

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2002

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

(State or other jurisdiction of incorporation or organization)

95-4502084

(IRS Employer I.D. Number)

135 North Los Robles Ave

Suite 250

Pasadena, California 91101

(Address of principal executive offices including zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value per share (Including related preferred stock purchase rights)	New York Stock Exchange
9.50% Series A Cumulative Redeemable Preferred Stock	New York Stock Exchange
9.10% Series B Cumulative Redeemable Preferred Stock	New York Stock Exchange

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the shares of Common Stock held by non-affiliates of registrant was approximately \$809.4 million based on the closing price for such shares on the New York Stock Exchange on June 30, 2002.

As of March 27, 2003, the registrant had outstanding 19,006,223 shares of Common Stock.

Documents Incorporated By Reference

Part III of this report incorporates certain information by reference from the registrant's definitive proxy statement to be mailed in connection with the registrant's annual meeting of stockholders to be held on May 2, 2003.

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PART I

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify some of the forward-looking statements by the use of forward-looking words such as "believes", "expects", "may", "will", "should", "seeks", "intends", "plans", "estimates" or "anticipates", or the negative of these words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by the forward-looking statements, including, but not limited to, those described below under the headings "Business Risks" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1. Business

General

We are a Maryland corporation formed in October 1994 that has elected to be taxed as a real estate investment trust, or REIT, for federal income tax purposes. We are engaged primarily in the ownership, operation, management, acquisition, expansion and selective redevelopment and development of high quality, strategically located properties containing office and laboratory space designed and improved for lease principally to pharmaceutical, biotechnology, life science product and services companies, not-for-profit scientific research institutions, universities and related government agencies (collectively, the "life science industry"). Properties leased to tenants in the life science industry typically consist of suburban office buildings containing scientific research and development laboratories and other improvements that are generic to tenants operating in the life science industry. We refer to such properties as "life science facilities." As of December 31, 2002, we owned 89 properties (collectively, the "properties"), containing approximately 5.7 million rentable square feet of office and laboratory space.

Business and Growth Strategy

We focus our property operations and investment activities principally in the following life science markets:

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

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

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

- acquiring high quality life science facilities at prices that will enable us to realize attractive returns in our life science markets.
- expanding existing or newly acquired properties or redeveloping existing office, warehouse or vacant space into generic laboratory space that can be leased at higher rental rates.
- selectively developing properties, primarily on a build-to-suit basis.
- retenanting and releasing space within our portfolio at higher rental rates and with minimal non-revenue enhancing tenant improvement costs.
- realizing contractual rental rate escalations, which are currently provided for in approximately 93% of our leases.
- implementing effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures.
- managing the level of debt on our balance sheet and our exposure to floating rate debt.

Internal Growth. We seek to achieve internal growth from several sources. For example, we seek to:

- include rental rate escalation provisions in our leases.
- improve investment returns through releasing of vacant space and replacement of existing tenants with new tenants at higher rental rates.
- achieve higher rental rates as existing leases expire.
- expand existing facilities that are fully leased and/or redevelop existing and/or newly acquired space to higher rent, generic laboratory space.
- implement effective cost control measures, including negotiating pass-through provisions in tenant leases for operating expenses and certain capital expenditures.

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

Acquisitions. We seek to identify and acquire high quality life science facilities in our target markets on a selective basis. Critical evaluation of prospective property acquisitions is an essential component of our acquisition strategy. When evaluating acquisition opportunities, we assess a full range of matters relating to the properties, including the:

- location of the property and our strategy in the relevant market.
- quality of existing and prospective tenants.
- condition and capacity of the building infrastructure.
- quality and generic characteristics of laboratory facilities.
- physical condition of the structure and common area improvements.
- opportunities available for leasing vacant space and for retenanting occupied space.
- opportunities to redevelop existing space into higher rent generic laboratory space.
- opportunities to expand the existing facility.

Redevelopment. We seek to enhance our growth by redeveloping existing office, warehouse or vacant space as generic laboratory space that can be leased at higher rates. As of December 31, 2002, we had 12 properties in our redevelopment program that contained a total of 890,000 square feet. Of this total, 429,000 square feet are under redevelopment and currently vacant, and the remaining 461,000 square feet are currently leased. We also have identified approximately 265,000 square feet of additional space in our existing portfolio for potential redevelopment opportunities.

Due to the fact that space undergoing redevelopment is vacant, our redevelopment program has the effect of currently reducing rental revenue and FFO. Despite our ongoing redevelopment activities, we have achieved consistent growth in FFO.

Development. Our development strategy is primarily to pursue selective build-to-suit projects where we expect to achieve investment returns that will equal or exceed our returns on acquisitions. We generally have undertaken build-to-suit projects only if our investment in infrastructure will be substantially made for generic, rather than tenant specific, improvements. On occasion, we also develop properties in certain life science markets before we have leases in place. Since our initial public offering, we have completed the development of ten properties containing approximately 643,000 rentable square feet of office and warehouse space.

Financing/Working Capital. We believe that cash provided by operations and our unsecured line of credit will be sufficient to fund our working capital requirements. We generally expect to finance future acquisitions and redevelopment and development projects through our unsecured line of credit and then to refinance some or all of that indebtedness periodically with additional equity or debt capital. We may also issue shares of our common stock, preferred stock or interests in our subsidiaries to fund future operations.

We seek to maintain a balance between the amounts of our fixed and variable debt with a view to moderating our exposure to interest rate risk. We also use financial instruments, such as interest rate swap agreements, to hedge our exposure to the variable interest rates associated with our unsecured line of credit. Interest rate swap agreements involve an exchange of fixed and floating interest payments without the exchange of the underlying principal or "notional amount." Interest received under our current interest rate swap agreements is based on the one-month LIBOR rate. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a complete discussion of our unsecured line of credit, interest rate swap agreements and other outstanding indebtedness.

Business Risks

We Are Largely Dependent on the Life Sciences Industry for Revenues from Lease Payments

In general, our strategy is to invest primarily in properties used by tenants in the life science industry. Our business could be adversely affected if the life science industry experiences an economic downturn. Because of our industry focus, events within the life science industry may have a more pronounced effect on our ability to make distributions to our stockholders than if we had diversified investments. Also, our properties may be better suited for a particular life science industry tenant and could require modification before we are able to release vacant space to another life science industry tenant. Generally, our properties also may not be suitable for lease to traditional office tenants without significant expenditures on renovations.

Our Tenants May Not Be Able to Pay Us if They Are Unsuccessful in Discovering, Developing, Making or Selling Their Products and Technologies

Our life science industry tenants are subject to a number of risks, including the following, any one or more of which may adversely affect their ability to make rental payments to us:

- Some of our tenants require significant funding to develop and commercialize their products and technologies, which funding must be obtained from private investors, the public market, companies in the life science industry or federal, state and local governments. Such funding may become unavailable or difficult to obtain, which in turn may adversely affect a tenant's ability to generate revenues or to pay us rent.
- Even with sufficient funding, some of our tenants may not be able to discover or identify potential drug targets in humans, or potential drugs for use in humans, or to create tools or technologies which are commercially useful in the discovery or identification of potential drug targets or drugs.
- Some of our tenants developing potential drugs may find that their drugs are not effective, or may even be harmful, when tested in humans.

- Some of our tenants may not be able to manufacture their drugs economically, even if such drugs are proven through human clinical trials to be safe and effective in humans.
- Drugs that are developed and manufactured by some of our tenants require regulatory approval prior to being made, marketed, sold and used. The regulatory approval process to manufacture and market drugs is costly, typically takes several years, requires the expenditure of substantial resources and is often unpredictable. A tenant may fail or experience significant delays in obtaining these approvals.
- Some of our tenants and their licensors require patent, copyright or trade secret protection to develop, make, market and sell their products and technologies. A tenant may be unable to commercialize its products or technologies if patents covering such products or technologies do not issue, or are successfully challenged, narrowed, invalidated or circumvented by third parties, or if a tenant fails to obtain licenses to the discoveries of third parties necessary to commercialize its products or technologies.
- A drug made by a tenant may not be well accepted by doctors and patients, or may be less effective or accepted than competitor's drugs, or may be subsequently recalled from the market, even if it is successfully developed, proven safe and effective in human clinical trials and manufactured and the requisite regulatory approvals are obtained.

We cannot assure you that our tenants will be able to develop, make, market or sell their products and technologies due to the risks inherent in the life science industry. Any tenant that is unable to avoid, or sufficiently mitigate, the risks described above, may have difficulty making rental payments to us.

We Could be Held Liable for Damages Resulting from Our Tenants' Use of Hazardous Materials

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

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

The Inability of Any Tenant to Pay Us Rent Could Adversely Affect Our Business

Our revenues are derived primarily from rental payments and reimbursement of operating expenses under our leases. If our tenants, especially significant tenants, failed to make rental payments under their leases, our financial condition, cash flow and our ability to make distributions to our stockholders could be adversely affected.

As of December 31, 2002, we had 200 leases with a total of 173 tenants. Of our 89 properties, 51 were occupied by a single tenant. Three of our tenants accounted for approximately 14.0% of our aggregate annualized base rent, or approximately 5.0%, 4.7% and 4.3%, respectively. "Annualized base rent" means the annualized fixed base rental amount in effect as of December 31, 2002, using rental revenue calculated on a straight-line basis in accordance with generally accepted accounting principles ("GAAP"). Annualized base rent does not include reimbursements for real estate taxes and insurance, common area and other operating expenses, substantially all of which are borne by the tenants in the case of triple net leases.

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

payments could adversely affect our cash flow and our ability to make distributions to our stockholders.

Our U.S. Government Tenants May Not Receive Annual Appropriations, Which Could Adversely Affect Their Ability to Pay Us

U.S. government tenants may be subject to annual appropriations. If one of our U.S. government tenants fails to receive its annual appropriation, it might not be able to make its lease payments to us. In addition, defaults under leases with federal government tenants are governed by federal statute and not by state eviction or rent deficiency laws. All of our leases with U.S. government tenants provide that the government tenant may terminate the lease under certain circumstances. As of December 31, 2002, leases with U.S. government tenants at our properties accounted for approximately 3.8% of our aggregate annualized base rent.

Loss of a Tenant Could Have a Negative Impact on Our Business

A tenant may not renew its lease upon the expiration of the initial term. In addition, we may not be able to locate a qualified replacement tenant upon expiration or termination of a lease. Consequently, we could lose the cash flow from the affected property, which could negatively impact our business. We may have to divert cash flow generated by other properties to meet our mortgage payments, if any, or to pay other expenses related to owning the affected property. As of December 31, 2002, leases at our properties representing approximately 11.6% and 9.4% of the total square footage of our properties were scheduled to expire in 2003 and 2004, respectively.

Poor Economic Conditions in Our Markets Could Adversely Affect Our Business

Our properties are located only in the following markets:

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

As a result of our geographic concentration, we depend upon the local economic conditions in these markets, including local real estate conditions. We are, therefore, subject to increased exposure (positive or negative) to economic and other competitive factors specific to markets in confined geographic areas. Our operations may also be affected if too many competing properties are built in any of these markets. An economic downturn in any of these markets could adversely affect our operations and our ability to make distributions to stockholders. We cannot assure you that these markets will continue to grow or will remain favorable to the life science industry.

We May Have Difficulty Managing Our Growth

We expect to continue to grow by acquiring, redeveloping and selectively developing additional properties. To manage our growth effectively, we must successfully integrate new properties into our existing operations. We may not succeed with the integration. In addition, we may not effectively manage new properties, and new properties may not perform as expected. Our business could be adversely affected if we are unsuccessful in managing our growth.

Our Debt Service Obligations May Have Adverse Consequences on Our Business Operations

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

- our cash flow from operations may be not be sufficient to meet required payments of principal and interest.
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms,

- to make payments on our debt.
- we may default on our debt obligations, and the lenders or mortgagees may foreclose on our properties that secure those loans.
- a foreclosure on one of our properties could create taxable income without any accompanying cash proceeds to pay the tax.
- we may default under a mortgage loan, causing us to automatically default on another loan that has cross default provisions.
- we may not be able to refinance or extend our existing debt.
- the terms of any refinancing or extension may not be as favorable as the terms of our existing debt.

As of December 31, 2002, we had outstanding mortgage indebtedness of approximately \$276.9 million, secured by 32 properties, and outstanding debt under our unsecured line of credit of approximately \$338.0 million.

Our Line of Credit Restricts Our Ability to Engage in Some Business Activities

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

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

These restrictions could cause us to default on our line of credit or negatively affect our operations and our ability to make distributions to our stockholders.

We May Not Be Able to Obtain Additional Capital to Further Our Business Objectives

Our ability to acquire or develop properties depends upon our ability to obtain capital. Periodically, the real estate industry experiences reduced supplies of favorably priced public equity or debt capital, which decreases the level of new investment activity by publicly traded real estate companies. A prolonged period in which we cannot effectively access public equity or debt markets may result in heavier reliance on alternative financing sources to undertake new investments. An inability to obtain equity or debt capital on acceptable terms could delay or prevent us from acquiring, structuring and completing desirable investments, which would adversely affect our business. Also, the issuance of additional shares of capital stock or interests in subsidiaries to fund future operations could dilute the ownership of then existing stockholders.

If Interest Rates Rise, Our Debt Service Costs Will Increase

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

We May Not Be Able to Acquire Properties or Operate Them Successfully

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

The acquisition, ownership and operation of real estate is subject to many risks that may adversely affect our business and our ability to make payments to stockholders, including the risks that:

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

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

We May Not Be Able to Complete Redevelopment and Development Projects Effectively

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

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

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

If Our Revenues Are Less Than Our Expenses, We May Have to Borrow Additional Funds and We May Not Make Distributions to Our Stockholders

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

- national and local economic conditions.
- competition from other life science facilities.
- changes in the life science industry.
- real estate conditions in our target markets.
- our ability to collect rent payments.
- availability of financing.
- changes in interest rate levels.
- vacancies at our properties and our ability to release space.
- changes in tax or other regulatory laws.
- costs of compliance with government regulation.
- lack of liquidity of real estate investments.
- increased operating costs.

