be permitted. An election will be available to measure equity investments without a readily determinable fair value at cost less impairments, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Changes in the carrying value from this measurement will also be reported in current earnings. A cumulative-effect adjustment will be recorded to the beginning balance of retained earnings in the reporting period in which the guidance is adopted. The ASU is effective for fiscal years beginning after December 15, 2017. As of September 30, 2016, we had $28.9 million of net unrealized gains related to our available-for-sale equity securities in publicly traded companies included in accumulated other comprehensive income in our consolidated balance sheets.

In February 2016, the FASB issued an ASU that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The ASU requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The ASU is expected to impact our consolidated financial statements as we have certain operating ground lease arrangements for which we are the lessee. As of September 30, 2016, the remaining contractual payments under our ground lease agreements aggregated $607.3 million. Additionally, the new ASU will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Under this ASU, allocated payroll costs and other costs that are incurred regardless of whether the lease is obtained will no longer be capitalized as initial direct costs and instead will be expensed as incurred. Lessors will continue to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The standard permits the use of either the retrospective or modified retrospective transition method. We are currently assessing the potential impact that the adoption of the ASU will have on our consolidated financial statements.

In March 2016, the FASB issued an ASU that further clarifies an ASU issued in 2014 on recognition of revenue arising from contracts with customers. The core principle underlying this ASU is that entities will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in such exchange. Leases are specifically excluded from this ASU and will be governed by the applicable lease codification; however, this update may have implications in certain variable payment terms included in lease agreements and in sale and leaseback transactions. The ASU is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. We are currently assessing the potential impact the adoption of this ASU will have on our consolidated financial statements.

In June 2016, the FASB issued an ASU that changes the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the other-than-temporary impairment model. The ASU will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures (e.g., loan commitments). The ASU is effective for reporting periods beginning after December 15, 2019, with early adoption permitted, and will be applied as a cumulative adjustment to retained earnings as of the effective date. We are currently assessing the potential impact the adoption of this ASU will have on our consolidated financial statements.

2. Basis of presentation and summary of significant accounting policies (continued)

In August 2016, the FASB issued an ASU that provides guidance on classification of cash distributions received from equity method investments, including unconsolidated joint ventures. The ASU provides two approaches to determine the classification of cash distributions received: i) the “cumulative earnings” approach, under which distributions up to the amount of cumulative equity in earnings recognized will be classified as cash inflows from operating activities, and those in excess of that amount will be classified as cash inflows from investing activities, and ii) the “nature of the distribution” approach, under which distributions will be classified based on the nature of the underlying activity that generated cash distributions. Companies will elect either the “cumulative earnings” or the “nature of the distribution” approach. Entities that elect the “nature of the distribution” approach but lack the information to apply it will apply the cumulative earnings approach as an accounting change on a retrospective basis. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively (exceptions apply). During the nine months ended September 30, 2016, operating distributions received from our equity method investees aggregated approximately $286 thousand and were classified as cash inflows from operating activities on our consolidated statements of cash flows. We expect to continue to utilize the “nature of the distribution” approach to classify distributions from our equity method investees after the adoption of this ASU.

3. Investments in real estate

Our consolidated investments in real estate consisted of the following as of September 30, 2016, and December 31, 2015 (in thousands):

	September 30, 2016		December 31, 2015
North America:			
Land (related to rental properties)	$763,794		$677,649
Buildings and building improvements	7,109,271		6,644,634
Other improvements	371,888		260,605
Rental properties	8,244,953		7,582,888
Development and redevelopment projects (under construction or pre-construction)	875,717		917,706
Future value-creation projects	238,728		206,939
Value-creation pipeline	1,114,445		1,124,645
Gross investments in real estate – North America	9,359,398		8,707,533
Less: accumulated depreciation	(1,473,064)		(1,299,548)
Net investments in real estate – North America	7,886,334		7,407,985
Net investments in real estate – Asia	52,845	(1)	221,937
Investments in real estate	$7,939,179		$7,629,922

(1) Refer to “Assets located in Asia” in Note 14 – “Assets Classified as Held for Sale” to these unaudited consolidated financial statements for further information.

Acquisitions

In June 2016, we entered into a definitive agreement to acquire One Kendall Square, a 644,771 RSF, seven-building collaborative science and technology campus located in our Cambridge urban innovation cluster submarket in Greater Boston. One Kendall Square also includes an entitled land parcel providing for a near-term ground-up development of a new 172,500 square foot building. The purchase price is $725.0 million, including the assumption of a $203.0 million secured note payable. The secured note payable has a maturity date of February 2024, and a contractual interest rate of 4.82%. We are in the process of obtaining approval by the lender for the assumption of the secured note payable and expect to close the One Kendall Square acquisition in the fourth quarter of 2016. The One Kendall Square acquisition is subject to customary closing conditions, and there is no assurance that the One Kendall Square acquisition will be completed, or will be completed in the time frame, on the terms or in the manner currently anticipated. Refer to “Forward Equity Sales Agreements” in Note 12 – “Stockholders’ Equity” to these unaudited consolidated financial statements for further discussion.

In October 2016, we acquired Torrey Ridge Science Center, a 294,993 RSF, three-building collaborative life science campus located in the heart of our Torrey Pines submarket of San Diego for a purchase price of $182.5 million. The campus is 87.1% occupied and we expect an initial stabilized cash yield of 6.8% at stabilization in the first half of 2018 upon completion of near-term renewals/re-leasing of acquired below-market leases and the conversion of 75,953 RSF existing shell and office space into office/laboratory space.

We have an executed agreement for the acquisition of 88 Bluxome Street in our Mission Bay/SoMa submarket of San Francisco for a purchase price of $140.0 million. We are pursuing entitlements for the ground-up development of 1,070,925 RSF, which represents estimated total anticipated RSF upon completion of entitlements for construction of two office buildings in separate phases. The closing date of this acquisition may be deferred to the first quarter of 2017. Upon completion of the acquisition, the seller may lease the property for a term of one year or more depending on certain factors.

