ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
August 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from ____________ to ____________

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	95-4502084
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

385 East Colorado Boulevard, Suite 299, Pasadena, California 91101
(Address of principal executive offices) (Zip code)

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

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

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý

As of July 18, 2014, 71,749,433 shares of common stock, par value $.01 per share, were outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	June 30, 2014	December 31, 2013
Assets		
Investments in real estate	$7,030,117	$6,776,914
Cash and cash equivalents	61,701	57,696
Restricted cash	24,519	27,709
Tenant receivables	10,654	9,918
Deferred rent	214,793	190,425
Deferred leasing and financing costs	193,621	192,658
Investments	174,802	140,288
Other assets	105,442	134,156
Total assets	$7,815,649	$7,529,764
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$615,551	$708,831
Unsecured senior notes payable	1,048,310	1,048,230
Unsecured senior line of credit	571,000	204,000
Unsecured senior bank term loans	1,100,000	1,100,000
Accounts payable, accrued expenses, and tenant security deposits	434,528	435,342
Dividends payable	57,377	54,420
Total liabilities	3,826,766	3,550,823
Commitments and contingencies		
Redeemable noncontrolling interests	14,381	14,444
Alexandria Real Estate Equities, Inc.'s stockholders' equity:		
Series D cumulative convertible preferred stock	250,000	250,000
Series E cumulative redeemable preferred stock	130,000	130,000
Common stock	713	712
Additional paid-in capital	3,542,334	3,572,281
Accumulated other comprehensive loss	(16,245)	(36,204)
Alexandria's stockholders' equity	3,906,802	3,916,789
Noncontrolling interests	67,700	47,708
Total equity	3,974,502	3,964,497
Total liabilities, noncontrolling interests, and equity	$7,815,649	$7,529,764

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Rental	$134,992	$114,493	$265,562	$226,019
Tenant recoveries	40,944	35,869	82,626	71,434
Other income	466	3,568	4,400	6,560
Total revenues	176,402	153,930	352,588	304,013
Expenses:				
Rental operations	52,353	46,277	104,860	91,463
General and administrative	13,836	12,455	27,060	24,103
Interest	17,433	15,978	36,556	33,998
Depreciation and amortization	57,314	46,344	107,735	92,173
Loss on early extinguishment of debt	—	560	—	560
Total expenses	140,936	121,614	276,211	242,297
Income from continuing operations	35,466	32,316	76,377	61,716
(Loss) income from discontinued operations	(147)	249	(309)	1,086
Gain on sale of land parcel	797	772	797	772
Net income	36,116	33,337	76,865	63,574
Dividends on preferred stock	(6,472)	(6,471)	(12,943)	(12,942)
Net income attributable to noncontrolling interests	(1,307)	(980)	(2,502)	(1,962)
Net income attributable to unvested restricted stock awards	(405)	(403)	(779)	(745)
Net income attributable to Alexandria's common stockholders	$27,932	$25,483	$60,641	$47,925
Earnings per share attributable to Alexandria's common stockholders – basic and diluted:				
Continuing operations	$0.39	$0.38	$0.85	$0.72
Discontinued operations	—	—	—	0.02
Earnings per share – basic and diluted	$0.39	$0.38	$0.85	$0.74

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$36,116	$33,337	$76,865	$63,574
Other comprehensive income:				
Unrealized (losses) gains on marketable securities:				
Unrealized holding (losses) gains arising during the period	(2,734)	44	16,045	360
Reclassification adjustment for losses (gains) included in net income	406	42	406	(230)
Unrealized (losses) gains on marketable securities, net	(2,328)	86	16,451	130
Unrealized (losses) gains on interest rate swap agreements:				
Unrealized interest rate swap (losses) gains arising during the period	(2,526)	105	(3,914)	(28)
Reclassification adjustment for amortization of interest expense included in net income	1,123	3,834	4,613	8,142
Unrealized (losses) gains on interest rate swap agreements, net	(1,403)	3,939	699	8,114
Foreign currency translation gains (losses)	5,915	(20,698)	2,809	(23,057)
Total other comprehensive income (loss)	2,184	(16,673)	19,959	(14,813)
Comprehensive income	38,300	16,664	96,824	48,761
Less: comprehensive income attributable to noncontrolling interests	(1,307)	(1,008)	(2,502)	(1,906)
Comprehensive income attributable to Alexandria’s common stockholders	$36,993	$15,656	$94,322	$46,855