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

Improvements to Life Science Facilities Are More Costly Than Traditional Office Space

Our properties contain generic infrastructure improvements that are more costly than other property types. Although we have historically been able to recover the additional investment in generic infrastructure improvements through higher rental rates, there is the risk that we will not be able to continue to do so in the future. Typical improvements include:

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

We May Not Be Able to Sell Our Properties Quickly to Raise Money

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

We Face Substantial Competition in Our Target Markets

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

- insurance companies.
- pension and investment funds.
- partnerships.
- developers.
- investment companies.
- other REITs.
- owner/occupants.

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

Our Properties May Have Defects That Are Unknown to Us

Although we review the physical condition of our properties before they are acquired, and on a periodic basis after acquisition, any of our properties may have characteristics or deficiencies unknown to us that could adversely affect the property's valuation or revenue potential.

If We Fail to Qualify as a REIT, We Would Be Taxed at Corporate Rates and Would Not Be Able to Take Certain Deductions When Computing Our Taxable Income

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

- we would be subject to federal income tax on our taxable income at regular corporate rates.
- we would not be allowed a deduction for distributions to stockholders in computing taxable income.

- unless we were entitled to relief under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification.
- we would no longer be required by the Internal Revenue Code to make any distributions to our stockholders.

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

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code to our operations and the determination of various factual matters and circumstances not entirely within our control. There are only limited judicial or administrative interpretations of these provisions. Although we believe that we have operated, commencing with our taxable year ended December 31, 1996, in a manner so as to qualify as a REIT, we cannot assure you that we are or will remain so qualified.

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

There Are Limits on the Ownership of Our Capital Stock Under Which A Stockholder May Lose Beneficial Ownership of Its Shares

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

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

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

In Addition to the Ownership Limit, Certain Other Provisions of Our Charter and Bylaws, and Our Stockholder Rights Plan May Delay or Prevent Transactions That May Be Deemed to Be Desirable

As authorized by Maryland law, our charter allows our Board of Directors to cause us to issue additional authorized but unissued shares of our common stock or preferred stock and to classify or reclassify unissued shares of common or preferred stock without any stockholder approval. Our Board of Directors could establish a series of preferred stock that could delay, defer or prevent a transaction that might involve a premium price for our common stock or for other reasons be desired by our common stockholders or that have a dividend preference which may adversely affect our ability to pay dividends on our common stock.

Our charter permits the removal of a director only upon a two-thirds vote of the votes entitled to be cast generally in the election of directors and our bylaws require advance notice of a stockholder's intention to nominate directors or to present business for consideration by stockholders at an annual meeting of our stockholders. Our charter and bylaws also contain other provisions that may delay, defer or prevent a transaction or change in control that involves a premium price for our common stock or that for other reasons may be desired by our stockholders.

Under our Stockholder Rights Plan, if a stockholder acquires beneficial ownership of 15% or more of our

common stock, other stockholders would become entitled to purchase our common stock at half the market price, which would likely result in substantial dilution to the 15% or greater stockholder. This may also have the effect of delaying or preventing a change in control or other transaction that might involve a premium price for our common stock or for other reasons desired by our common stockholders.

Our Insurance May Not Adequately Cover All Potential Losses

If we experience a loss at any of our properties that is not covered by insurance or that exceeds our insurance policy limits, we could lose the capital invested in the affected property and, possibly, future revenues from that property. In addition, we would continue to be obligated on any mortgage indebtedness or other obligations related to the affected properties. We carry comprehensive liability, fire, extended coverage and rental loss insurance with respect to our properties. We have obtained earthquake insurance for all of our properties because many of them are located in the vicinity of active earthquake faults. We also carry environmental remediation insurance and have title insurance policies on all of our properties. We obtain our title insurance policies when we acquire the property, with each policy covering an amount equal to the initial purchase price of each property. Accordingly, any of our title insurance policies may be in an amount less than the current value of the related property.

We believe that our insurance policy specifications, insured limits and deductibles are consistent with or superior to those customarily carried for similar properties. Our tenants are also required to maintain comprehensive insurance, including liability and casualty insurance, that is customarily obtained for similar properties. There are, however, certain types of losses that we and our tenants do not generally insure against because they are uninsurable or because it is not economical to insure against them. In the current market, there have recently been substantial increases in the premium cost of property and liability insurance. The availability of coverage against certain types of losses, such as from terrorism or toxic mold, has become more limited and, when available, is at a significantly higher premium cost. We cannot predict whether insurance coverage against terrorism or toxic mold will remain available for our properties because insurance companies may no longer offer coverage against such losses or, if offered, such coverage may become prohibitively expensive. Most, but not all, of our properties are low-rise buildings in suburban areas. Toxic mold has not presented any material problems at any of our properties.

We Could Incur Significant Costs Complying With Environmental Laws

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

Under environmental laws and regulations, we may have to pay governmental entities or third parties for property damage and for investigation and clean-up costs incurred by those parties relating to contaminated properties regardless of whether we knew of or caused the contamination. Even if more than one party may have been responsible for the contamination, we may be held responsible for all of the clean-up costs. In addition, third parties may sue us for damages and costs resulting from environmental contamination or jointly responsible parties may contest their responsibility or be financially unable to pay their share of such costs.

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

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

- the discharge of storm water, wastewater and any water pollutants.

- the emission of air pollutants.
- the generation, management and disposal of hazardous or toxic chemicals, substances or wastes.
- workplace health and safety.

Some of our tenants routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our tenants, and potentially us, to liability resulting from these activities. Environmental liabilities could also affect a tenant's ability to make rental payments to us. We require our tenants to comply with these environmental laws and regulations and to indemnify us for any related liabilities.

Independent environmental consultants have conducted Phase I or similar environmental assessments at all of our properties. We intend to use consultants to conduct similar environmental assessments on our future acquisitions. This type of assessment generally includes a site inspection, interviews and a public records review, but no subsurface sampling. These assessments and certain additional investigations of our properties have not to date revealed any environmental liability that we believe would have a material adverse effect on our business or results of operations.

The additional investigations included, as appropriate:

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

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

We May Incur Significant Costs Complying With the Americans With Disabilities Act and Similar Laws

Under the Americans with Disabilities Act, places of public accommodation and/or commercial facilities are required to meet federal requirements related to access and use by disabled persons. We may be required to make substantial capital expenditures at our properties to comply with this law. In addition, our noncompliance could result in the imposition of fines or an award of damages to private litigants.

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

We believe that our properties are substantially in compliance with the present requirements of the Americans with Disabilities Act and similar laws.

We May Incur Significant Costs If We Fail to Comply With Laws or If Laws Change

Our properties are subject to many federal, state and local regulatory requirements and to state and local fire and life-safety requirements. If we do not comply with all of these requirements, we may have to pay fines to governmental authorities or damage awards to private litigants. We believe that our properties are currently in compliance with all of these regulatory requirements. We do not know whether these requirements will change or whether new requirements will be imposed. Changes in these regulatory requirements could require us to make significant unanticipated expenditures. These expenditures could have an adverse effect on us and our ability to make distributions to stockholders.

The Loss of Services of Any of Our Executive Officers Could Adversely Affect Us

We depend upon the services of relatively few executive officers. The loss of services of any one of them may adversely affect our business, financial condition and prospects. We use the extensive personal and business relationships that members of our management have developed over time with owners of life science facilities and with major life science industry tenants. We have employment agreements with all of our executive officers, but cannot assure you that they will remain employed with us.

We May Change Our Business Policies Without Stockholder Approval

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

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

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

We Could Become Highly Leveraged and Our Debt Service Obligations Could Increase

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

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

Our Distributions to Stockholders May Decline at Any Time

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

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

Possible Future Sales of Shares of Our Common Stock Could Adversely Affect Its Market Price

We cannot predict the effect, if any, of future sales of shares of our common stock on the market price of our common stock from time to time. Sales of substantial amounts of capital stock (including common stock issued upon the exercise of stock options), or the perception that such sales may occur, could adversely affect prevailing market prices for our common stock.

We have reserved for issuance to our officers, directors and employees pursuant to our Amended and

Restated 1997 Stock Award and Incentive Plan that number of shares of our common stock that equals 12% of the total number of shares outstanding at any time, provided that in no event may the number of shares of our common stock available for issuance under the plan exceed 3,000,000 shares at any time.

As of December 31, 2002, options to purchase 1,011,166 shares of our common stock were outstanding, of which options to purchase 514,169 shares of our common stock were exercisable. We have filed a registration statement with respect to the issuance of shares of our common stock pursuant to grants under the stock option plan. In addition, any shares issued under our stock option plan will be available for sale in the public market from time to time without restriction by persons who are not our Affiliates (as defined in Rule 144 adopted under the Securities Act of 1933). Affiliates will be able to sell shares of our common stock pursuant to exemptions from the registration requirements or upon registration.

External Factors May Adversely Impact the Valuation of Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. The valuation of these investments is affected by many external factors beyond our control, include, but are not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements. Unfavorable developments with respect to any of these factors may have an adverse impact on the valuation of our investments.

Available Information

We will, upon request, provide free paper copies of our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, including any amendments to the foregoing reports, as soon as is reasonably practicable after such material is electronically filed with or furnished to the Securities Exchange Commission. These materials are also available at no cost at the Securities Exchange Commission's website at www.sec.gov. These materials are not available from us over the Internet because we do not have a corporate website.

Employees

As of December 31, 2002, we had 61 full-time employees. We believe that we have good relations with our employees.

Item 2. Properties

General.

Our properties range in size from approximately 15,000 to 248,000 square feet, are built to accommodate single or multiple tenants and are generally one or two story concrete tilt-up, block and/or steel frame structures. The exteriors typically resemble traditional suburban office properties, but interior infrastructures are designed to accommodate the needs of life science industry tenants. These improvements typically are generic to life science industry tenants rather than being specific to a particular tenant. As a result, we believe that the improvements have long-term value and utility and are usable by a wide range of life science industry tenants. Generic infrastructure improvements include:

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

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

- 1311, 1401 and 1431 Harbor Bay Parkway, in which we own a commercial condominium interest, together with an undivided interest in the common areas of the project of which the property is a part; and
- 2425 Garcia Avenue, 2400/2450 Bayshore Parkway, 2625/2627/2631 Hanover Street, 108 Alexander Road, Buildings 79 & 96, Charlestown Navy Yard, and 8000/9000/10000 Virginia Manor Road, in which we own ground leasehold interests.

As of December 31, 2002, we had 200 leases with a total of 173 tenants, and 51 of our properties were single-tenant properties. Leases in our multi-tenant buildings typically have terms of three to seven years, while the single-tenant building leases typically have initial terms of 10 to 20 years. As of December 31, 2002:

- approximately 86% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses (including increases thereto) in addition to base rent, and, in addition to our triple net leases, approximately 9% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses;
- approximately 93% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed (generally ranging from 3% to 4%) or indexed based on a consumer price index or other index; and
- approximately 88% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing), which we believe would typically be borne by the landlord in traditional office leases.

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

As of December 31, 2002, we managed all of our properties.

The following table sets forth information with respect to our properties as of December 31, 2002:

Properties	Year Built/ Renovated (1)	Rentable Square Feet	Percentage Leased (2)	Annualized Base Rent (2) (3)	Percentage of Aggregate Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot (3)	Annualized Net Effective Rent Per Leased Square Foot (4)	Major Tenants
<u>San Diego</u>								
North Torrey Pines Road #1 (6) San Diego, CA	1971/1994	107,710	78%	\$ 2,056,102	1.6%	\$24.33	\$23.92	Smith & Nephew, Inc.
Science Park Road San Diego, CA	2000	74,557	100%	2,309,771	1.8%	30.98	20.95	IDEC Pharmaceuticals Corporation
North Torrey Pines Road #2 San Diego, CA	1986/1996	86,962	100%	3,126,705	2.4%	35.95	35.77	Senomyx, Inc.
General Atomics Court #1 San Diego, CA	1986/1991	76,084	100%	2,683,633	2.0%	35.27	34.28	Merck & Co., Inc.
General Atomics Court #2 San Diego, CA	1991	43,600	100%	1,758,141	1.3%	40.32	40.30	Pfizer Inc.
Roselle Street #1 San Diego, CA	1983/1998	18,173	100%	454,499	0.3%	25.01	19.66	Schering AG
Nexus Centre Drive San Diego, CA	1989	67,050	100%	2,160,095	1.6%	32.22	32.16	Cardinal Health, Inc.
Nancy Ridge Drive #1 San Diego, CA	1997	29,333	100%	638,606	0.5%	21.77	15.44	Arena Pharmaceuticals, Inc.
Roselle Street #2 San Diego, CA	late 1970's/1999	17,603	100%	476,944	0.4%	27.09	21.83	Structural GenomiX, Inc.
Tansy Street San Diego, CA	1978/1999	15,410	100%	409,171	0.3%	26.55	20.80	Structural GenomiX, Inc.
John Hopkins Court #1 San Diego, CA	2000	34,723	100%	671,101	0.5%	19.33	16.81	Merck & Co., Inc.
John Hopkins Court #2 San Diego, CA	1999	55,200	100%	1,096,769	0.8%	19.87	18.33	Merck & Co., Inc.
Towne Centre Drive #1 (6) San Diego, CA	1987	45,030	63%	745,305	0.6%	26.18	24.38	Amylin Pharmaceuticals, Inc.
Towne Centre Drive #2 San Diego, CA	1987/2000	52,228	100%	1,374,714	1.0%	26.32	25.56	Amylin Pharmaceuticals, Inc. Vical Incorporated
Towne Centre Drive #3 San Diego, CA	1987/2000	41,780	75%	891,089	0.7%	28.46	23.33	Conforma Therapeutics, Inc. TargeGen, Inc.
Roselle Street #3 San Diego, CA	1981	18,193	100%	481,114	0.4%	26.44	25.60	Selective Genetics, Inc.
Roselle Street #4 San Diego, CA	1981/1998	30,147	100%	741,901	0.6%	24.61	24.53	Integra Life Science Holdings Corporation
Roselle Street #5 San Diego, CA	1981/1995	22,577	100%	639,241	0.5%	28.31	27.62	Cell Genesys, Inc.
Roselle Street #6 San Diego, CA	1981/1999	17,433	100%	234,822	0.2%	13.47	13.47	Biosite Incorporated
Roselle Street #7 San Diego, CA	1981/1995	24,208	100%	685,421	0.5%	28.31	27.63	Cell Genesys, Inc.
Nancy Ridge Drive #2 San Diego, CA	early 1980's	21,940	52%	330,177	0.3%	29.20	21.32	GeneOhm Sciences, Inc.