3. Investments in real estate (continued)

Investments in consolidated real estate joint ventures

In June 2016, we entered into a joint venture agreement with an institutional investor, TIAA Global Asset Management and affiliates (“TIAA”), to sell a 45% partial interest in 10290 Campus Point Drive, a 304,326 RSF redevelopment project in our University Town Center submarket of San Diego, 100% leased to Eli Lilly and Company.

The sale of a partial interest in 10290 Campus Point Drive closed on June 29, 2016. Gross proceeds received from our partner as a result of the sale of a partial interest in 10290 Campus Point Drive through September 30, 2016, were $68.6 million. We retained a controlling interest in the joint venture following the sale and, therefore, continued to consolidate this entity. As a result, we accounted for the proceeds received as an equity financing transaction. The difference of $537 thousand between the aggregate proceeds of $68.6 million received through September 30, 2016, and our cost basis of $68.0 million was recorded as a reduction to additional paid-in capital. This transaction did not qualify as a sale of real estate and did not result in purchase accounting adjustments to the carrying value. Accordingly, the carrying amounts of our partner’s share of assets and liabilities are reported at historical cost. Our partner is expected to fund substantially all of the remaining costs to complete the redevelopment at 10290 Campus Point Drive and other construction costs of common areas in the campus. We expect to receive additional proceeds from our partner aggregating $37.7 million, which will be used to fund construction.

Additionally, in June 2016, we entered into a separate joint venture agreement with TIAA to sell a 45% partial interest in 10300 Campus Point Drive in our University Town Center submarket of San Diego, consisting of 449,759 RSF primarily leased to Celgene Corporation, Eli Lilly and Company, and The Regents of the University of California. The sale of a partial interest in 10300 Campus Point Drive is expected to close in the fourth quarter of 2016. Total gross proceeds from this sale are estimated to be $150.0 million and are expected to be received primarily in the fourth quarter of 2016.

As of September 30, 2016, we have four real estate joint ventures with TIAA, which are VIEs. Through these joint ventures, we own partial interests in the following Class A properties: (i) 225 Binney Street in our Cambridge submarket, (ii) 1500 Owens Street in our Mission Bay/SoMa submarket, (iii) 409/499 Illinois Street in our Mission Bay/SoMa submarket, and (iv) 10290 Campus Point Drive in our University Town Center submarket.

Under each of these real estate joint venture arrangements, we are the managing member and earn a fee for continuing to manage the day-to-day operations of each property and, in the case of 10290 Campus Point Drive, for managing the redevelopment construction of the project.

For each of our joint ventures with TIAA, we first evaluated the partially owned legal entity that owns the property under the variable interest model to determine whether each entity met any of the three characteristics of a VIE, which are as follows:

1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support.

- Each joint venture has significant equity at risk to fund its activities, as the ventures are primarily capitalized by contributions from the members and could obtain, if necessary, non-recourse commercial financing arrangements on customary terms.

2) The entity is established with non-substantive voting rights.

- The voting rights of each joint venture require both members to approve major decisions, which results in voting rights that are disproportionate to the members’ economic interest. However, the activities of each joint venture are conducted on behalf of both members, so the voting rights, while disproportionate, are substantive.

3) The equity holders, as a group, lack the characteristics of a controlling financial interest, as evidenced by lack of substantive kick-out rights or substantive participating rights.

- The institutional investor lacks substantive kick-out rights as it may not remove us as the managing member without cause.
- The institutional investor also lacks substantive participating rights as day-to-day control is vested in us as the managing member and the major decisions that require unanimous consent are primarily protective in nature.

Based on the analysis detailed in Note 2 – "Basis of Presentation and Summary of Significant Accounting Policies" to these unaudited consolidated financial statements, the institutional investor, as the non-managing member of each of the four joint ventures, lacks the characteristics of a controlling financial interest in each of the joint ventures because it does not have substantive kick-out rights or substantive participating rights. Therefore, the joint ventures meet the criteria to be considered VIEs and accordingly, are evaluated for consolidation under the VIE model.

3. Investments in real estate (continued)

After determining that these joint ventures are VIEs, we determined that we are the primary beneficiary of each real estate joint venture, as, in our capacity as managing member, we have the power to make decisions that most significantly impact operations and economic performance of the joint ventures. In addition, through our investment in each joint venture, we have the right to receive benefits and participate in losses that can be significant to the VIEs. Based on this evaluation, we concluded that we are the primary beneficiary of each joint venture, and therefore, we consolidate each entity.

The following table aggregates the balance sheet information of our consolidated VIEs as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Investments in real estate	$ 802,266	$ 608,474
Cash and cash equivalents	37,566	2,060
Other assets	40,863	37,633
Total assets	$ 880,695	$ 648,167
Secured notes payable	$ —	$ —
Other liabilities	75,865	38,666
Total liabilities	75,865	38,666
Alexandria Real Estate Equities, Inc.'s share of equity	432,735	307,220
Noncontrolling interests' share of equity	372,095	302,281
Total liabilities and equity	$ 880,695	$ 648,167

In determining whether to aggregate the balance sheet information of our consolidated VIEs, we considered the similarity of each VIE, including the primary purpose of these entities to own, manage, operate, and lease real estate properties owned by the VIEs, and the similar nature of our involvement in each VIE as a managing member. Due to the similarity of the characteristics of each VIE, we present the balance sheet information of these entities on an aggregated basis.

There are no creditors or other partners of our consolidated VIEs who have recourse to our general credit. Our maximum exposure to all our VIEs is limited to our variable interests in each VIE.

Purchase of noncontrolling interest

During the nine months ended September 30, 2016, we completed the purchase of the remaining outstanding noncontrolling interest in our campus at Alexandria Technology Square® in our Cambridge submarket. For additional information, refer to Note 13 – "Noncontrolling Interests" to these unaudited consolidated financial statements.

Sale of real estate assets and related impairment charges

In April 2016, we completed the sale of a 71,000 RSF R&D/warehouse property, located at 16020 Industrial Drive in our Gaithersburg submarket of Maryland, for approximately $6.4 million at no gain or loss.

In May 2016, management committed to the sale of a 4.6-acre land parcel, located at 14 Firstfield Road in our Gaithersburg submarket of Maryland and evaluated the asset under the held for sale impairment model. Accordingly, we assessed the fair value of the property and determined that the carrying value of the property exceeded its fair value. As a result, we recognized an impairment charge of $863 thousand in May 2016. In June 2016, we completed the sale of the property for approximately $3.5 million at no gain or loss.