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

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

	Alexandria Real Estate Equities, Inc.'s Stockholders' Equity									
	Series D Cumulative Convertible Preferred Stock	Series E Cumulative Redeemable Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance as of December 31, 2013	$250,000	$130,000	71,172,197	$712	$3,572,281	$—	$(36,204)	$47,708	$3,964,497	$14,444
Net income	—	—	—	—	—	74,363	—	1,970	76,333	532
Total other comprehensive income	—	—	—	—	—	—	19,959	—	19,959	—
Contributions by noncontrolling interests	—	—	—	—	—	—	—	19,410	19,410	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,388)	(1,388)	(595)
Issuances pursuant to stock plan	—	—	145,884	1	10,457	—	—	—	10,458	—
Dividends declared on common stock	—	—	—	—	—	(101,824)	—	—	(101,824)	—
Dividends declared on preferred stock	—	—	—	—	—	(12,943)	—	—	(12,943)	—
Distributions in excess of earnings	—	—	—	—	(40,404)	40,404	—	—	—	—
Balance as of June 30, 2014	$250,000	$130,000	71,318,081	$713	$3,542,334	$—	$(16,245)	$67,700	$3,974,502	$14,381

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

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

	Six Months Ended June 30,	
	2014	2013
Operating Activities		
Net income	$76,865	$63,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	107,735	93,575
Loss on early extinguishment of debt	—	560
Gain on sale of land parcel	(797)	(772)
Loss on sale of real estate	—	121
Amortization of loan fees and costs	5,304	4,813
Amortization of debt premiums/discounts	136	237
Amortization of acquired above and below market leases	(1,434)	(1,660)
Deferred rent	(24,619)	(14,437)
Stock compensation expense	6,304	7,812
Investment gains	(6,225)	(2,666)
Investment losses	5,240	529
Changes in operating assets and liabilities:		
Restricted cash	—	392
Tenant receivables	(735)	847
Deferred leasing costs	(17,452)	(23,109)
Other assets	(5,916)	6,110
Accounts payable, accrued expenses, and tenant security deposits	85	8,215
Net cash provided by operating activities	144,491	144,141
Investing Activities		
Proceeds from sales of properties	17,868	101,815
Additions to properties	(210,792)	(298,927)
Purchase of properties	(97,785)	—
Change in restricted cash related to construction projects	5,650	(8,889)
Contributions to unconsolidated real estate entity	(1,405)	(4,889)
Loss in investments from unconsolidated real estate entity	—	(293)
Additions to investments	(25,358)	(14,833)
Proceeds from sales of investments	8,794	9,544
Proceeds from repayment of note receivable	29,851	—
Net cash used in investing activities	$(273,177)	$(216,472)

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

	Six Months Ended June 30,	
	2014	2013
Financing Activities		
Borrowings from secured notes payable	$77,762	$26,114
Repayments of borrowings from secured notes payable	(219,427)	(31,436)
Proceeds from issuance of unsecured senior notes payable	—	495,310
Principal borrowings from unsecured senior line of credit	637,000	305,000
Repayments of borrowings from unsecured senior line of credit	(270,000)	(871,000)
Repayment of unsecured senior bank term loan	—	(150,000)
Change in restricted cash related to financings	1,212	16,634
Deferred financing costs paid	(310)	(1,457)
Proceeds from common stock offering	—	534,469
Dividends paid on common stock	(98,867)	(73,932)
Dividends paid on preferred stock	(12,943)	(12,942)
Contributions by noncontrolling interests	19,410	—
Distributions to noncontrolling interests	(1,388)	(639)
Distributions to redeemable noncontrolling interests	(595)	(596)
Net cash provided by financing activities	131,854	235,525
Effect of foreign exchange rate changes on cash and cash equivalents	837	(1,960)
Net increase in cash and cash equivalents	4,005	161,234
Cash and cash equivalents at beginning of period	57,696	140,971
Cash and cash equivalents at end of period	$61,701	$302,205
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, net of interest capitalized	$31,922	$29,259
Non-Cash Investing Activities		
Note receivable issued in connection with sale of real estate	$—	$38,820
Change in accrued capital expenditures	$592	$(48,198)
Assumption of secured notes payable in connection with purchase of properties	$(48,329)	$—