Properties	Year Built/ Renovated (1)	Rentable Square Feet	Percentage Leased (2)	Annualized Base Rent (2) (3)	Percentage of Aggregate Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot (3)	Annualized Net Effective Rent Per Leased Square Foot (4)	Major Tenants
Campus Point Drive San Diego, CA	1986/1998	71,510	100%	2,390,948	1.8%	33.44	33.44	LION Bioscience, Inc.
<u>Pasadena</u>								
North Hill Avenue Pasadena, CA	1940's/2001	31,343	96%	602,113	0.5%	20.07	12.57	Biocatalytics, Inc. Farmal, L.L.C.
<u>San Francisco Bay Area</u>								
Harbor Bay Parkway #1 Alameda, CA	1983/1999	61,015	100%	1,062,410	0.8%	17.41	14.11	Avigen, Inc. Hitachi Software
Harbor Bay Parkway #2 Alameda, CA	1984/2000	27,745	100%	654,910	0.5%	23.60	18.15	Berkeley HeartLab, Inc. Aplera Corporation
Harbor Bay Parkway #3 Alameda, CA	1986/1994	47,777	100%	1,021,091	0.8%	21.37	21.12	Aplera Corporation
Harbor Bay Parkway #4 Alameda, CA	1985/1994	68,711	100%	1,415,246	1.1%	20.60	19.67	U.S. Food & Drug Administration
Mitten Road & Malcolm Road (5)(6) Burlingame, CA	1962/2002	153,837	68%	2,732,353	2.1%	26.17	19.63	Valentis, Inc. Berkeley HeartLab, Inc. U.S. Federal Aviation Administration
Hanover Street Palo Alto, CA	1968/1985/ 2000	32,074	100%	1,267,173	1.0%	39.51	37.07	Nanosys, Inc. ChemoCentryx, Inc.
Garcia Avenue & Bayshore Parkway Mountain View, CA	1980/2000	98,964	100%	3,613,066	2.8%	36.51	32.10	Equinix, Inc. Google Inc.
Oyster Point Boulevard #1 S. San Francisco, CA	2001	53,980	100%	2,812,914	2.1%	52.11	41.33	Sunesis Pharmaceuticals, Inc.
Oyster Point Boulevard #2 S. San Francisco, CA	2001	53,980	100%	1,650,085	1.3%	30.57	27.44	diaDexus, Inc.
Durant Avenue (7) Berkeley, CA	1930	21,481	0%	-	0.0%	-	-	Vacant
Gateway Boulevard #1 San Francisco, CA	2000	110,428	100%	3,765,339	2.9%	34.10	34.10	Theravance, Inc.
Gateway Boulevard #2 San Francisco, CA	2002	59,816	100%	2,371,062	1.8%	39.64	35.46	Theravance, Inc.
<u>Seattle</u>								
Columbia Street #2 (6) Seattle, WA	1975/1997	46,303	52%	278,964	0.2%	11.62	11.17	Swedish Health Services Corixa Corporation
Columbia Street #1 Seattle, WA	1975/1997	163,555	100%	5,411,382	4.1%	33.09	29.25	Corixa Corporation Primal, Inc.
Western Avenue Seattle, Washington	1929/2000	47,746	100%	1,576,856	1.2%	33.03	28.41	University of Washington
First Avenue Seattle, Washington	1980/2000	70,647	100%	2,532,667	1.9%	35.85	31.57	Dendreon Corporation
Eastlake Avenue #1 Seattle, Washington	1997	106,003	100%	4,387,383	3.3%	41.39	41.35	ZymoGenetics, Inc.

Properties	Year Built/ Renovated (1)	Rentable Square Feet	Percentage Leased (2)	Annualized Base Rent (2) (3)	Percentage of Aggregate Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot (3)	Annualized Net Effective Rent Per Leased Square Foot (4)	Major Tenants
Eastlake Avenue #2 Seattle, Washington	1997	52,333	100%	2,166,023	1.6%	41.39	41.39	ZymoGenetics, Inc.
<u>Suburban Washington, D.C.</u>								
Professional Drive #1 Gaithersburg, MD	1989/1999	47,558	74%	877,101	0.7%	24.84	17.74	Antex Biologics Inc. Wisor Telecom, Inc.
Professional Drive #2 Gaithersburg, MD	1987	62,739	100%	1,109,289	0.8%	17.68	17.66	The Gillette Company
West Watkins Mill Road #1 Gaithersburg, MD	1989/1997	138,938	100%	1,984,161	1.5%	14.28	12.88	MedImmune, Inc. Genetic Therapy, Inc. (8)
Quince Orchard Road #1 Gaithersburg, MD	1982/1997	49,225	100%	1,461,699	1.1%	29.69	18.32	Gene Logic Inc.
Clopper Road #1 Gaithersburg, MD	1989	44,464	100%	699,057	0.5%	15.72	12.19	Immunomatrix, Inc. Fiserv
Research Boulevard #1 Rockville, MD	1966	48,800	100%	837,340	0.6%	17.16	16.39	U.S. Bureau of Alcohol Tobacco and Firearms
East Gude Drive #1 Rockville, MD	1981/1986	45,989	100%	770,402	0.6%	16.75	15.08	bioMerieux SA MarcoGenics, Inc.
Research Boulevard #2 Rockville, MD	1967/2000	105,000	100%	2,175,071	1.7%	20.71	18.37	U.S. Army Corps of Engineers
East Gude Drive #2 Rockville, MD	1981/1995	44,500	100%	775,000	0.6%	17.42	16.94	Shire Pharmaceuticals Group plc
Piccard Drive (6) Rockville, MD	1978/1994	131,415	48%	1,909,477	1.5%	30.55	29.31	Biosciences Laboratories, Inc. (bioMerieux SA) Midwest Research Institute, Inc.
Newbrook Drive Chantilly, VA	1992	248,186	100%	4,341,125	3.3%	17.49	17.49	Quest Diagnostics, Inc.
Virginia Manor Road Beltsville, MD	1990	191,884	100%	2,419,179	1.8%	12.61	12.10	Baxter International Inc. Bank of America
Old Columbia Road Columbia, MD	1983/1997	75,500	100%	1,002,941	0.8%	13.28	10.24	Baxter International Inc.
Firstfield Road #1 Gaithersburg, MD	1974/2000	25,175	100%	655,906	0.5%	26.05	25.56	Psychiatric Genomics, Inc. Avalon Pharmaceuticals, Inc.
Shady Grove Road Rockville, MD	1987	41,062	100%	773,683	0.6%	18.84	10.75	Human Genome Sciences, Inc.
Aliceanna Street Baltimore, MD	early 1950's/1995	179,397	91%	918,192	0.7%	5.63	5.56	Maryland Economic Development Corporation The National Aquarium of Baltimore, Inc.
West Watkins Mill Road #2 Gaithersburg, MD	1988/2000	57,410	100%	875,452	0.7%	15.25	12.79	Gene Logic Inc.
Clopper Road #2 Gaithersburg, MD	2000	92,990	100%	2,634,285	2.0%	28.33	17.19	Digene Corporation
Firstfield Road #2 Gaithersburg, MD	1980/2001	53,464	89%	1,307,409	1.0%	27.47	22.77	IOMAI Corporation Artesian Therapeutics, Inc.
Firstfield Road #3 (6) Gaithersburg, MD	1980/2002	53,595	61%	716,920	0.5%	22.05	18.15	Provident Bank of Maryland SAIC - Frederick, Inc.

Properties	Year Built/ Renovated (1)	Rentable Square Feet	Percentage Leased (2)	Annualized Base Rent (2) (3)	Percentage of Aggregate Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot (3)	Annualized Net Effective Rent Per Leased Square Foot (4)	Major Tenants
Quince Orchard Road #2 Gaithersburg, MD	1981	54,874	100%	812,584	0.6%	14.81	14.41	Montgomery County, Maryland
Clopper Road #3 Gaithersburg, MD	1989/1992	59,838	100%	813,334	0.6%	13.59	10.97	Wellstat Biologics, Inc.
Research Place (6) Rockville, MD	1972	58,632	72%	786,447	0.6%	18.72	18.72	The Institute for Genomic Research
<u>Eastern Massachusetts</u>								
Charlestown Navy Yard Boston, MA	1880/1991	24,940	100%	907,816	0.7%	36.40	36.22	Diacrin, Inc.
Pond Street Randolph, MA	1965/1990	24,867	0%	-	0.0%	-	-	Vacant
Westview Street (6) Lexington, MA	1975	40,000	0%	-	0.0%	-	-	Vacant
Plantation Street #1 Worcester, MA	1993	92,711	72%	1,656,185	1.3%	24.66	24.60	University of Massachusetts Athena Diagnostics, Inc.
Memorial Drive #1 (7) Cambridge, MA	1920's/1997/1999	96,500	66%	3,950,048	3.0%	40.93	40.93	Pfizer Inc.
Innovation Drive Worcester, MA	1991	113,956	87%	2,413,440	1.8%	24.26	22.73	AstraZeneca plc ViaCell, Inc.
Plantation Street #2 Worcester, MA	2000	92,423	87%	2,028,757	1.5%	25.23	18.48	Abbott Laboratories Hypnion, Inc.
Arsenal Street #1 Watertown, MA	1978/1984	92,500	100%	4,346,481	3.3%	46.99	36.35	Enanta Pharmaceuticals, Inc. Acusphere, Inc.
Hartwell Avenue Lexington, MA	1972/2002	59,000	100%	2,637,927	2.0%	44.71	35.47	TransForm Pharmaceuticals, Inc.
Arsenal Street #2 (6) Watertown, MA	1980	96,150	0%	-	0.0%	-	-	Vacant
Memorial Drive #2 Cambridge, MA	2002	51,000	100%	3,330,755	2.5%	65.31	65.31	Infinity Pharmaceuticals, Inc.
Memorial Drive #3 Cambridge, MA	2002	47,497	72%	1,949,978	1.5%	56.77	50.06	Infinity Pharmaceuticals, Inc. Descartes Therapeutics, Inc.
<u>New Jersey/Suburban Philadelphia</u>								
College Road Paramus, NJ	1968/1984	106,036	100%	1,753,500	1.3%	16.54	15.06	Synaptic Pharmaceutical Corporation (9) Gryphon Development Corporation
Williams Drive Ramsey, NJ	1982/1994	37,000	100%	536,500	0.4%	14.50	14.34	Alteon Inc.
Phillips Parkway Montvale, NJ	late 1960's/ 1999	78,501	100%	1,756,129	1.3%	22.37	14.41	Memory Pharmaceuticals Corp. Ferolie Corporation

Properties	Year Built/ Renovated (1)	Rentable Square Feet	Percentage Leased (2)	Annualized Base Rent (2) (3)	Percentage of Aggregate Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot (3)	Net Effective Rent Per Leased Square Foot (4)	Major Tenants
Campus Drive Plymouth Meeting, PA	1989	42,782	100%	646,653	0.5%	15.12	14.16	Genaera Corporation PharMerica, Inc. (10)
Electronic Drive Horsham, PA	1983/1998	40,000	100%	937,527	0.7%	23.44	15.86	Cell Pathways, Inc. (11)
Princeton Parkway Princeton, NJ	1984/1999	42,600	100%	580,320	0.4%	13.62	9.60	Lexicon Genetics, Inc.
<i>Southeast</i>								
Capitola Drive #1 Durham, NC	1986	65,114	88%	973,389	0.7%	17.18	12.78	American Social Health Association, Inc. Batelle Survey Research, Inc.
Capitola Drive #2 (6) Durham, NC	1985	119,916	46%	1,262,811	1.0%	22.81	19.12	RAO Enterprises (dba Integrated Laboratory Systems) Amphora Discovery Corporation
Technology Parkway Norcross, GA	1976/1993	37,080	60%	288,697	0.2%	12.96	11.59	CytRx Corporation Atherogenics, Inc.
Triangle Drive Research Triangle Park, NC	1981	32,120	75%	408,659	0.3%	16.86	16.55	Mantech Environmental Technology, Inc.
Alexander Road Research Triangle Park, NC	2000	86,239	100%	1,849,188	1.4%	21.44	20.01	Paradigm Genetics, Inc.
Kit Creek Road (6) Research Triangle Park, NC	1995	37,908	74%	728,734	0.6%	26.02	19.62	Norak Biosciences, Inc. A.M. Pappas & Associates, L.L.C.
Total/Weighted Average (12):		<u>5,746,664</u>	<u>89%</u>	<u>\$ 131,276,855</u>	<u>100.0%</u>	<u>\$25.65</u>	<u>\$22.81</u>	

- (1) Includes year in which construction was completed and, where applicable, year of most recent major renovation.
- (2) Based on all leases at the respective property in effect as of December 31, 2002.
- (3) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2002 (using rental revenue computed on a straight-line basis in accordance with GAAP), paid by tenants under the terms of their leases. This amount, divided by the rentable square feet leased at the property as of December 31, 2002, is the annualized base rent per leased square foot.
- (4) Annualized net effective rent is the annualized base rent in effect as of December 31, 2002 (using rental revenue computed on a straight-line basis in accordance with GAAP), less (for gross leases) real estate taxes and insurance, common area and other operating expenses and (for all leases) amortization of tenant improvements and leasing commissions. This amount, divided by the rentable square feet leased at the property as of December 31, 2002, is the annualized net effective rent per leased square foot.
- (5) Considered as two properties.
- (6) All or a portion of this property is currently under redevelopment.