In September 2016, we sold land parcels aggregating 1.3 acres in our non-cluster market in North America for approximately $5.2 million and recognized a gain of $90 thousand in connection with this sale.

For information on assets held for sale and assets sold in Asia, refer to "Assets Located in Asia" in Note 14 – "Assets Classified as Held for Sale" to these unaudited consolidated financial statements.

4. Investments in unconsolidated real estate joint ventures

360 Longwood Avenue

We have a 27.5% effective interest in this real estate joint venture that is currently developing a building aggregating 413,799 RSF in our Longwood Medical Area submarket of Greater Boston. The cost at completion for this real estate project is expected to be approximately $350 million. As of September 30, 2016, the joint venture had 313,407 RSF, or 76% of the project, leased and in service. Our equity investment in this real estate joint venture was $50.2 million as of September 30, 2016. The real estate joint venture has a non-recourse, secured construction loan ("Longwood Construction Loan") that includes the following key terms (dollars in thousands):

Tranche	Maturity Date	Stated Rate	Outstanding Balance	Remaining Commitments	Total
Fixed rate	April 1, 2017 (1)	5.25 %	$ 173,226	$ 2,015	$175,241
Floating rate (2)	April 1, 2017 (1)	L+3.75%	8,081	29,878	37,959
			181,307	$ 31,893	$213,200
Unamortized deferred financing costs			235		
			$ 181,072		

(1) We have two, one-year options to extend the stated maturity date to April 1, 2019, subject to certain conditions.

(2) Borrowings under the floating rate tranche have an interest rate floor equal to 5.25%, and are subject to an interest rate cap on LIBOR of 3.50%.

1455/1515 Third Street

We have a real estate joint venture with an affiliate of Uber Technologies, Inc. ("Uber"), for the development of two buildings aggregating 422,980 RSF at 1455/1515 Third Street in our Mission Bay/SoMa submarket of San Francisco. We have a 51% interest, and Uber has a 49% interest, in this real estate joint venture. The project is 100% leased to Uber for a 15-year term. Our equity investment in the real estate joint venture aggregated $83.4 million as of September 30, 2016.

As described in Note 2 – "Basis of Presentation and Summary of Significant Accounting Policies" to these unaudited consolidated financial statements, we evaluate each of our unconsolidated real estate joint ventures, which are limited liability companies, using the consolidation guidance under the variable interest model first, and then under the voting model if the entity is not a VIE. We evaluated our 360 Longwood Avenue joint venture (27.5% interest held by the Company) and our 1455/1515 Third Street joint venture (51% interest held by the Company) under the variable interest model, based upon the following characteristics of a VIE:

1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support.

- 360 Longwood Avenue – This entity has significant equity and non-recourse financing in place to fund the remainder of the development.
- 1455/1515 Third Street – This entity has significant equity, and non-recourse financing is available, to fund the remainder of the development.

2) The entity is established with non-substantive voting rights.

- 360 Longwood Avenue – Our 27.5% economic interest in 360 Longwood Avenue consists of an interest in a real estate joint venture with a development partner. The joint venture with our development partner holds an interest in the property with an institutional investor. Our development partner is responsible for the day-to-day management of construction and development activities, and we are responsible for the day-to-day administrative operations of components of the property once it is placed into service following development completion. At the property level, all major decisions (including the development plan, annual budget, leasing plan, and financing plan) require approval of all three investors. Although voting rights within the structure are disproportionate to the members' economic interests, the activities of the ventures are conducted on behalf of all members, and therefore, the voting rights, while disproportionate, are substantive.

4. Investments in unconsolidated real estate joint ventures (continued)

- 1455/1515 Third Street – We hold a 51% economic interest in this real estate joint venture, and our joint venture partner holds a 49% economic interest. However, both members are required to approve major decisions, resulting in equal voting rights. Although voting rights within the structure are disproportionate to the members’ economic interests, the activities of the ventures are conducted on behalf of both members, and therefore, the voting rights, while disproportionate, are substantive.

3) The equity holders, as a group, lack the characteristics of a controlling financial interest, as evidenced by lack of substantive kick-out rights or substantive participating rights.

- 360 Longwood Avenue – The other members have significant participating rights, including the day-to-day management of development activities and the participation in decisions related to the operations of the property.
- 1455/1515 Third Street – Our joint venture partner has significant participating rights, including joint decision making for the design of the project, overall development costs, future potential financing and operating activities of the joint venture, and disposal of the assets held by the joint venture.

Since the joint ventures do not meet the VIE criteria, we determined that these entities do not qualify for evaluation under the VIE model. Therefore, we evaluate each of these joint ventures under the voting model. Under the voting model, we consolidate the entity if we determine that we, directly or indirectly, have greater than 50% of the voting shares and that noncontrolling equity holders do not have substantive participating rights.

For our 360 Longwood Avenue joint venture, our interest is limited to 27.5%, and since we do not have other contractual rights, we account for this joint venture under the equity method of accounting.

For our 1455/1515 Third Street joint venture, both members have substantive participating rights, and therefore, we also account for this joint venture under the equity method of accounting.

5. Investments

We hold equity investments in certain publicly traded companies and investments in certain privately held entities and limited partnerships primarily involved in the science and technology industries. All of our equity investments in actively traded public companies are considered available-for-sale and are reflected in the accompanying consolidated balance sheets at fair value. Our investments in privately held entities are primarily accounted for under the cost method.

Investments in available-for-sale equity securities with gross unrealized losses as of September 30, 2016, had been in a continuous unrealized loss position for less than 12 months. We have the ability and intent to hold these investments for a reasonable period of time sufficient for the recovery of our investment. We believe that these unrealized losses are temporary. Accordingly, there are no other-than-temporary impairments in accumulated other comprehensive income related to available-for-sale equity securities as of September 30, 2016, or December 31, 2015.