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

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

1. Background

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

Alexandria Real Estate Equities, Inc. (NYSE:ARE), with a total market capitalization of approximately $9.3 billion as of June 30, 2014, and an asset base of 31.4 million square feet, including 17.9 million rentable square feet ("RSF") of operating and current value-creation projects, as well as an additional 13.5 million square feet in future ground-up development projects, is the largest and leading real estate investment trust ("REIT") uniquely focused on Class A assets in collaborative science and technology campuses located in urban innovation clusters. Alexandria pioneered this niche in 1994 and has since established a dominant market presence in AAA locations including Greater Boston, the San Francisco Bay Area, San Diego, New York City, Maryland, Seattle, and Research Triangle Park. Alexandria is known for its high-quality and diverse client tenant base. Alexandria is the Landlord of Choice to the Life Science Industry®, and approximately 52% of its total annualized base rent ("ABR") results from investment-grade client tenants (a REIT industry-leading percentage). Alexandria has a longstanding and proven track record of developing Class A assets clustered in urban collaborative science and technology campuses that provide its client tenants with a highly collaborative, 24/7, live/work/play environment, as well as the critical ability to successfully recruit and retain best-in-class talent. We believe these advantages result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value. For additional information on Alexandria, please visit our website at www.are.com.

Our asset base consisted of the following, as of June 30, 2014:

	Square Feet
Operating properties	15,804,327
Development properties	1,879,492
Redevelopment properties	197,289
Total operating and current value-creation projects	17,881,108
Near-term value-creation projects in North America (CIP)	2,474,163
Future value-creation projects	10,760,108
Land subject to sale negotiations	262,950
Total	31,378,329

Investment-grade client tenants represented approximately 52% of our total ABR;
Approximately 96% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index;
Approximately 94% of our leases (on an RSF basis) were triple net leases, requiring client tenants to pay substantially all real estate taxes, insurance, utilities, common area, and other operating expenses (including increases thereto) in addition to base rent and;
Approximately 93% of our leases (on an RSF basis) provided for the recapture of certain capital expenditures (such as heating, ventilation, and air conditioning ("HVAC") systems maintenance and/or replacement, roof replacement, and parking lot resurfacing) that we believe would typically be borne by the landlord in traditional office leases.

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

independent registered public accounting firm’s review of our interim consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

2. Basis of presentation

We have prepared the accompanying interim consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC"). In our opinion, the interim consolidated financial statements presented herein reflect all adjustments that are necessary to fairly present the interim consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2013.

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

We hold interests, together with certain third parties, in companies that we consolidate in our financial statements. We consolidate the companies because we exercise significant control over major decisions by these entities, such as investment activity and changes in financing.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation for discontinued operations.

Use of estimates

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

Investments in real estate, net, and discontinued operations

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

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

2. Basis of presentation (continued)

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

A property is classified as “held for sale” when all of the following criteria for a plan of sale have been met: (i) management, having the authority to approve the action, commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale of the property is probable and is expected to be completed within one year; (v) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all of these criteria have been met, the property is classified as “held for sale,” and if (i) the operations and cash flows of the property have been or will be eliminated from the ongoing operations, and (ii) we will not have any significant continuing involvement in the operations of the property after the sale, then its operations, including any interest expense directly attributable to it, are classified as discontinued operations in our consolidated statements of income, and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. Depreciation of assets ceases upon designation of a property as “held for sale.”

Impairment of long-lived assets

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

We use the “held for sale” impairment model for our properties classified as “held for sale.” The “held for sale” impairment model is different from the held and used impairment model. Under the “held for sale” impairment model, an impairment loss is recognized if the amount of the long-lived asset classified as “held for sale” exceeds its fair value less

cost to sell. Because of these two different models, it is possible for a long-lived asset previously classified as held and used to require the recognition of an impairment charge upon classification as "held for sale."