- (7) As of December 31, 2002, these properties were designated as properties held for sale.
- (8) Genetic Therapy, Inc. is a wholly owned subsidiary of Novartis AG.
- (9) Synaptic Pharmaceutical Corporation is a wholly owned subsidiary of H. Lunbeck A/S as of March 6, 2003.
- (10) PharMerica, Inc. is a wholly owned subsidiary of AmerisourceBergen Corporation.
- (11) In February 2003, OSI Pharmaceuticals announced an agreement to acquire Cell Pathways, Inc. in a transaction expected to close in 2003.
- (12) Weighted average based on a percentage of aggregate leased square feet.

Location of Properties

The following table sets forth, as of December 31, 2002, the total rentable square footage and annualized base rent of our properties in each of our existing markets.

<u>Geographic Area</u>	<u>Total Rentable Square Footage</u>	<u>% of Total Rentable Square Footage</u>	<u>Annualized Base Rent (1)</u>	<u>% of Annualized Base Rent</u>
San Diego	971,451	16.9%	\$ 26,356,269	20.1%
Pasadena	31,343	0.5%	602,113	0.5%
San Francisco Bay Area	789,808	13.7%	22,365,648	17.0%
Seattle	486,587	8.5%	16,353,276	12.5%
Suburban Washington, D.C	1,910,635	33.2%	30,656,054	23.4%
Eastern Massachusetts	831,544	14.5%	23,221,387	17.7%
New Jersey/Suburban Philadelphia	346,919	6.0%	6,210,629	4.7%
Southeast	378,377	6.7%	5,511,479	4.1%
Total	<u>5,746,664</u>	<u>100.0%</u>	<u>\$ 131,276,855</u>	<u>100.0%</u>

-
- (1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2002 (using rental revenue computed on a straight-line basis in accordance with GAAP) paid by tenants under the terms of their leases.

Tenants

Our properties are leased principally to tenants in a broad spectrum of sectors within the life science industry. The

following table sets forth information regarding leases with our 20 largest tenants based upon annualized base rent as of December 31, 2002.

20 Largest Tenants

Tenant	Number of Leases	Remaining Initial Lease Years	Approximate Aggregate Rentable Square Feet	Percentage of Aggregate Leased Square Feet	Annualized Base Rent (in thousands) (1)	Percentage of Aggregate Portfolio	Annualized Net Effective Rent (in thousands) (2)	Percentage of Aggregate Portfolio Net Effective Rent
ZymoGenetics, Inc.	2	14.8	158,336	3.1%	\$6,553	5.0%	\$6,550	5.6%
Theravance, Inc.	2	9.3	170,244	3.3%	6,136	4.7%	5,886	5.0%
Pfizer Inc.	2	9.3	140,100	2.7%	5,708	4.3%	5,707	4.9%
		3.8						
Merck & Co., Inc.	3	7.8	166,007	3.2%	4,452	3.4%	4,204	3.6%
Quest Diagnostics, Inc.	1	14.0	248,186	4.8%	4,341	3.3%	4,340	3.7%
Infinity Pharmaceuticals, Inc.	2	9.6	67,167	1.3%	4,340	3.3%	4,335	3.7%
Corixa Corporation	3	2.0	91,594	1.8%	3,233	2.5%	2,942	2.5%
		0.1						
Senomyx, Inc.	1	4.0	86,962	1.7%	3,127	2.4%	3,110	2.7%
Sunesis Pharmaceuticals, Inc.	1	10.5	53,980	1.1%	2,813	2.1%	2,231	1.9%
TransForm Pharmaceuticals, Inc.	1	9.7	59,000	1.2%	2,638	2.0%	2,093	1.8%
Digene Corporation	1	7.0	92,990	1.8%	2,634	2.0%	1,598	1.4%
Dendreon Corporation	1	6.0	70,647	1.4%	2,533	1.9%	2,230	1.9%
Baxter International, Inc.	2	9.4	185,912	3.6%	2,520	1.9%	2,231	1.9%
		1.2						
Gene Logic, Inc.	3	8.0	112,271	2.2%	2,435	1.9%	1,724	1.5%
		4.9						
LION Bioscience, Inc.	1	5.3	71,510	1.4%	2,391	1.8%	2,391	2.0%
Acusphere, Inc.	1	9.0	47,500	0.9%	2,341	1.8%	1,835	1.6%
IDEC Pharmaceuticals, Inc.	1	7.5	74,557	1.5%	2,310	1.8%	1,562	1.3%
U.S. Army Corps of Engineers	1	4.4	105,000	2.1%	2,175	1.7%	1,929	1.7%
Cardinal Health, Inc.	1	9.9	67,050	1.3%	2,160	1.6%	2,156	1.8%
Smith & Nephew, Inc.	2	9.0	84,524	1.7%	2,056	1.6%	2,021	1.7%
Total/Weighted Average (3):	32	8.5	2,153,537	42.1%	\$66,896	51.0%	\$61,075	52.3%

(1) Annualized base rent means the annualized fixed base rental amount in effect as of December 31, 2002 (using rental revenue computed on a straight-line basis in accordance with GAAP) paid by tenants under the terms of their leases.

(2) Annualized net effective rent is the annualized base rent in effect as of December 31, 2002 (using rental revenue computed on a straight-line basis in accordance with GAAP), less (for gross leases) real estate taxes and insurance, common area and other operating expenses and (for all leases) amortization of tenant improvements and leasing commissions.

(3) Weighted average based on percentage of aggregate leased square feet.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of our security holders in the fourth quarter of the fiscal year ended December 31, 2002.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "ARE". On March 27, 2003, the last reported sales price per share of our common stock was \$42.01, and there were approximately 241 holders of record of our common stock (excluding beneficial owners whose shares are held in the name of CEDE & Co.). The following table sets forth the quarterly high and low sales prices per share of our common stock as reported on the NYSE and the distributions paid by us with respect to each such period.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Per Share Distribution</u>
<u>2001</u>			
First Quarter.....	\$37.43	\$34.19	\$0.46
Second Quarter.....	\$38.44	\$34.64	\$0.46
Third Quarter.....	\$41.00	\$36.16	\$0.46
Fourth Quarter.....	\$41.53	\$36.93	\$0.46
<u>2002</u>			
First Quarter.....	\$42.73	\$37.66	\$0.50
Second Quarter.....	\$47.85	\$42.10	\$0.50
Third Quarter.....	\$47.69	\$36.92	\$0.50
Fourth Quarter.....	\$42.79	\$37.56	\$0.50

Future distributions on our common stock will be determined by our Board of Directors and will be dependent upon a number of factors, including actual cash available for distribution, our financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as our Board of Directors deems relevant. To maintain our qualification as a REIT, we must make annual distributions to stockholders of at least 90% of our taxable income for the current taxable year, determined without regard to deductions for dividends paid and excluding any net capital gains. Under certain circumstances, we may be required to make distributions in excess of cash flow available for distributions to meet these distribution requirements. In such a case, we may borrow funds or may raise funds through the issuance of additional debt or equity capital. We cannot assure you that we will make any future distributions.

Item 6. Selected Financial Data

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

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

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	<i>(Dollars in thousands, except per share amounts)</i>				
Balance Sheet Data (at year end):					
Rental properties - net of accumulated depreciation.....	\$ 976,422	\$ 796,626	\$ 679,653	\$ 554,706	\$ 471,907
Total assets	\$ 1,159,243	\$ 962,146	\$ 780,984	\$ 643,118	\$ 530,296
Secured notes payable, unsecured line of credit and term loan	\$ 614,878	\$ 573,161	\$ 431,256	\$ 350,512	\$ 309,829
Total liabilities	\$ 673,390	\$ 629,508	\$ 461,832	\$ 380,535	\$ 330,527
Stockholders' equity	\$ 485,853	\$ 332,638	\$ 319,152	\$ 262,583	\$ 199,769
Other Data:					
Income before extraordinary item.....	\$ 41,034	\$ 30,277	\$ 26,009	\$ 22,053	\$ 19,403
Less:					
Dividends on preferred stock	(8,579)	(3,666)	(3,666)	(2,036)	-
Add:					
Depreciation and amortization (1).....	34,071	30,578	24,251	18,532	10,296
Non-cash impairment charges (2).....	3,695	-	-	-	-
Funds from operations (3)	<u>\$ 70,221</u>	<u>\$ 57,189</u>	<u>\$ 46,594</u>	<u>\$ 38,549</u>	<u>\$ 29,699</u>
Cash flows from operating activities	\$ 67,050	\$ 60,340	\$ 32,931	\$ 46,011	\$ 26,111
Cash flows from investing activities	\$ (227,840)	\$ (192,179)	\$ (132,480)	\$ (113,549)	\$ (246,753)
Cash flows from financing activities	\$ 162,204	\$ 131,439	\$ 98,879	\$ 69,430	\$ 220,136
Number of properties owned at year end	89	83	76	59	52
Rentable square feet of properties owned					
at year end	5,746,664	5,319,587	4,866,497	4,037,245	3,591,130
Occupancy of properties owned at year end	89%	89%	91%	92%	93%
Occupancy of properties owned at year end, excluding properties under redevelopment.....	96%	99%	98%	96%	96%

- (1) Includes depreciation and amortization on assets held for sale reflected as discontinued operations.
- (2) Non-cash impairment charges consist of a \$1,150,000 impairment charge related to an asset held for sale in the San Francisco Bay market which could not be redeveloped pursuant to its original strategic objectives and a \$2,545,000 impairment charge on investments.
- (3) We compute funds from operations ("FFO") in accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper ("White Paper"). The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from assets, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. For a more detailed discussion of FFO, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds from Operations."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The terms "we," "our," "ours" and "us" as used in this Form 10-K refer to Alexandria Real Estate Equities, Inc. and its subsidiaries. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

Overview

We are a publicly traded real estate operating company focused principally on the ownership, operation, management, acquisition, expansion and selective redevelopment and development of high quality, strategically located properties containing a combination of office and laboratory space leased principally to tenants in the life science industry. We refer to these properties as "life science facilities".

In 2002, we:

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

Our primary source of revenue is rental income and tenant recoveries from leases at the properties we own. Of the 89 properties we owned as of December 31, 2002, four were acquired in 1994, nine in 1996, ten in 1997, 29 in 1998, six in 1999, 12 in 2000, five in 2001 and four in 2002. In addition, we completed the development of one property in 1999, five properties in 2000 (together with the 12 properties acquired in 2000, the "2000 Properties"), two properties in 2001 (together with the five properties acquired in 2001, the "2001 Properties") and two properties in 2002 (together with the four properties acquired in 2002, the "2002 Properties"). As a result of these acquisition and development activities, there have been significant continuing increases in total revenues and expenses, including significant increases in total revenues and expenses for 2002 as compared to 2001, and for 2001 as compared to 2000.

Critical Accounting Policies

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

REIT Compliance

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

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

Rental Properties and Properties Under Development

Rental properties and properties under development are stated at cost. Write-downs to estimated fair value would be recognized when impairment indicators are present and a property's estimated undiscounted future cash flows, before interest charges, are less than its book value. In that situation, we would recognize an impairment loss to the extent the carrying amount exceeds the fair value of the property.

Capitalization of Costs

We capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and indirect project costs, including payroll and other costs directly associated with the acquisition, development or construction of a project. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Costs previously capitalized related to abandoned acquisition or development opportunities are written-off. Should development activity decrease, a portion of interest, property taxes, insurance and certain costs would no longer be eligible for capitalization, and would be expensed as incurred.

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

Valuation of Investments

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

Interest Rate Swap Agreements

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

The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

We reflect our interest rate swap agreements on the balance sheet at their estimated fair values. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value, and such value may never be realized.

All of our interest rate swap agreements meet the criteria to be deemed "effective" under Statement of Financial Accounting Standards No. 133 in reducing our exposure to variable interest rates. Accordingly, we have categorized these instruments as cash flow hedges. While we intend to continue to meet the conditions for hedge accounting, if hedges did not qualify as highly effective, the changes in the fair value of the derivatives used as hedges would be reflected in earnings.

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate swap agreements as our counterparties are established, well-capitalized financial institutions.

Revenue Recognition

Rental income from leases with scheduled rent increases, free rent and other rent adjustments are recognized on a straight-line basis over the respective lease terms. We maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and deferred rent.

Discontinued Operations

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

Results of Operations

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

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

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

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

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

The following is a comparison of property operating data for the 2002 Same Properties computed under generally accepted accounting principles ("GAAP Basis") and under generally accepted accounting principles, adjusted to exclude the effect of straight-line rent adjustments required by GAAP ("Cash Basis") (dollars in thousands):

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

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

markets where we have properties.