The following table summarizes our investments as of September 30, 2016, and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Available-for-sale equity securities, cost basis	$40,090	$20,022
Unrealized gains	33,182	118,392
Unrealized losses	(4,265)	(793)
Available-for-sale equity securities, at fair value	69,007	137,621
Investments accounted for under cost method	251,982	215,844
Total investments	$320,989	$353,465

We periodically assess our investments in privately held companies accounted for under the cost method for other-than-temporary impairment. If a decline in the fair value of an investment below the carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a charge to current earnings. During the three months ended September 30, 2016, we determined there was an other-than-temporary impairment on certain of our cost method investments and wrote the investment down to fair value. The impairment charge is included in the investment losses for the three and nine months ended September 30, 2016, presented in the table below, which outlines the components of our investment income classified within other income in the accompanying consolidated statements of income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Investment gains	$8,115	$8,658	$28,721	$22,368
Investment losses	(3,849)	(3,280)	(10,670)	(11,157)
Investment income	$4,266	$5,378	$18,051	$11,211

6. Other assets

The following table summarizes the components of other assets as of September 30, 2016, and December 31, 2015 (in thousands):

	September 30, 2016		December 31, 2015
Acquired below-market ground leases	$ 12,970		$ 13,142
Acquired in-place leases	24,616		27,997
Deferred compensation plan	10,667		8,489
Deferred financing costs – $1.65 billion unsecured senior line of credit	15,168		11,909
Deposits	75,474	(1)	3,713
Furniture, fixtures, and equipment, net	13,379		13,682
Interest rate hedge assets	180		596
Notes receivable	6,876		16,630
Prepaid expenses	13,945		17,651
Real estate	18,612		—
Other assets	14,246		19,503
Total	$ 206,133		$ 133,312

(1) Includes a $60.0 million deposit for the acquisition of One Kendall Square located in our Cambridge urban innovation cluster submarket of Greater Boston.

7. Fair value measurements

We are required to disclose fair value information about all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. We measure and disclose the estimated fair value of financial assets and liabilities utilizing a fair value hierarchy that distinguishes between data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. This hierarchy consists of three broad levels, as follows: (i) quoted prices in active markets for identical assets or liabilities, (ii) significant other observable inputs, and (iii) significant unobservable inputs. Significant other observable inputs can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Significant unobservable inputs are typically based on an entity's own assumptions, since there is little, if any, related market activity. In instances in which the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers between the levels in the fair value hierarchy during the nine months ended September 30, 2016 and 2015.

The following tables set forth the assets and liabilities that we measure at fair value on a recurring basis by level within the fair value hierarchy as of September 30, 2016, and December 31, 2015 (in thousands):

		September 30, 2016		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Available-for-sale equity securities	$69,007	$69,007	$ —	$ —
Interest rate hedge agreements	$180	$—	$ 180	$ —
Liabilities:				
Interest rate hedge agreements	$7,705	$—	$ 7,705	$ —

		December 31, 2015		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Available-for-sale equity securities	$137,621	$137,621	$ —	$ —
Interest rate hedge agreements	$596	$—	$ 596	$ —
Liabilities:				
Interest rate hedge agreements	$4,314	$—	$ 4,314	$ —

The carrying values of cash and cash equivalents, restricted cash, tenant receivables, other assets, accounts payable, accrued expenses, and tenant security deposits approximate fair value. Our available-for-sale equity securities and our interest rate hedge agreements have been recognized at fair value. Refer to Note 5 – "Investments" and Note 9 – "Interest Rate Hedge Agreements" to these unaudited consolidated financial statements for further details. The fair values of our secured notes payable, unsecured senior notes payable, $1.65 billion unsecured senior line of credit, and unsecured senior bank term loans were estimated using widely accepted valuation techniques, including discounted cash flow analyses using significant other observable inputs such as available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Because the valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate. Additionally, the use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

7. Fair value measurements (continued)

As of September 30, 2016, and December 31, 2015, the book and estimated fair values of our available-for-sale equity securities, interest rate hedge agreements, secured notes payable, unsecured senior notes payable, $1.65 billion unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	September 30, 2016		December 31, 2015	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
Available-for-sale equity securities	$69,007	$69,007	$137,621	$137,621
Interest rate hedge agreements	$180	$180	$596	$596
Liabilities:				
Interest rate hedge agreements	$7,705	$7,705	$4,314	$4,314
Secured notes payable	$789,450	$802,722	$809,818	$832,342
Unsecured senior notes payable	$2,377,482	$2,551,835	$2,030,631	$2,059,855
$1.65 billion unsecured senior line of credit	$416,000	$415,962	$151,000	$151,450
Unsecured senior bank term loans	$746,162	$750,746	$944,243	$951,098

Nonrecurring fair value measurements

Refer to "Assets Located in Asia" in Note 14 – "Assets Classified as Held for Sale" to these unaudited consolidated financial statements for further discussion.

8. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt as of September 30, 2016 (dollars in thousands):

	Fixed-Rate/Hedged Variable-Rate	Unhedged Variable-Rate	Total	Percentage	Weighted-Average Interest Rate (1)	Weighted-Average Remaining Term (in years)
Secured notes payable	$ 419,276	$ 370,174	$789,450	18.2 %	3.34%	2.6
Unsecured senior notes payable	2,377,482	—	2,377,482	55.0	4.14	7.5
$1.65 billion unsecured senior line of credit	200,000	216,000	416,000	9.6	1.52	5.1
2019 Unsecured Senior Bank Term Loan	398,355	—	398,355	9.2	3.03	2.3
2021 Unsecured Senior Bank Term Loan	347,807	—	347,807	8.0	2.18	4.3
Total/weighted average	$ 3,742,920	$ 586,174	$4,329,094	100.0 %	3.49%	5.6
Percentage of total debt	86%	14%	100%			

(1) See footnote 1 on the page 24 for additional information on weighted-average interest rate.

8. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding indebtedness and respective principal payments as of September 30, 2016 (dollars in thousands):

Debt	Stated Rate	Weighted-Average Interest Rate (1)	Maturity Date (2)	Principal Payments Remaining for the Periods Ending December 31, 2016	2017	2018	2019	2020	Thereafter	Principal	U (I C (
Secured notes payable											
Maryland	2.44 %	2.81 %	1/20/17 (3)	$—	$76,000	$—	$—	$—	$—	$76,000	$
Greater Boston	L+1.35	2.47	8/23/17 (4)	—	210,464	—	—	—	—	210,464	(
Greater Boston	L+1.50	1.85	1/28/19 (4)	—	—	—	213,969	—	—	213,969	(
Greater Boston	L+2.00	2.79	4/20/19 (4)	—	—	—	64,256	—	—	64,256	(
Greater Boston, San Diego, Seattle, and Maryland	7.75	8.10	4/1/20	437	1,833	1,979	2,140	104,351	—	110,740	(
San Diego	4.66	4.99	1/1/23	370	1,540	1,614	1,692	1,770	29,905	36,891	(
Greater Boston	3.93	3.18	3/10/23	—	—	1,091	1,505	1,566	77,838	82,000	3
San Francisco	6.50	6.76	7/1/36	—	20	22	23	25	703	793	-
Secured debt weighted-average interest rate/subtotal	3.32 %	3.34		807	289,857	4,706	283,585	107,712	108,446	795,113	(
2019 Unsecured Senior Bank Term Loan	L+1.20 %	3.03	1/3/19	—	—	—	400,000	—	—	400,000	(
2021 Unsecured Senior Bank Term Loan	L+1.10 %	2.18	1/15/21	—	—	—	—	—	350,000	350,000	(
$1.65 billion unsecured senior line of credit	L+1.00 % (5)	1.52	10/29/21	—	—	—	—	—	416,000	416,000	-
Unsecured senior notes payable	2.75 %	2.95	1/15/20	—	—	—	—	400,000	—	400,000	(
Unsecured senior notes payable	4.60 %	4.72	4/1/22	—	—	—	—	—	550,000	550,000	(
Unsecured senior notes payable	3.90 %	4.02	6/15/23	—	—	—	—	—	500,000	500,000	(
Unsecured senior notes payable	4.30 %	4.46	1/15/26	—	—	—	—	—	300,000	300,000	(
Unsecured senior notes payable	3.95 %	4.11	1/15/27	—	—	—	—	—	350,000	350,000	(
Unsecured senior notes payable	4.50 %	4.58	7/30/29	—	—	—	—	—	300,000	300,000	(
		3.52		—	—	—	400,000	400,000	2,766,000	3,566,000	(

Unsecured debt weighted average/subtotal									
Weighted-average interest rate/total	3.49%	$807	$289,857	$4,706	$683,585	$507,712	$2,874,446	$4,361,113	$
Balloon payments		$—	$286,464	$—	$678,226	$503,979	$2,866,487	$4,335,156	$
Principal amortization		807	3,393	4,706	5,359	3,733	7,959	25,957	(
Total debt		$807	$289,857	$4,706	$683,585	$507,712	$2,874,446	$4,361,113	$
Fixed-rate/hedged variable-rate debt		$807	$153,393	$4,706	$445,359	$507,712	$2,658,446	$3,770,423	$
Unhedged variable-rate debt		—	136,464	—	238,226	—	216,000	590,690	(
Total debt		$807	$289,857	$4,706	$683,585	$507,712	$2,874,446	$4,361,113	$

(1) Represents the weighted-average interest rate as of the end of the applicable period, plus the impact of debt premiums/discounts, interest rate hedge agreements, and deferred financing costs.

(2) Reflects any extension options that we control.

(3) We intend to repay this loan in December 2016 in advance of its maturity date of January 20, 2017.

(4) Refer to “Secured Construction Loans” in Note 8 – “Secured and Unsecured Senior Debt” for options to extend maturity dates.

(5) Our $1.65 billion unsecured senior line of credit contains a feature that allows lenders to competitively bid on the interest rate for borrowings under the facility. This may result in an interest rate that is below the stated rate. In addition to the cost of borrowing, the facility is subject to an annual facility fee of 0.20%, based on the aggregate commitments. Unamortized deferred financing costs related to our $1.65 billion unsecured senior line of credit are classified in other assets and are excluded from the calculation of the weighted-average interest rate.

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8. Secured and unsecured senior debt (continued)

3.95% Unsecured senior notes payable

In June 2016, we completed a $350.0 million public offering of our unsecured senior notes payable due on January 15, 2027, at a stated interest rate of 3.95%. The unsecured senior notes payable are unsecured obligations of the Company and are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P., a 100% owned subsidiary of the Company. The unsecured senior notes payable rank equally in right of payment with all other unsecured senior indebtedness. However, the unsecured senior notes payable are subordinate to existing and future mortgages and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness) and to all existing and future preferred equity and liabilities, whether secured or unsecured, of the Company's subsidiaries, other than Alexandria Real Estate Equities, L.P. We used the net proceeds, after discounts and issuance costs, of $344.7 million to repay outstanding principal borrowings under our $1.65 billion unsecured senior line of credit.

Amendment of unsecured senior line of credit and unsecured senior bank term loans

On July 29, 2016, we amended our unsecured senior line of credit (the "Amended Credit Agreement") and recognized a loss on early extinguishment of debt of approximately $2.4 million related to the write-off of unamortized loan fees. The key changes are summarized below:

	Amended Agreement	Prior Agreement
Commitments	$1.65 billion	$1.50 billion
Interest rate	LIBOR+1.00%	LIBOR+1.10%
Maturity date	October 29, 2021 (1)	January 3, 2019

(1) Includes two, six-months options to extend from the stated maturity date of October 29, 2020, subject to certain conditions.

In addition, on July 29, 2016, we completed a partial principal repayment of $200 million of our 2019 Unsecured Senior Bank Term Loan reducing the total outstanding balance from $600 million to $400 million, and recognized a loss on early extinguishment of debt of $869 thousand related to the write-off of unamortized loan fees.

Interest expense

The following table summarizes interest expense for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross interest	$40,753	$36,115	$116,520	$105,427
Capitalized interest	(14,903)	(8,436)	(40,790)	(27,844)
Interest expense	$25,850	$27,679	$75,730	$77,583

Repayment of secured notes payable

During the nine months ended September 30, 2016, we repaid five secured notes payable aggregating $231.0 million with a weighted-average effective interest rate of 5.29%.