Interest expense decreased by \$2.7 million, or 10%, to \$25.0 million for 2002 compared to \$27.7 million for 2001. The decrease resulted primarily from a reduction in the floating interest rate on our unsecured line of credit. The weighted average interest rate on our borrowings (not including the effect of swap agreements) decreased from 3.92% as of December 31, 2001 to 3.07% as of December 31, 2002. We have entered into certain swap agreements to hedge our borrowings at variable interest rates (see "Liquidity and Capital Resources – Unsecured Line of Credit "). The decrease in interest expense caused by this factor was partially offset by an increase in indebtedness incurred to acquire the 2001 and 2002 Properties and indebtedness incurred to finance the development and redevelopment of properties.

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

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

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

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

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

Rental revenue increased by \$16.7 million, or 21%, to \$95.2 million for 2001 compared to \$78.6 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full year and the addition of the 2001 Properties. Rental revenue from properties operating for a full year during 2000 and 2001 (the "2001 Same Properties") increased by \$3.7 million, or 6.4%, due to increases in rental rates and offset by a slight decrease in occupancy. The occupancy level of the 2001 Same Properties was 96.8% as of December 31, 2001, compared to 97.7% as of December 31, 2000.

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

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

Rental operating expenses increased by \$4.2 million, or 20%, to \$25.4 million for 2001 compared to \$21.2 million for 2000. The increase resulted primarily from the 2000 Properties being owned for a full year and the addition of the 2001 Properties. Operating expenses for the 2001 Same Properties increased by \$983,000, or 5.9%, primarily due to an increase in utilities and tenant related expenses (substantially all of which are recoverable from our tenants through tenant recoveries).

The following is a comparison of property operating data computed on a GAAP Basis and on a Cash Basis for the 2001 Same Properties (dollars in thousands):

	Year Ended		Change
	December 31,		
	2001	2000	
GAAP Basis:			
Revenue	\$ 79,400	\$ 75,600	5.0%
Rental operating expenses	<u>17,693</u>	<u>16,710</u>	<u>5.9%</u>
Net operating income	<u>\$ 61,707</u>	<u>\$ 58,890</u>	<u>4.8%</u>
Cash Basis:			
Revenue	\$ 78,155	\$ 73,945	5.7%
Rental operating expenses	<u>17,693</u>	<u>16,710</u>	<u>5.9%</u>
Net operating income	<u>\$ 60,462</u>	<u>\$ 57,235</u>	<u>5.6%</u>

General and administrative expenses increased by \$2.7 million, or 30%, to \$11.7 million for 2001 compared to \$9.0 million for 2000 due to the continued increase in the scope of our operations. From January 1, 2000 to December 31, 2001, we expanded our scope of operations to include an additional 24 properties containing approximately 1.3 million rentable square feet for a total of 82 properties located in nine states with approximately 5.3 million rentable square feet. To assist in managing this increase in the size of the operating portfolio, we added personnel and offices in certain of the markets where we have properties.

Interest expense increased by \$3.4 million, or 14%, to \$27.7 million for 2001 compared to \$24.3 million for 2000. The increase resulted primarily from indebtedness we incurred to acquire the 2000 and 2001 Properties and indebtedness incurred to finance the development and redevelopment of properties which have been completed. The increase in interest expense caused by these factors was partially offset by a decrease in the floating interest rate on our unsecured line of credit. The weighted average effective interest rate on our borrowings (not including the effect of swap agreements) decreased from 8.32% as of December 31, 2000 to 3.92% as of December 31, 2001. We have entered into certain swap agreements to hedge our borrowings at variable interest rates (see "Liquidity and Capital Resources - Unsecured Line of Credit").

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

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

Liquidity and Capital Resources

Cash Flows

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

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

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

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

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

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

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

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

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

Tenant Security Deposits and Restricted Cash

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

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

Secured Debt

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

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

-
- (1) The balance shown includes an unamortized premium of \$374,000; the effective rate of the loan is 7.25%.
(2) The balance shown includes an unamortized premium of \$1,379,000; the effective rate of the loan is 7.25%.
(3) The loan may be extended, at our option, for an additional year.

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

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

Unsecured Line of Credit

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

Our line of credit contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio, and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. As of December 31, 2002, borrowings outstanding on the line of credit carried a weighted average interest rate of 3.07%.

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

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

The following table summarizes our interest rate swap agreements (dollars in thousands):

<u>Transaction Date</u>	<u>Effective Date</u>	<u>Notional Amount</u>	<u>Interest Pay Rate</u>	<u>Termination Date</u>	<u>Fair Value</u>
April 2000	May 20, 2000	\$ 50,000	7.00%	January 2, 2003	\$ (23)
January 2001	January 31, 2001	50,000	6.35%	December 31, 2002	-
July 2000	May 31, 2001	50,000	7.07%	May 31, 2003	(1,204)
March 2002	December 31, 2002	50,000	5.36%	December 31, 2004	(3,531)
July 2002	January 1, 2003	25,000	3.86%	June 30, 2005	(1,099)
July 2002	January 1, 2003	25,000	3.87%	June 30, 2005	(1,106)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
November 2002	June 1, 2003	25,000	3.12%	December 31, 2005	(392)
November 2002	June 1, 2003	25,000	3.16%	December 31, 2005	(417)
					<u>\$ (9,038)</u>

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. Specifically, SFAS 133 requires us to reflect our interest rate swap agreements on the balance sheet at their estimated fair values. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value, and such value may never be realized. As of January 1, 2001, the adoption of SFAS 133, as amended, resulted in qualifying interest rate swap agreements reported on the balance sheet as a liability of approximately \$3.5 million, with a corresponding reduction to accumulated other comprehensive income, a separate component of stockholders' equity.

All of our interest rate swap agreements meet the criteria to be deemed "effective" under SFAS 133 in reducing our exposure to variable interest rates. Accordingly, we have categorized these instruments as cash flow hedges. While we intend to continue to meet the conditions for hedge accounting, if hedges did not qualify as highly effective, the changes in the fair value of the derivatives used as hedges would be reflected in earnings.

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

On January 22, 2001, we terminated an interest rate swap agreement with a notional amount of \$50 million, an interest pay rate of 7.25% and a maturity of December 31, 2001. The terminated interest rate swap agreement was replaced with the 6.35% interest rate swap agreement as shown in the table above. The fair value of the terminated interest rate swap agreement at the date of termination (a liability of \$950,000) was transferred to the replacement 6.35% interest rate swap agreement. During 2001, approximately \$475,000 was reclassified from other comprehensive income to interest expense. Approximately \$475,000 was credited against interest expense during 2002. These adjustments resulted in an effective interest pay rate for the 6.35% interest rate swap agreement of 7.30% for 2001 and 5.40% for 2002.

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

Other Resources and Liquidity Requirements

In January 2002, we completed a public offering of 2,300,000 shares of our 9.10% Series B cumulative redeemable preferred stock. The shares were issued at a price of \$25.00 per share, resulting in aggregate proceeds of approximately \$55.1 million, net of offering costs. In February 2002, we sold 418,970 shares of our common stock. The shares were issued at a price of \$39.46 per share, resulting in aggregate proceeds of approximately \$16.1 million, net of offering costs. In July 2002, we sold 2,000,000 shares of our common stock. The shares were issued at a price of \$41.07 per share, resulting in aggregate proceeds of approximately \$81.4 million, net of offering costs.

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

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

Exposure to Environmental Liabilities

In connection with the acquisition of all of our properties, we have obtained Phase I environmental assessments to ascertain the existence of any environmental liabilities or other issues. The Phase I environmental assessments of our properties have not revealed any environmental liabilities that we believe would have a material adverse effect on our financial condition or results of operations taken as a whole, nor are we aware of any material environmental liabilities that have occurred since the Phase I environmental assessments were completed. In addition, we carry a policy of pollution legal liability insurance covering exposure to certain environmental losses at all of our properties.

Capital Expenditures, Tenant Improvements and Leasing Costs

The following table shows total and weighted average per square foot property related capital expenditures, tenant improvements and leasing costs (all of which are added to the basis of the properties) related to our life science facilities (excluding capital expenditures and tenant improvements that are recoverable from tenants, revenue-enhancing or related to properties that have undergone redevelopment) for the years ended December 31, 2002, 2001, 2000, 1999 and 1998, attributable to leases that commenced at our properties after our acquisition.

	<u>Total/ Weighted Average</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Capital expenditures:						
Major capital expenditures (1)	\$ 1,584,000	\$ 921,000	\$ 524,000	\$ 139,000	\$ -	\$ -
Recurring capital expenditures	3,674,000	1,510,000 (2)	706,000	639,000	478,000	341,000
Weighted average square feet in portfolio	21,794,905	5,499,660	5,131,176	4,448,916	3,823,290	2,891,863
Per weighted average square foot in portfolio						
Major capital expenditures (1)	\$ 0.07	\$ 0.17	\$ 0.10	\$ 0.03	\$ -	\$ -
Recurring capital expenditures	\$ 0.17	\$ 0.27 (2)	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.12
Tenant improvements and leasing costs:						
<i>Retenanted space (3)</i>						
Tenant improvements and leasing costs	\$ 3,692,000	\$ 498,000	\$ 466,000	\$ 796,000	\$ 1,454,000	\$ 478,000
Retenanted square feet	890,667	318,642	151,161 (3)	112,286 (3)	220,397	88,181
Per square foot leased of retenanted space	\$ 4.15	\$ 1.56	\$ 3.08	\$ 7.09	\$ 6.60	\$ 5.42
<i>Renewal space</i>						
Tenant improvements and leasing costs	\$ 1,319,000	\$ 526,000	\$ 451,000	\$ 124,000	\$ 149,000	\$ 69,000
Renewal square feet	1,092,417	255,978	432,717	233,017	93,667	77,038
Per square foot leased of renewal space	\$ 1.21	\$ 2.05	\$ 1.04	\$ 0.53	\$ 1.59	\$ 0.90

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

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

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

Capital expenditures fluctuate in any given period due to the nature, extent and timing of improvements required and the extent to which they are recoverable from our tenants. Approximately 88% of our leases provide for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing). In addition, we maintain an active preventative maintenance program at each of our properties to minimize capital expenditures required.

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

Inflation

As of December 31, 2002, approximately 86% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses (including increases thereto). In addition, approximately 9% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 93% of our leases (on a square footage basis) contain effective annual rent escalations that are either fixed (generally ranging from 3% to 4%) or indexed based on the consumer price index or another index. Accordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk of inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including our unsecured line of credit.

Funds from Operations

We believe that funds from operations ("FFO") is helpful to investors as an additional measure of the performance of an equity REIT. We compute FFO in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") in its April 2002 White Paper (the "White Paper"), which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from assets, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. While FFO is a relevant and widely used measure of operating performance of REITs, it should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. (See "Cash Flows" for information regarding these measures of cash flow.)

The following table presents our FFO for the years ended December 31, 2002, 2001 and 2000 (in thousands):

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

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

Property and Lease Information

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

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

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

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

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

<u>Year of Lease Expiration</u>	<u>Number of Expiring Leases</u>	<u>Square Footage of Expiring Leases</u>	<u>Square Footage as a Percentage of Leased Portfolio</u>	<u>Annualized Base Rent of Expiring Leases (Per Square Foot)</u>
2003	55	591,523	11.6%	\$23.30
2004	32	480,440	9.4%	\$20.42
2005	17	270,716	5.3%	\$27.66
2006	31	765,627	15.0%	\$23.86
2007	16	354,436	6.9%	\$24.39
Thereafter	49	2,656,240	51.8%	\$27.21

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

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

- (1) Excluding a lease for 8,424 square feet in the San Francisco Bay market, rental rates for renewed or released space were on average 9.0% higher than expiring rates on a Cash Basis and 14.5% higher than expiring rates on a GAAP Basis.
- (2) Excluding a month-to-month lease for 13,700 square feet in the San Francisco Bay market for a property targeted for redevelopment in 2003, rental rates for month-to-month leases were on average 2.7% higher than expiring rates on a Cash Basis and 3.7% higher than expiring rates on a GAAP Basis.
- (3) Excluding the leases in the San Francisco Bay market identified in (1) and (2) above, rental rates for all lease activity for expired leases were on average 8.6% higher than expiring rates on a Cash Basis and 13.7% higher than expiring rates on a GAAP Basis.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

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

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

Our future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, our interest rate swap agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our swap agreements in effect on, December 31, 2002, we estimate that a 1% increase in interest rates on our line of credit, after considering the effect of our interest rate swap agreements, would decrease annual future earnings and cash flows by approximately \$1.4 million. We further estimate that a 1% decrease in interest rates on our line of credit, after considering the effect of our interest rate swap agreements in effect December 31, 2002, would increase annual future earnings and cash flows by approximately \$1.4 million. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their aggregate fair value by approximately \$18.4 million. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their aggregate fair value by approximately \$19.3 million.

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

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

Item 8. Consolidated Financial Statements and Supplementary Data

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Board of Directors, Executive Officers and Senior Management" in our definitive proxy statement for our 2003 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the end of our 2002 fiscal year (the "2003 Proxy Statement") is incorporated herein by reference.

Item 11. Executive Compensation

The information set forth under the caption "Board of Directors, Executive Officers and Senior Management – Executive Compensation" in our 2003 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Equity Compensation Plan Information

	Number of Securities to be issued upon exercise of outstanding options and awards (a)	Weighted-average exercise price of outstanding options and awards (b)	Number of securities remaining available for future issuance under the Stock Plan (excluding securities reflected in column a) (c)
Equity Compensation Plan Approved by Stockholders - 1997 Incentive Plan	1,011,166	\$34.39	362,211

The information set forth under the caption "Security Ownership of Management and Principal Stockholders" in our 2003 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

None.

Item 14. Controls and Procedures

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

PART IV

Item 15. Exhibits, Consolidated Financial Statements Schedules and Reports on Form 8-K

(a) Consolidated Financial Statements and Schedules

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

	Page
Report of Independent Auditors	F-1
Audited Consolidated Financial Statements:	
Consolidated Balance Sheets as of December 31, 2002 and 2001	F-2
Consolidated Statements of Income for the Years Ended December 31, 2002, 2001 and 2000	F-3
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000	F-4
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	F-5
Notes to Consolidated Financial Statements for the Years Ended December 31, 2002, 2001 and 2000	F-6
Schedule III - Consolidated Financial Statement of Rental Properties	F-28

(b) Reports on Form 8-K

We did not file any reports on Form 8-K during the fourth quarter of the fiscal year ended December 31, 2002.

(c) Exhibits.

<u>Exhibit Number</u>	<u>Exhibit Title</u>
3.1 *	Articles of Amendment and Restatement of Alexandria, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.2 *	Certificate of Correction of Alexandria, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.3*	Bylaws of Alexandria (as amended, adopted February 4, 2000; effective February 16, 2000), filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000
3.4 *	Articles Supplementary, dated February 10, 2000, relating to the election to be subject to Subtitle 8 of Title 3 of the Maryland General Corporation Law, filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000

- 3.5 * Articles Supplementary, dated February 10, 2000, relating to the Series A Junior Participating Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000
- 3.6 * Articles Supplementary, dated June 9, 1999, relating to the 9.50% Series A Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 13, 1999
- 3.7 * Articles Supplementary, dated January 28, 2002, relating to the 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on February 17, 2002
- 4.1 * Rights Agreement, dated as of February 10, 2000, between the Company and American Stock Transfer & Trust Company, as Rights Agent, including the forms of Articles Supplementary setting forth the terms of the Series A Junior Participating Preferred Stock, par value \$.01 per share, Rights Certificate and the Summary of Rights to Purchase Preferred Stock attached as exhibits to the Rights Agreement. Pursuant to the Rights Agreement, printed Rights Certificates will not be mailed until after the Distribution Date (as defined in the Rights Agreement), filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000
- 4.2 * Specimen certificate representing shares of Common Stock, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
- 4.3 * Specimen certificate representing shares of 9.50% Series A Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 13, 1999
- 4.4 * Specimen certificate representing shares of 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on February 17, 2002
- 10.1 * Second Amendment to Executive Employment Agreement and General and Special Release by and between Alexandria and Jerry M. Sudarsky, dated May 30, 1997, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 31, 1998
- 10.2 * Amended and Restated Executive Employment Agreement between Alexandria and Joel S. Marcus, dated January 5, 1994, and amended as of March 28, 1997, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 31, 1998
- 10.3 * Executive Employment Agreement between Alexandria and James H. Richardson, dated July 31, 1997, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 14, 1997
- 10.4 * Amended and Restated Executive Employment Agreement between Alexandria and Peter J. Nelson, dated May 20, 1998, filed as an exhibit to Alexandria's quarterly report on Form 10-Q/A filed with the Commission on August 18, 1998
- 10.5 * Amendment to Amended and Restated Executive Employment Agreement between Alexandria and Peter J. Nelson, dated August 31, 1999, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999
- 10.6 * Executive Employment Agreement between Alexandria and Vincent R. Ciruzzi, dated April 20, 1998, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 15, 1999
- 10.7 * Amendment to Executive Employment Agreement between Alexandria and Vincent R. Ciruzzi, dated August 31, 1999, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999
- 10.8 * Employment Letter Agreement between Alexandria and Tom Andrews, dated June 1, 1999, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999
- 10.9 * Amended and Restated 1997 Stock Award and Incentive Plan of Alexandria, dated December 29, 2000,

- filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 29, 2002
- 10.10 * Form of Non-Employee Director Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
- 10.11 * Form of Incentive Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
- 10.12 * Form of Nonqualified Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
- 10.13 * Form of Employee Restricted Stock Agreement for use in connection with shares of restricted stock issued to employees pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999
- 10.14 * Form of Independent Contractor Restricted Stock Agreement for use in connection with shares of restricted stock issued to independent contractors pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999
- 10.15 * Third Amended and Restated Revolving Loan Agreement, dated as of July 11, 2002, among Alexandria Real Estate Equities, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, the other borrowers then and thereafter a party thereto, the banks therein named, the other banks which may become parties thereto, Fleet National Bank, as Administrative Agent, Fleet Securities, Inc. and JP Morgan Securities, Inc., as Co-Lead Arrangers, JP Morgan Securities, Inc. and Societe Generale, as Co-Syndication Agents, CommerzBank AG, New York and Grand Cayman Branches and KeyBank National Association, as Co-Documentation Agents and Dresdner Bank AG, New York and Grand Cayman Branches, as Senior Managing Agent
- 10.16 * Amendment to Amended and Restated Executive Employment Agreement between Alexandria and Joel S. Marcus, dated September 4, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 30, 2001
- 10.17 * Amendment to Executive Employment Agreement between Alexandria and James H. Richardson, dated September 4, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 30, 2001
- 10.18 * Second Amendment to Amended and Restated Executive Employment Agreement between Alexandria and Peter J. Nelson, dated September 4, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 30, 2001
- 10.19 * Amended and Restated Executive Employment Agreement between Alexandria and Vincent R. Ciruzzi, dated June 27, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 30, 2001
- 10.20 * Term Loan Agreement among Alexandria, the Operating Partnership, ARE-QRS Corp., ARE Acquisitions, LLC, the Other Borrowers Then or Thereafter a Party Thereto, the Banks therein named, the Other Banks Which May Become Parties Thereto, Fleet National Bank, as Managing Agent, and Fleet Securities, Inc., as Arranger, dated October 17, 2001, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 29, 2002
- 10.21 * Alexandria's 2000 Deferred Compensation Plans, effective December 1, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 29, 2002
- 12.1 Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock

- Dividends
- 21.1 List of Subsidiaries of Alexandria
 - 23.1 Consent of Ernst & Young LLP
 - 99.1 Certifications of Alexandria's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

(*) Incorporated by reference.

SIGNATURES

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

ALEXANDRIA REAL ESTATE EQUITIES, INC.

Dated March 27, 2003

By: /s/ JOEL S. MARCUS
Joel S. Marcus
Chief Executive Officer

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JERRY M. SUDARSKY</u> Jerry M. Sudarsky	Chairman of the Board of Directors	March 28, 2003
<u>/s/ JOEL S. MARCUS</u> Joel S. Marcus	Chief Executive Officer (Principal Executive Officer) and Director	March 27, 2003
<u>/s/ JAMES H. RICHARDSON</u> James H. Richardson	President and Director	March 28, 2003
<u>/s/ PETER J. NELSON</u> Peter J. Nelson	Chief Financial Officer, Senior Vice President, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 27, 2003
<u>/s/ RICHARD B. JENNINGS</u> Richard B. Jennings	Director	March 28, 2003
<u>/s/ DAVID M. PETRONE</u> David M. Petrone	Director	March 28, 2003
<u>/s/ ANTHONY M. SOLOMON</u> Anthony M. Solomon	Director	March 28, 2003
<u>/s/ ALAN G. WALTON</u> Alan G. Walton	Director	March 27, 2003

I, Joel S. Marcus, Chief Executive Officer and Principal Executive Officer of Alexandria Real Estate Equities, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Alexandria Real Estate Equities, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ Joel S. Marcus

Joel S. Marcus

Chief Executive Officer

Principal Executive Officer

I, Peter J. Nelson, Chief Financial Officer and Principal Financial and Accounting Officer of Alexandria Real Estate Equities, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Alexandria Real Estate Equities, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ Peter J. Nelson

Peter J. Nelson

Chief Financial Officer

Principal Financial and Accounting Officer

Report of Independent Auditors

To the Board of Directors and Stockholders of
Alexandria Real Estate Equities, Inc.

We have audited the accompanying consolidated balance sheets of Alexandria Real Estate Equities, Inc. and subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the index at item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alexandria Real Estate Equities, Inc. and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Los Angeles, California
February 13, 2003

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	December 31,	
	2002	2001
Assets		
Rental properties, net	\$ 976,422	\$ 796,626
Properties under development	68,386	65,250
Cash and cash equivalents	3,790	2,376
Tenant security deposits and other restricted cash	8,020	11,528
Tenant receivables	2,641	3,123
Deferred rent	26,063	20,593
Other assets	73,921	62,650
Total assets	\$ 1,159,243	\$ 962,146
Liabilities and Stockholders' Equity		
Secured notes payable	\$ 276,878	\$ 245,161
Unsecured line of credit and unsecured term loan	338,000	328,000
Accounts payable, accrued expenses and tenant security deposits	47,118	48,057
Dividends payable	11,394	8,290
	673,390	629,508
Commitments and contingencies		
Stockholders' equity:		
9.50% Series A cumulative redeemable preferred stock, \$0.01 par value per share, 1,610,000 shares authorized; 1,543,500 shares issued and outstanding at December 31, 2002 and 2001; \$25.00 liquidation value	38,588	38,588
9.10% Series B cumulative redeemable preferred stock, \$0.01 par value per share, 2,300,000 shares authorized; 2,300,000 shares issued and outstanding at December 31, 2002; \$25.00 liquidation value	57,500	-
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 18,973,957 and 16,354,541 shares issued and outstanding at December 31, 2002 and 2001, respectively	190	163
Additional paid-in capital	399,831	301,818
Deferred compensation	(1,432)	(1,782)
Retained earnings	-	-
Accumulated other comprehensive income	(8,824)	(6,149)
Total stockholders' equity	485,853	332,638
Total liabilities and stockholders' equity	\$ 1,159,243	\$ 962,146

See accompanying notes.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

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

See accompanying notes.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

(Dollars in thousands)

	Series A Preferred Stock	Series B Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1999	\$ 38,588	\$ -	13,745,622	\$ 137	\$ 225,180	\$ (1,494)	\$ -	\$ 172	\$ 262,583
Net income	-	-	-	-	-	-	26,009	-	26,009
Unrealized gain on marketable securities	-	-	-	-	-	-	-	1,665	1,665
Comprehensive income	-	-	-	-	-	-	-	-	27,674
Issuances of common stock, net of offering costs	-	-	1,625,000	16	52,101	-	-	-	52,117
Stock compensation expense	-	-	18,400	-	633	(633)	-	-	-
Amortization of stock compensation expense	-	-	-	-	-	1,831	-	-	1,831
Exercise of stock options	-	-	159,334	2	4,113	-	-	-	4,115
Dividends declared on preferred stock	-	-	-	-	-	-	(3,666)	-	(3,666)
Dividends declared on common stock	-	-	-	-	(3,159)	-	(22,343)	-	(25,502)
Balance at December 31, 2000	38,588	-	15,548,356	155	278,868	(296)	-	1,837	319,152
FAS 133 transition adjustment	-	-	-	-	-	-	-	(3,461)	(3,461)
Net income	-	-	-	-	-	-	30,277	-	30,277
Unrealized loss on marketable securities	-	-	-	-	-	-	-	(1,008)	(1,008)
Unrealized loss on swap agreements	-	-	-	-	-	-	-	(3,517)	(3,517)
Comprehensive income	-	-	-	-	-	-	-	-	25,752
Issuance of common stock, net of offering costs	-	-	500,000	5	16,746	-	-	-	16,751
Stock compensation expense	-	-	122,555	1	4,326	(4,327)	-	-	-
Amortization of stock compensation expense	-	-	-	-	-	2,841	-	-	2,841
Exercise of stock options	-	-	183,630	2	5,198	-	-	-	5,200
Dividends declared on preferred stock	-	-	-	-	-	-	(3,666)	-	(3,666)
Dividends declared on common stock	-	-	-	-	(3,320)	-	(26,611)	-	(29,931)
Balance at December 31, 2001	38,588	-	16,354,541	163	301,818	(1,782)	-	(6,149)	332,638
Net income	-	-	-	-	-	-	40,032	-	40,032
Reclassification adjustment	-	-	-	-	-	-	-	96	96
Unrealized loss on marketable securities	-	-	-	-	-	-	-	(712)	(712)
Unrealized loss on swap agreements	-	-	-	-	-	-	-	(2,059)	(2,059)
Comprehensive income	-	-	-	-	-	-	-	-	37,357
Issuance of common stock, net of offering costs	-	-	2,418,970	25	97,521	-	-	-	97,546
Issuance of Series B preferred stock, net of offering costs	-	57,500	-	-	(2,371)	-	-	-	55,129
Stock compensation expense	-	-	76,075	1	3,642	(3,643)	-	-	-
Amortization of stock compensation expense	-	-	-	-	-	3,993	-	-	3,993
Exercise of stock options	-	-	124,371	1	3,693	-	-	-	3,694
Dividends declared on preferred stock	-	-	-	-	-	-	(8,625)	-	(8,625)
Dividends declared on common stock	-	-	-	-	(4,472)	-	(31,407)	-	(35,879)
Balance at December 31, 2002	\$ 38,588	\$ 57,500	18,973,957	\$ 190	\$ 399,831	\$ (1,432)	\$ -	\$ (8,824)	\$ 485,853

See accompanying notes

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

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

See accompanying notes.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Background

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We are engaged primarily in the ownership, operation, management, acquisition, expansion and selective redevelopment and development of properties containing a combination of office and laboratory space. We refer to these properties as "life science facilities." Our life science facilities are designed and improved for lease primarily to pharmaceutical, biotechnology, life science product and service companies, not-for-profit scientific research institutions, universities and related government agencies. As of December 31, 2002, our portfolio consisted of 89 properties in nine states with approximately 5,747,000 rentable square feet, compared to 83 properties in nine states with approximately 5,320,000 rentable square feet as of December 31, 2001.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Reclassifications

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

2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Accumulated Other Comprehensive Income

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

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

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

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

Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. All of our investments in publicly traded companies are considered "available for sale" under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), and are recorded at fair value and included in other assets in the accompanying balance sheets. Fair value has been determined by the closing trading price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity. The classification of investments under SFAS 115 is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of investments sold is determined by the specific identification method, with realized gains and losses included in interest and other income.