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8. Secured and unsecured senior debt (continued)

Secured construction loans

The following table summarizes our secured construction loans as of September 30, 2016 (dollars in thousands):

Property/Market	Stated Rate	Maturity Date	Outstanding Balance	Remaining Commitments	Total Aggregate Commitments
75/125 Binney Street/Greater Boston	L+1.35%	8/23/17	$ 210,464	$ 39,936	$ 250,400
50/60 Binney Street/Greater Boston	L+1.50%	1/28/19 (1)	213,969	136,031	350,000
100 Binney Street/Greater Boston	L+2.00% (2)	4/20/19 (3)	64,256	240,025	304,281
			$ 488,689	$ 415,992	$ 904,681

(1) We have two, one-year options to extend the stated maturity date to January 28, 2021, subject to certain conditions.

(2) Refer to Note 9 – "Interest Rate Hedge Agreements" to these unaudited consolidated financial statements for further information.

(3) We have two, one-year options to extend the stated maturity date to April 20, 2021, subject to certain conditions.

9. Interest rate hedge agreements

We use interest rate derivatives to hedge the variable cash flows associated with certain of our existing LIBOR-based variable-rate debt, including our $1.65 billion unsecured senior line of credit, unsecured senior bank term loans, and secured notes payable, and to manage our exposure to interest rate volatility. Our derivative instruments include interest rate swaps and interest rate caps.

In our interest rate hedge agreements, the ineffective portion of the change in fair value is required to be recognized directly in earnings. During the nine months ended September 30, 2016 and 2015, our interest rate hedge agreements were 100% effective; as a result, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate hedge agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. During the next 12 months, we expect to reclassify approximately $5.2 million in accumulated other comprehensive income to earnings as an increase to interest expense. As of September 30, 2016, and December 31, 2015, the fair values of our interest rate swap and cap agreements aggregating an asset balance were classified in other assets, and the fair value of our interest rate swap agreements aggregating a liability balance were classified in accounts payable, accrued expenses, and tenant security deposits, based upon their respective fair values, without any offsetting pursuant to master netting agreements. Refer to Note 7 – "Fair Value Measurements" to these unaudited consolidated financial statements for further details. Under our interest rate hedge agreements, we have no collateral posting requirements.

The Company has agreements with certain of its derivative counterparties that contain a provision wherein (i) the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness; or (ii) if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. If the Company had breached any of these provisions as of September 30, 2016, it could have been required to settle its obligations under the agreements at their termination value of $7.5 million.

9. Interest rate hedge agreements (continued)

We had the following outstanding interest rate hedge agreements that were designated as cash flow hedges of interest rate risk as of September 30, 2016 (dollars in thousands):

Interest Rate Hedge Type	Effective Date	Maturity Date	Number of Contracts	Weighted-Average Interest Pay/Cap Rate (1)	Fair Value as of 9/30/16	Notional Amount in Effect as of 9/30/16	12/31/16	12/31/17	12/31/18
Swap	September 1, 2015	March 31, 2017	2	0.57%	$18	$100,000	$100,000	$—	$—
Swap	March 31, 2016	March 31, 2017	11	1.15%	(2,691)	1,000,000	1,000,000	—	—
Swap	March 31, 2017	March 31, 2018	15	1.31%	(4,592)	—	—	900,000	—
Swap	March 29, 2018	March 31, 2019	6	1.01%	(374)	—	—	—	450,000
Cap	July 29, 2016	April 20, 2019	2	2.00%	114	40,000	55,000	126,000	150,000
Total					$(7,525) (2)	$1,140,000	$1,155,000	$1,026,000	$600,000

(1) In addition to the interest pay rate for each swap agreement, interest is payable at an applicable margin over LIBOR for borrowings outstanding as of September 30, 2016, as listed under the column heading "Stated Rate" in our summary table of outstanding indebtedness and respective principal payments under Note 8 – "Secured and Unsecured Senior Debt" to these unaudited consolidated financial statements.

(2) This total represents the net of the fair value of interest rate hedges in a liability position of $7.7 million and fair value of interest rate hedges in an asset position of $180 thousand. Refer to Note 7 – "Fair Value Measurements" to these unaudited consolidated financial statements for further information.

10. Accounts payable, accrued expenses, and tenant security deposits

The following table summarizes the components of accounts payable, accrued expenses, and tenant security deposits as of September 30, 2016, and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Accounts payable and accrued expenses	$269,915	$239,838
Acquired below-market leases	22,940	26,018
Conditional asset retirement obligations	3,636	5,777
Deferred rent liabilities	34,783	27,664
Interest rate hedge liabilities	7,705	4,314
Unearned rent and tenant security deposits	218,309	211,605
Other liabilities	47,893	74,140
Total	$605,181	$589,356

Some of our properties may contain asbestos, which, under certain conditions, requires remediation. 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. 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. These conditional asset retirement obligations are included in the table above.

11. Earnings per share

We use income from continuing operations attributable to Alexandria's common stockholders as the "control number" in determining whether potential common shares are dilutive or antidilutive to EPS. Pursuant to the presentation and disclosure literature on gains or losses on sales or disposals by REITs and EPS required by the SEC and the FASB, gains or losses on sales or disposals by a REIT that do not qualify as discontinued operations are classified below income from discontinued operations in the consolidated statements of income and included in the numerator for the computation of EPS for income from continuing operations.

In July 2016, we executed an offering, subject to forward equity sales agreements, to sell an aggregate of 7.5 million shares of common stock, including 975,000 shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares of our common stock, at a public offering price of $101.00 per share, subject to customary contractual price adjustments. Net proceeds, after issuance costs and underwriters' discount, of $724.0 million, will be further adjusted as provided in the forward equity sales agreements. The forward equity sales agreements allowed us to lock in the price of the shares (subject to certain adjustments) to fund the pending acquisition of One Kendall Square. We expect to settle the forward equity sales agreements by issuing the common stock in the fourth quarter of 2016 after obtaining approval by the lender to assume the One Kendall Square loan and completing the acquisition of One Kendall Square. Refer to "Acquisitions" in Note 3 – "Investments in Real Estate" and "Forward Equity Sales Agreements" in Note 12 – "Stockholders' Equity" to these unaudited consolidated financial statements for further discussion.

Weighted average shares outstanding – diluted used in computation of EPS for the three months ended September 30, 2016 include shares from the assumed issuance of 7.5 million shares pursuant to the settlement of the forward equity sales agreements at the contractual price, less assumed repurchase of common shares at the average market price using the net proceeds of $724.0 million from the forward equity sales agreements. The impact to our weighted average shares – diluted for the three months ended September 30, 2016 was 751 thousand weighted average incremental shares. Conversely, these shares were not included in the calculation of diluted EPS for the nine months ended September 30, 2016 as the Company had a net loss during that period and, therefore, the effect of the forward equity sales agreements was antidilutive. For purposes of calculating diluted EPS, we did not assume conversion of our 7.00% Series D cumulative convertible preferred stock for the three and nine months ended September 30, 2016 and 2015, since the impact was antidilutive to EPS attributable to Alexandria Real Estate Equities, Inc.'s common stockholders from continuing operations during those periods. Our 6.45% Series E cumulative redeemable preferred stock is not convertible to common stock and, therefore, is not dilutive.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of EPS using the two-class method. Our 7.00% Series D cumulative convertible preferred stock and forward equity sales agreements are not participating securities, and are not included in the computation of EPS using the two-class method. Under the two-class method, we allocate net income after preferred stock dividends, preferred stock redemption charge, and amounts attributable to noncontrolling interests to common stockholders and unvested restricted stock awards based on their respective participation rights to dividends declared (or accumulated) and undistributed earnings.

11. Earnings per share (continued)

The table below is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three and nine months ended September 30, 2016 and 2015 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income (loss) from continuing operations	$28,469	$39,699	$(69,681)	$103,180
Gain on sales of real estate – land parcels	90	—	90	—
Net income attributable to noncontrolling interests	(4,084)	(170)	(11,614)	(925)
Dividends on preferred stock	(5,007)	(6,247)	(16,388)	(18,740)
Preferred stock redemption charge	(13,095)	—	(25,614)	—
Net income attributable to unvested restricted stock awards	(921)	(623)	(2,807)	(1,736)
Numerator for basic and diluted EPS – net income (loss) from continuing operations attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	5,452	32,659	(126,014)	81,779
Loss from discontinued operations	—	—	—	(43)
Numerator for basic and diluted EPS – net income (loss) attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$5,452	$32,659	$(126,014)	$81,736
Denominator for basic EPS – weighted-average shares of common stock outstanding	76,651	71,500	74,526	71,426
Dilutive effect of forward equity sales agreements	751	—	—	—
Denominator for diluted EPS – adjusted – weighted-average shares of common stock outstanding	77,402	71,500	74,526	71,426
Net income (loss) per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders – basic and diluted:				
Continuing operations	$0.07	$0.46	$(1.69)	$1.14
Discontinued operations	—	—	—	—
Net income (loss) per share	$0.07	$0.46	$(1.69)	$1.14

12. Stockholders' equity

"At the market" common stock offering program

During the six months ended June 30, 2016, we completed our "at the market" common stock offering program that was established in December 2015, which allowed us to sell up to an aggregate of $450.0 million of our common stock. In December 2015, we sold an aggregate of 832,982 shares of common stock for a gross proceeds of $75.0 million, or $90.04 per share, and net proceeds of approximately $73.4 million. During the six months ended June 30, 2016, we sold an aggregate of 3.9 million shares of common stock for gross proceeds of $374.3 million, or $94.80 per share, and net proceeds of approximately $367.8 million. We used the proceeds from the sales initially to reduce amounts outstanding under our $1.65 billion unsecured senior line of credit. As of September 30, 2016, there was no remaining availability under our "at the market" program.

In October 2016, we established a new "at the market" common stock offering program, which allows us to sell up to an aggregate of $600.0 million of our common stock. In October 2016, we sold an aggregate of 1.4 million shares of common stock for gross proceeds of $150.0 million, or $104.28 per share, and net proceeds of approximately $147.7

million.

12. Stockholders' equity (continued)

Forward equity sales agreements

In July 2016, we executed an offering, subject to forward equity sales agreements, to sell an aggregate of 7.5 million shares of common stock, including 975,000 shares sold pursuant to the exercise in full of the underwriters' option to purchase additional shares of our common stock, at a public offering price of $101.00 per share. Net proceeds, after issuance costs and underwriters' discount, of $724.0 million, will be further adjusted as provided in the forward equity sales agreements. The forward equity sales agreements allowed us to lock in the price of the shares (subject to certain adjustments) to fund the pending acquisition of One Kendall Square. Settlement may be (i) physical delivery of shares of our common stock for cash, (ii) net cash settlement, whereby we will either pay or receive the difference between the forward contract price and the weighted average market price for our common stock at the time of settlement, or (iii) net share settlement, whereby we will either receive or issue shares of our common stock, with the number of shares issued or received determined by the difference between the forward contract price and the weighted average market price for its common stock at the time of settlement. The forward contract price will be determined under the applicable terms of the forward contract.

Under either of the net settlement provisions, we will pay to the counterparty either cash or shares of common stock when the weighted average market price of our common stock at the time of settlement exceeds the forward contract price, and will receive either cash or shares of common stock to the extent that the weighted average market price of our common stock at the time of settlement is less than the price under the forward contract. Subject to our contractual right to elect cash or net share settlement, we expect to settle the forward equity sales agreements by issuing the common stock after obtaining approval by the lender to assume the One Kendall Square loan and completing the acquisition of One Kendall Square. Refer to "Acquisitions" in Note 3 – "Investments in Real Estate" to these unaudited consolidated financial statements for further discussion.

7.00% Series D cumulative convertible preferred stock redemption

During the three months ended September 30, 2016, we repurchased 1.1 million outstanding shares of our 7.00% Series D cumulative convertible preferred stock at an aggregate price of $39.3 million, or $36.31 per share. We recognized a preferred stock redemption charge of $13.1 million during the three months ended September 30, 2016, including the write-off of original issuance costs of approximately $845 thousand.

During the nine months ended September 30, 2016, we repurchased 3.0 million outstanding shares of our 7.00% Series D cumulative convertible preferred stock at an aggregate price of $98.6 million, or $32.72 per share. We recognized a preferred stock redemption charge of $25.6 million during the nine months ended September 30, 2016, including the write-off of original issuance costs of approximately $2.4 million.