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

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

2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Rental Properties and Properties Under Development

Rental properties and properties under development are stated at cost. Write-downs to estimated fair value would be recognized when impairment indicators are present and a property's estimated undiscounted future cash flows, before interest charges, are less than its book value. In that situation, we would recognize an impairment loss to the extent the carrying amount exceeds the fair value of the property.

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

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

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

2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

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

Tenant Security Deposits and Restricted Cash

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

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

2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Loan Fees and Costs

Fees and costs incurred in obtaining long-term financing are amortized over the terms of the related loans and included in interest expense. Loan fees and costs, net of related amortization, totaled \$8,545,000 and \$6,815,000 as of December 31, 2002 and 2001, respectively, and are included in other assets on our balance sheets.

Rental Income

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

Interest Income

Interest income was \$298,000, \$923,000 and \$1,025,000 in 2002, 2001 and 2000, respectively, and is included in interest and other income in the accompanying statements of income.

Leasing Costs

Leasing costs are amortized on a straight-line basis over the terms of the related leases. Leasing costs, net of related amortization, totaled \$16,189,000 and \$14,559,000 as of December 31, 2002 and 2001, respectively, and are included in other assets on our balance sheets.

Fair Value of Financial Instruments

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

The fair value of our secured notes payable was estimated using discounted cash flows analyses based on borrowing rates we believe we could obtain with similar terms and maturities. As of December 31, 2002 and 2001, the fair value of our secured notes payable was approximately \$292,745,000 and \$290,886,000, respectively.

2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Net Income Per Share

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

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

Operating Segments

We view our operations as principally one segment and the financial information disclosed herein represents all of the financial information related to our principal operating segment.

Income Taxes

As a REIT, we are not subject to federal income taxation as long as we meet a number of organizational and operational requirements and distribute all of our taxable income to our stockholders. Since we believe we have met these requirements and our distributions exceeded taxable income, no federal income tax provision has been reflected in the accompanying consolidated financial statements for the years ended December 31, 2002, 2001 and 2000. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate tax rates.

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

2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Impact of Recently Issued Accounting Standards

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

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

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

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

3. Rental Properties and Properties Under Development

Rental properties consist of the following (in thousands):

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

3. Rental Properties and Properties Under Development (continued)

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

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

As of December 31, 2002, approximately 86% of our leases (on a square footage basis) require that the lessee pay substantially all taxes, maintenance, insurance and certain other operating expenses applicable to the leased properties.

We capitalize interest to properties under development or redevelopment during the period the asset is undergoing activities to prepare it for its intended use. Costs related to properties under redevelopment are included in rental properties in the accompanying balance sheets. Total interest capitalized for the years ended December 31, 2002, 2001 and 2000 was \$13,519,000, \$11,371,000 and \$7,710,000, respectively. Total interest incurred for the years ended December 31, 2002, 2001 and 2000 was \$40,294,000, \$40,840,000 and \$33,832,000, respectively.

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

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

4. Unsecured Line of Credit

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

Our line of credit contains financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio, and a fixed charge coverage ratio. In addition, the terms of the line of credit restrict, among other things, certain investments, indebtedness, distributions and mergers. As of December 31, 2002, borrowings outstanding on the line of credit carried a weighted average interest rate of 3.07%.

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

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

4. Unsecured Line of Credit (continued)

The following table summarizes our interest rate swap agreements (dollars in thousands):

<u>Transaction Date</u>	<u>Effective Date</u>	<u>Notional Amount</u>	<u>Interest Pay Rate</u>	<u>Termination Date</u>	<u>Fair Value</u>
April 2000	May 20, 2000	\$ 50,000	7.00%	January 2, 2003	\$ (23)
January 2001	January 31, 2001	50,000	6.35%	December 31, 2002	-
July 2000	May 31, 2001	50,000	7.07%	May 31, 2003	(1,204)
March 2002	December 31, 2002	50,000	5.36%	December 31, 2004	(3,531)
July 2002	January 1, 2003	25,000	3.86%	June 30, 2005	(1,099)
July 2002	January 1, 2003	25,000	3.87%	June 30, 2005	(1,106)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
December 2002	January 2, 2003	25,000	3.29%	June 30, 2006	(633)
November 2002	June 1, 2003	25,000	3.12%	December 31, 2005	(392)
November 2002	June 1, 2003	25,000	3.16%	December 31, 2005	(417)
					<u>\$ (9,038)</u>

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. Specifically, SFAS 133 requires us to reflect our interest rate swap agreements on the balance sheet at their estimated fair values. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value, and such value may never be realized. As of January 1, 2001, the adoption of SFAS 133, as amended, resulted in qualifying interest rate swap agreements reported on the balance sheet as a liability of approximately \$3.5 million, with a corresponding reduction to accumulated other comprehensive income, a separate component of stockholders' equity.

All of our interest rate swap agreements meet the criteria to be deemed "effective" under SFAS 133 in reducing our exposure to variable interest rates. Accordingly, we have categorized these instruments as cash flow hedges. While we intend to continue to meet the conditions for hedge accounting, if hedges did not qualify as highly effective, the changes in the fair value of the derivatives used as hedges would be reflected in earnings.

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate swap agreements as our counterparties are established, well-capitalized financial institutions.

On January 22, 2001, we terminated an interest rate swap agreement with a notional amount of

4. Unsecured Line of Credit (continued)

\$50 million, an interest pay rate of 7.25% and a maturity of December 31, 2001. The terminated interest rate swap agreement was replaced with the 6.35% interest rate swap agreement as shown in the table above. The fair value of the terminated interest rate swap agreement at the date of termination (a liability of \$950,000) was transferred to the replacement 6.35% interest rate swap agreement. During 2001, approximately \$475,000 was reclassified from other comprehensive income to interest expense. Approximately \$475,000 was credited against interest expense during 2002. These adjustments resulted in an effective interest pay rate for the 6.35% interest rate swap agreement of 7.30% for 2001 and 5.40% for 2002.

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

5. Secured Notes Payable

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

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

As of December 31, 2002, all of our secured notes payable, except for the 7.165% note and the LIBOR-based loan, require monthly payments of principal and interest. The 7.165% note requires monthly payments of interest and semi-annual payments of principal. The LIBOR-based loan secured by the two properties in San Francisco, CA, requires monthly payments of interest only.

5. Secured Notes Payable (continued)

Future principal payments due on secured notes payable as of December 31, 2002, are as follows (in thousands):

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

6. Issuances of Common Stock

In February 2002, we sold 418,970 shares of our common stock. The shares were issued at a price of \$39.46 per share, resulting in aggregate proceeds of approximately \$16.1 million (after deducting underwriting discounts and other offering costs).

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

7. Non-Cash Transactions

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

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

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

8. Preferred Stock and Excess Stock

Series A Cumulative Redeemable Preferred Stock

There are 1,543,500 shares of our 9.50% Series A cumulative redeemable preferred stock outstanding. The shares were issued in 1999 at a price of \$25.00 per share. We pay dividends quarterly in arrears at an annual rate of \$2.375 per share. Our Series A preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to June 11, 2004, except in order to preserve our status as a REIT. Investors in our Series A preferred stock generally have no voting rights. On or after June 11, 2004, we may, at our option, redeem our Series A preferred stock, in whole or in part, at any time for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends.

Series B Cumulative Redeemable Preferred Stock

In January 2002, we completed a public offering of 2,300,000 shares of our 9.10% Series B cumulative redeemable preferred stock (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of \$25.00 per share, resulting in aggregate proceeds of approximately \$55.1 million, net of underwriters' discounts and other offering costs. The dividends on our Series B preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of \$2.275 per share. Our Series B preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to January 22, 2007, except in order to preserve our status as a REIT. Investors in our Series B preferred stock generally have no voting rights. On or after January 22, 2007, we may, at our option, redeem our Series B preferred stock, in whole or in part, at any time for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends.

Preferred Stock and Excess Stock Authorizations

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

9. Commitments and Contingencies

Employee Retirement Savings Plan

We have a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code ("Code") whereby our employees may contribute a portion of their compensation to their respective retirement accounts, in an amount not to exceed the maximum allowed under the Code. We have elected to provide discretionary profit sharing contributions (subject to statutory limitations), which amounted to \$428,000, \$353,000 and \$254,000, respectively, for the years ended December 31, 2002, 2001 and 2000. Employees who participate in the plan are immediately vested in their contributions and in the contributions of the company.

9. Commitments and Contingencies (continued)

Concentration of Credit Risk

We maintain our cash and cash equivalents at insured financial institutions. The combined account balances at each institution periodically exceed FDIC insurance coverage, and, as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage. We believe that the risk is not significant.

We are dependent on rental income from relatively few tenants in the life science industry. The inability of any single tenant to make its lease payments could adversely affect our operations. As of December 31, 2002, we held leases with a total of 173 tenants and 51 of our 89 properties were each leased to a single tenant. At December 31, 2002, our three largest tenants accounted for approximately 14.0% of our aggregate annualized base rent.

We generally do not require collateral or other security from our tenants, other than security deposits. In addition to security deposits held in cash, we held \$15.7 million in irrevocable letters of credit available from certain tenants as security deposits for 47 leases as of December 31, 2002.

Commitments

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

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

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

10. Stock Option Plans and Stock Grants

1997 Stock Plan

In 1997, we adopted a stock option and incentive plan (the "Stock Plan") for the purpose of attracting and retaining the highest quality personnel, providing for additional incentives and promoting the success of the company by providing employees the opportunity to acquire common stock pursuant to (i) options to purchase common stock; and (ii) share awards. As of December 31, 2002, a total of 362,211 shares were reserved for the granting of future options and share awards under the Stock Plan.

Options under our plan have been granted at prices that are equal to the market value of the stock on the date of grant and expire ten years after the date of grant. Employee options vest ratably in three annual installments from the date of grant. Non-employee director options vest immediately on the date of grant. The options outstanding under the Stock Plan expire at various dates through November 2011.

In addition, the Stock Plan permits us to issue share awards to our employees and non-employee directors. A share award is an award of common stock which (i) may be fully vested upon issuance or (ii) may be subject to the risk of forfeiture under Section 83 of the Internal Revenue Code. Shares issued generally vest over a one-year period and the sale of the shares is restricted prior to the date of vesting. During 2002, we awarded 76,075 shares of common stock. These shares were recorded at fair value with a corresponding charge to stockholders' equity. The unearned portion is amortized as stock compensation expense on a straight-line basis over the vesting period.

10. Stock Option Plans and Stock Grants (continued)

1997 Stock Plan (continued)

For 2002 and all prior years, we have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for our employee and non-employee director stock options, stock grants and stock appreciation rights. Effective January 1, 2003, the Company has adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), prospectively to all employee awards granted, modified or settled after January 1, 2003. Under APB 25, because the exercise price of the options we granted equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized. Although we have elected to follow APB 25, pro forma information regarding net income and net income per share is required by SFAS 123. This information has been determined as if we had accounted for our stock options under the fair value method under SFAS 123. The fair value of the options issued under the Stock Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2002, 2001 and 2000:

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

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

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

10. Stock Option Plans and Stock Grants (continued)

1997 Stock Plan (continued)

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

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

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/02	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/02	Weighted Average Exercise Price
\$20.00-\$30.00	327,666	4.61	\$21.91	322,666	\$21.79
\$30.31-\$39.40	349,500	7.66	\$36.46	189,503	\$35.44
\$39.41-\$47.69	334,000	9.38	\$44.45	2,000	\$39.41

11. Quarterly Financial Data (Unaudited)

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

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

11. Quarterly Financial Data (continued) (Unaudited)

	Quarter			
	First	Second	Third	Fourth
	<i>(In thousands, except per share amounts)</i>			
2001				
Revenues	\$ 29,823	\$ 29,224	\$ 31,536	\$ 32,453
Net income available to common stockholders	\$ 6,390	\$ 6,408	\$ 6,535	\$ 7,280
Basic income per share:				
Income from continuing operations	\$ 0.45	\$ 0.43	\$ 0.44	\$ 0.48
Income from discontinued operations, net	0.03	0.03	0.03	0.03
Income before extraordinary item	0.47	0.46	0.46	0.51
Extraordinary item - loss on early extinguishment of debt	-	-	-	-
Net income	0.47	0.46	0.46	0.51
Net income available to common stockholders	\$ 0.41	\$ 0.40	\$ 0.41	\$ 0.45
Diluted income per share:				
Income from continuing operations	\$ 0.44	\$ 0.43	\$ 0.43	\$ 0.47
Income from discontinued operations, net	0.03	0.02	0.03	0.03
Income before extraordinary item	0.47	0.45	0.45	0.50
Extraordinary item - loss on early extinguishment of debt	-	-	-	-
Net income	0.47	0.45	0.45	0.50
Net income available to common stockholders	\$ 0.41	\$ 0.39	\$ 0.40	\$ 0.44

12. Discontinued Operations

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

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

12. Discontinued Operations (continued)

The following is a summary of the properties designated as “held for sale” (in thousands):

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

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

Alexandria Real Estate Equities, Inc. and Subsidiaries
Schedule III
Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation
December 31, 2002
(In thousands, except square foot data)

Property Name	Square Footage	Initial Costs		Costs	Total Costs		Total	Accumulated Depreciation (1)	Encumbrances	Year Built/ Renovated
		Land	Buildings and Improvements	Capitalized Subsequent to Acquisition	Land	Buildings and Improvements				
North Torrey Pines Road #1	107,710	\$ 3,903	\$ 5,960	\$ 4,295	\$ 3,903	\$ 10,255	\$ 14,158	\$ 2,258	\$ -	1971/1994
Science Park Road	74,557	-	-	16,744	-	16,744	16,744	1,833	-	2000
North Torrey Pines Road #2	86,962	2,663	10,649	3,295	2,663	13,944	16,607	4,051	-	1986/1996
General Atomics Court #1	76,084	2,651	18,046	1,436	2,651	19,482	22,133	5,095	41,259	(2) 1986/1991
General Atomics Court #2	43,600	1,227	9,554	7	1,227	9,561	10,788	2,561	-	(2) 1991
Roselle Street #1	18,173	463	1,840	838	463	2,678	3,141	905	-	(3) 1983/1998
Nexus Centre Drive	67,050	2,548	13,638	13	2,548	13,651	16,199	3,404	-	1989
Nancy Ridge Drive #1	29,333	733	2,273	1,856	733	4,129	4,862	972	-	(4) 1997
Roselle Street #2	17,603	444	1,699	1,787	444	3,486	3,930	585	-	late 1970's/1999
Tansy Street	15,410	651	1,375	1,875	651	3,250	3,901	620	-	1978/1999
John Hopkins Court #1	34,723	1,122	-	3,870	1,122	3,870	4,992	253	-	(2) 2000
John Hopkins Court #2	55,200	1,683	-	5,636	1,683	5,636	7,319	570	-	(2) 1999
Towne Centre Drive #1	45,030	275	8,621	540	275	9,161	9,436	753	-	1987
Towne Centre Drive #2	52,228	320	10,070	821	320	10,891	11,211	1,318	-	1987/2000
Towne Centre Drive #3	41,780	258	8,170	5,742	258	13,912	14,170	1,359	-	1987/2000
Roselle Street #3	18,193	455	2,581	95	455	2,676	3,131	168	23,839	(3) 1981
Roselle Street #4	30,147	754	4,288	10	754	4,298	5,052	285	-	(3) 1981/1998
Roselle Street #5	22,577	564	3,224	9	564	3,233	3,797	219	-	(3) 1981/1995
Roselle Street #6	17,433	436	2,480	10	436	2,490	2,926	165	-	(3) 1981/1999
Roselle Street #7	24,208	605	3,459	9	605	3,468	4,073	236	-	(3) 1981/1995
Nancy Ridge Drive #2	21,940	515	1,566	2,315	515	3,881	4,396	249	-	early 1980's
Campus Point Drive	71,510	4,246	16,165	114	4,246	16,279	20,525	640	11,637	1986/1998
North Hill Avenue	31,343	2,172	812	8,285	2,172	9,097	11,269	568	-	1940's/2001
Harbor Bay Parkway #1	61,015	1,506	5,357	2,285	1,506	7,642	9,148	1,914	-	1983/1999
Harbor Bay Parkway #2	27,745	775	1,917	1,408	775	3,325	4,100	619	-	1984/2000
Harbor Bay Parkway #3	47,777	1,200	3,880	259	1,200	4,139	5,339	653	-	1986/1994
Harbor Bay Parkway #4	68,711	1,800	9,731	380	1,800	10,111	11,911	1,561	3,520	1985/1994
Mitten Road & Malcolm Road	153,837	4,751	12,612	6,417	4,751	19,029	23,780	2,433	-	1962/2002
Hanover Street	32,074	-	6,628	4,700	-	11,328	11,328	3,167	-	1968/2000
Garcia Avenue & Bayshore Parkway	98,964	-	21,323	1,827	-	23,150	23,150	3,272	-	1980/2000

Alexandria Real Estate Equities, Inc. and Subsidiaries
Schedule III (continued)
Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation
December 31, 2002
(In thousands, except square foot data)

Property Name	Square Footage	Initial Costs		Costs	Total Costs		Total	Accumulated Depreciation (1)	Encumbrances	Year Built/ Renovated	
		Land	Buildings and Improvements	Capitalized	Land	Buildings and Improvements					
				Subsequent to Acquisition							
Oyster Point Boulevard #1	53,980	3,519	–	12,908	3,519	12,908	16,427	1,080	21,853	(5)	2001
Oyster Point Boulevard #2	53,980	3,519	–	7,640	3,519	7,640	11,159	455	–	(5)	2001
Durant Avenue	21,481	3,313	966	2,688	3,313	3,654	6,967	–	–		1930
Gateway Boulevard #1	110,428	7,730	24,397	–	7,730	24,397	32,127	416	–		2000
Gateway Boulevard #2	59,816	4,187	14,020	1	4,187	14,021	18,208	363	–		2002
Columbia Street #1	163,555	6,566	22,916	10,072	6,566	32,988	39,554	6,522	18,109	(6)	1975/1997
Columbia Street #2	46,303	–	612	1,964	–	2,576	2,576	1	–	(6)	1975/1997
Western Avenue	47,746	1,432	7,497	2,137	1,432	9,634	11,066	1,926	34,852	(7)	1929/2000
First Avenue	70,647	2,119	11,275	4,569	2,119	15,844	17,963	2,618	–		1980/2000
Eastlake Avenue #1	106,003	4,240	31,232	–	4,240	31,232	35,472	195	–		1997
Eastlake Avenue #2	52,333	1,570	15,917	–	1,570	15,917	17,487	99	–		1997
Professional Drive #1	47,558	871	5,362	3,032	871	8,394	9,265	1,441	–		1989/1999
Professional Drive #2	62,739	1,129	6,940	30	1,129	6,970	8,099	1,144	–		1987
West Watkins Mill Road #1	138,938	3,281	14,416	169	3,281	14,585	17,866	2,393	24,327	(8)	1989/1997
Quince Orchard Road #1	49,225	1,267	3,031	5,153	1,267	8,184	9,451	2,875	–	(8)	1982/1997
Clopper Road #1	44,464	900	2,732	1,509	900	4,241	5,141	909	–	(9)	1989
Research Boulevard #1	48,800	602	4,391	2,364	602	6,755	7,357	669	–		1966
East Guide Drive #1	45,989	748	3,609	1,083	748	4,692	5,440	752	–		1981/1986
Research Boulevard #2	105,000	1,733	9,611	766	1,733	10,377	12,110	1,664	–		1967/2000
East Guide Drive #2	44,500	775	4,122	319	775	4,441	5,216	656	–		1981/1995
Piccard Drive	131,415	2,800	11,533	4,054	2,800	15,587	18,387	1,410	–		1978/1994
Newbrook Drive	248,186	4,800	27,639	380	4,800	28,019	32,819	4,102	–	(7)	1992
Virginia Manor Road	191,884	–	13,679	548	–	14,227	14,227	2,028	–		1990
Old Columbia Road	75,500	1,510	5,210	1,617	1,510	6,827	8,337	1,381	–		1983/1997
Firstfield Road #1	25,175	376	3,192	2,091	376	5,283	5,659	514	–		1974/2000
Shady Grove Road	41,062	840	3,115	49	840	3,164	4,004	475	–		1987
Aliceanna Street	179,397	1,848	6,120	1,516	1,848	7,636	9,484	836	–		early 1950's/1995
West Watkins Mill Road #2	57,410	859	4,149	1,463	859	5,612	6,471	664	–		1988/2000
Clopper Road #2	92,990	2,463	493	17,877	2,463	18,370	20,833	3,590	28,031	(9)	2000
Firstfield Road #2	53,464	971	5,141	4,652	971	9,793	10,764	620	–	(10)	1980/2001
Firstfield Road #3	53,595	947	5,092	2,271	947	7,363	8,310	409	–	(10)	1980/2002
Quince Orchard Road #2	54,874	970	5,138	199	970	5,337	6,307	343	9,808	(10)	1981

Alexandria Real Estate Equities, Inc. and Subsidiaries
Schedule III (continued)
Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation
December 31, 2002
(In thousands, except square foot data)

Property Name	Square Footage	Initial Costs		Costs	Total Costs		Total	Accumulated Depreciation (1)	Encumbrances	Year Built/ Renovated
		Land	Buildings and Improvements	Capitalized Subsequent to Acquisition	Land	Buildings and Improvements				
Clopper Road #3	59,838	983	6,638	75	983	6,713	7,696	430	—	1989/1992
Research Place	58,632	1,466	5,708	2,104	1,466	7,812	9,278	18	—	1972
Charlestown Navy Yard	24,940	—	6,247	346	—	6,593	6,593	826	—	1880/1991
Pond Street	24,867	622	3,053	48	622	3,101	3,723	352	—	1965/1990
Westview Street	40,000	960	3,032	3,720	960	6,752	7,712	307	—	1975
Plantation Street #1	92,711	2,352	14,173	196	2,352	14,369	16,721	1,639	18,542	(4) 1993
Memorial Drive #1	96,500	2,440	37,754	68	2,440	37,822	40,262	3,867	18,777	(11) 1920's/1997/1999
Innovation Drive	113,956	2,734	14,567	1,496	2,734	16,063	18,797	1,880	10,286	(12) 1991
Plantation Street #2	92,423	651	—	15,707	651	15,707	16,358	4,044	—	2000
Arsenal Street #1	92,500	3,360	7,316	14,430	3,360	21,746	25,106	1,369	—	1978/1984
Hartwell Avenue	59,000	1,475	7,194	10,144	1,475	17,338	18,813	278	—	1972/2002
Arsenal Street #2	96,150	6,413	5,457	12,096	6,413	17,553	23,966	—	—	1980
Memorial Drive #2	51,000	6,507	—	18,820	6,507	18,820	25,327	—	—	2002
Memorial Drive #3	47,497	6,058	—	20,908	6,058	20,908	26,966	122	—	2002
College Road	106,036	1,943	9,764	1,229	1,943	10,993	12,936	1,555	—	1968/1984
Williams Drive	37,000	740	4,506	52	740	4,558	5,298	569	—	1982/1994
Phillips Parkway	78,501	1,840	2,298	11,054	1,840	13,352	15,192	1,589	—	late 1960's/1999
Campus Drive	42,782	654	4,234	130	654	4,364	5,018	607	—	1989
Electronic Drive	40,000	600	3,110	3,279	600	6,389	6,989	1,778	—	1983/1998
Princeton Road	42,600	1,075	1,438	2,972	1,075	4,410	5,485	1,706	—	1984/1999
Capitola Drive #1	65,114	337	5,795	456	337	6,251	6,588	954	—	(13) 1986
Capitola Drive #2	119,916	577	11,688	5,280	577	16,968	17,545	2,010	12,038	(13) 1985
Technology Parkway	37,080	370	4,191	655	370	4,846	5,216	534	—	1976/1993
Triangle Drive	32,120	161	3,410	130	161	3,540	3,701	462	—	1981
Alexander Road	86,239	—	376	11,619	—	11,995	11,995	903	—	2000
Kit Creek Road	37,908	374	3,383	4,792	374	8,175	8,549	442	—	1995
	<u>5,746,664</u>	<u>\$ 151,297</u>	<u>\$ 626,797</u>	<u>\$ 311,805</u>	<u>\$ 151,297</u>	<u>\$ 938,602</u>	<u>\$ 1,089,899</u>	<u>\$ 113,477</u>	<u>\$ 276,878</u>	

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- (1) The depreciable life ranges from 30 to 40 years for buildings and improvements, 20 years for land improvements, and the term of the respective lease for tenant improvements.
 - (2) Loan secured by General Atomics Court #1, General Atomics Court #2, John Hopkins Court #1 and John Hopkins Court #2 is shown under General Atomics Court #1.
 - (3) Loan secured by Roselle Street #1, Roselle Street #3, Roselle Street #4, Roselle Street #5, Roselle Street #6 and Roselle Street #7 is shown under Roselle Street #3.
 - (4) Loan secured by Nancy Ridge Drive #1 and Plantation Street #1 is shown under Plantation Street #1.
 - (5) Loan secured by Oyster Point Boulevard #1 and Oyster Point Boulevard #2 is shown under Oyster Point Boulevard #1.
 - (6) Loan secured by Columbia Street #1 and Columbia Street #2 is shown under Columbia Street #1.
 - (7) Loan secured by Western Avenue and Newbrook Drive is shown under Western Avenue.
 - (8) Loan secured by West Watkins Mill Road #1 and Quince Orchard Road #1 is shown under West Watkins Mill Road #1.
 - (9) Loan secured by Clopper Road #1, Clopper Road #2 and Clopper Road #3 is shown under Clopper Road #2.
 - (10) Loan secured by Firstfield Road #2, Firstfield Road #3 and Quince Orchard Road #2 is shown under Quince Orchard Road #2.
 - (11) The balance shown includes an unamortized premium of \$1,379,000.
 - (12) The balance shown includes an unamortized premium of \$374,000.
 - (13) Loan secured by Capitola Drive #1 and Capitola Drive #2 is shown under Capitola Drive #2.

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

	Rental Properties		
	Year Ended December 31,		
	2002	2001	2000
Balance at beginning of period	\$ 880,716	\$ 737,207	\$ 590,202
Purchase of rental properties	103,295	55,746	48,584
Additions to rental properties	61,695	69,530	40,539
Transfer of costs for completed development projects	44,193	18,233	57,882
Balance at end of period	<u>\$ 1,089,899</u>	<u>\$ 880,716</u>	<u>\$ 737,207</u>

	Accumulated Depreciation		
	December 31,		
	2002	2001	2000
Balance at beginning of period	\$ 84,090	\$ 57,554	\$ 35,496
Depreciation expense	29,387	26,536	22,058
Balance at end of period	<u>\$ 113,477</u>	<u>\$ 84,090</u>	<u>\$ 57,554</u>