In October 2016, we repurchased 1.5 million shares of our 7.00% Series D cumulative convertible preferred stock at an aggregate price of $52.8 million, or $36.07 per share. As of October 31, 2016 the par value of our 7.00% Series D cumulative convertible preferred stock outstanding was $125.2 million.

Dividends

In September 2016, we declared cash dividends on our common stock for the three months ended September 30, 2016, aggregating $62.4 million, or $0.80 per share. Also in September 2016, we declared cash dividends on our 7.00% Series D cumulative convertible preferred stock for the three months ended September 30, 2016, aggregating approximately $2.8 million, or $0.4375 per share. Additionally, we declared cash dividends on our 6.45% Series E cumulative redeemable preferred stock for the three months ended September 30, 2016, aggregating approximately $2.1 million, or $0.403125 per share. In October 2016, we paid the cash dividends on our common stock, 7.00% Series D cumulative convertible preferred stock, and 6.45% Series E cumulative redeemable preferred stock for the three months ended September 30, 2016.

12. Stockholders' equity (continued)

Accumulated other comprehensive income

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

	Net Unrealized Gain (Loss) on:			
	Available-for-Sale Equity Securities	Interest Rate Hedge Agreements	Foreign Currency Translation	Total
Balance as of December 31, 2015	$117,599	$ (3,718)	$ (64,690)	$49,191
Other comprehensive (loss) income before reclassifications	(70,055)	(7,655)	842	(76,868)
Amounts reclassified from other comprehensive (income) loss	(18,627)	3,725	10,807	(4,095)
	(88,682)	(3,930)	11,649	(80,963)
Amounts attributable to noncontrolling interests	—	—	27	27
Net other comprehensive (loss) income	(88,682)	(3,930)	11,676	(80,936)
Balance as of September 30, 2016	$28,917	$ (7,648)	$ (53,014)	$(31,745)

Preferred stock and excess stock authorizations

Our charter authorizes the issuance of up to 100.0 million shares of preferred stock, of which 11.7 million shares were issued and outstanding as of September 30, 2016. In addition, 200.0 million shares of "excess stock" (as defined in our charter) are authorized, none of which were issued and outstanding as of September 30, 2016.

13. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities owned nine projects as of September 30, 2016, and are included in our consolidated financial statements. Noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements.

During the three months ended March 31, 2015, we executed an agreement to purchase the outstanding 10% noncontrolling interest in our 1.2 million RSF campus at Alexandria Technology Square® in our Cambridge submarket for $108.3 million. The first installment of $54.3 million was paid on April 1, 2015, and the second installment of $54.0 million was paid on April 1, 2016.

In June 2016, we sold a partial interest in 10290 Campus Point Drive. As described in Note 3 – "Investments in Real Estate" to these unaudited consolidated financial statements, since we retained a controlling interest in the joint venture following the sale and continued to consolidate this entity, we accounted for the proceeds received as an equity financing transaction. The difference of $537 thousand between the aggregate proceeds of approximately $68.6 million received through September 30, 2016 and our cost basis of $68.0 million was recorded as a reduction to additional paid-in capital. This transaction did not qualify as a sale of real estate and did not result in purchase accounting adjustments to the carrying value. Accordingly, the carrying amounts of our partner's share of assets and liabilities are reported at historical cost.

Certain of our noncontrolling interests have the right to require us to redeem their ownership interests in the respective entities. We classify these ownership interests in the entities as redeemable noncontrolling interests outside of total equity in the accompanying consolidated balance sheets. Redeemable noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. If the amount of a redeemable noncontrolling interest is less than the maximum redemption value at the balance sheet date, such amount is adjusted to the maximum redemption value. Subsequent declines in the redemption value are recognized only to the extent that previous increases have been recognized.

The following table represents income from continuing operations and discontinued operations attributable to Alexandria Real Estate Equities, Inc., for the three and nine months ended September 30, 2016 and 2015, excluding the amounts attributable to these noncontrolling interests (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income (loss) from continuing operations attributable to Alexandria Real Estate Equities, Inc.'s stockholders	$24,475	$39,529	$(81,205)	$102,255
Loss from discontinued operations	—	—	—	(43)
Net income (loss) attributable to Alexandria Real Estate Equities, Inc.'s stockholders	$24,475	$39,529	$(81,205)	$102,212

14. Assets classified as held for sale

As of September 30, 2016, two operating properties in North America with an aggregate 90,690 RSF and all our operating properties and land parcels located in Asia were classified as held for sale, none of which met the criteria for classification as discontinued operations in our consolidated financial statements. Accordingly, the results of operations include properties sold subsequent to January 1, 2015, including two properties with an aggregate 153,874 RSF and three land parcels. For additional information, refer to Note 2 – "Basis of Presentation and Summary of Significant Accounting Policies" to these unaudited consolidated financial statements.

Assets located in North America

The following is a summary of net assets held for sale in North America as of September 30, 2016, and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Total assets	$ 15,456	$ 12,896
Total liabilities	—	—
Net assets classified as held for sale – North America	$ 15,456	$ 12,896

The following is a summary of operating information of our real estate investments in North America classified as held for sale as of September 30, 2016, and real estate investments in North America sold subsequent to January 1, 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total revenues	$540	$1,304	$2,322	$3,551
Operating expenses	(128)	(779)	(734)	(1,960)
	412	525	1,588	1,591
General and administrative expenses	(5)	(25)	(37)	(43)
Depreciation expense	(3)	(195)	(131)	(989)
Impairment of real estate	—	—	(863)	—
Gain on sales of real estate – land parcels	90	—	90	—
Income from assets classified as held for sale – North America	$494	$305	$647	$559

Assets located in Asia

On March 31, 2016, we evaluated two separate potential transactions to sell land parcels in our India submarket aggregating 28 acres. We determined that these land parcels met the criteria for classification as held for sale as of March 31, 2016, including among others, the following: (i) management having the authority committed to sell the real estate, and (ii) the sale was probable within one year. Upon classification as held for sale, we recognized an impairment charge of $29.0 million to lower the carrying amount of the real estate to its estimated fair value