2. Basis of presentation (continued)

Investments

We hold equity investments in certain publicly traded companies and investments in certain privately held entities primarily involved in the life science industry. All of our investments in actively traded public companies are considered “available for sale” and are reflected in the accompanying consolidated balance sheets at fair value. Fair value has been determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of comprehensive income. The classification of each investment is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of each investment sold is determined by the specific identification method, with realized gains or losses classified in other income in the accompanying consolidated statements of income. Investments in privately held entities and limited partnerships are generally accounted for under the cost method when our interest in the entity is so minor that we have virtually no influence over the entity’s operating and financial policies. Certain investments in privately held entities and limited partnerships are accounted for under the equity method when our interest in the entity is not deemed so minor that we have virtually no influence over the entity’s operating and financial policies. Under the equity method of accounting, we recognize our investment initially at cost and adjust the amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. Additionally, we limit our ownership percentage in the voting interest of each individual entity to less than 10%. As of June 30, 2014, and December 31, 2013, our ownership percentage in the voting interest of each individual entity was less than 10%.

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

Income taxes

We are organized and qualify as a REIT pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). Under the Code, a REIT that distributes 100% of its REIT taxable income as a dividend to its shareholders each year and that meets certain other conditions is not subject to federal income taxes, but could be subject to certain state and local taxes. We have distributed 100% or more of our taxable income. Therefore, no provision for federal income taxes is required. We file tax returns, including returns for our subsidiaries, with federal, state, and local jurisdictions, including jurisdictions located in the United States (“U.S.”), Canada, India, China, and other international locations. Our tax returns are subject to examination in various jurisdictions for the calendar years 2009 through 2013.

Recognition of rental income and tenant recoveries

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

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

Tenant receivables consist primarily of amounts due for contractual lease payments, reimbursements of common area maintenance expenses, property taxes, and other expenses recoverable from client tenants. Tenant receivables are expected to be collected within one year. We may maintain an allowance for estimated losses that may result from the inability of our client tenants to make payments required under the terms of the lease and for tenant recoveries due. If a client tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of uncollectible rent and deferred rent receivables arising from the straight-lining of rent. As of June 30, 2014, and December 31, 2013, we had no allowance for estimated losses.

2. Basis of presentation (continued)

Monitoring client tenant credit quality

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

Interest income

Interest income was $911 thousand and $990 thousand during the three months ended June 30, 2014 and 2013, respectively. Interest income was $1.8 million and $2.3 million during the six months ended June 30, 2014 and 2013, respectively. Interest income is included in other income in the accompanying consolidated statements of income.

Impact of recently issued accounting standards

In April 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") on the reporting of discontinued operations, which raises the threshold for disposals to qualify as discontinued operations. Under this ASU, a discontinued operation is (i) a component of an entity or group of components that has been disposed of by sale, that has been disposed of other than by sale, or that is classified as "held for sale" and represents a strategic shift that has had or will have a major effect on an entity's operations and financial results or (ii) an acquired business or nonprofit activity that is classified as "held for sale" on the date of the acquisition. A strategic shift that has or will have a major effect on an entity's operations and financial results could include the disposal of (i) a major line of business, (ii) a major geographic area, (iii) a major equity method investment, or (iv) other major parts of an entity. Under current GAAP, an entity is prohibited from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after the disposal. This ASU eliminates these criteria and is effective for public companies during the interim and annual periods, beginning after December 15, 2014. We are required to adopt this ASU no later than January 1, 2015 and may early adopt this ASU during interim periods, as applicable. We expect the adoption of this ASU to result in fewer real estate sales qualifying for classification as discontinued operations in our consolidated financial statements.

In May 2014, the FASB issued an ASU that replaces substantially all industry-specific revenue recognition requirements and converges areas under this topic with International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The ASU also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. Other major provisions in this ASU include capitalizing and amortizing certain contract costs, ensuring the time value of money is considered in the applicable transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The ASU is effective for reporting periods beginning after December 15, 2016, and early adoption is prohibited. The ASU does not apply to lease contracts accounted for under current GAAP. We are currently evaluating the impact of the adoption of this ASU will have on our financial position and results of operations.

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3. Investments in real estate

Our investments in real estate, consisted of the following as of June 30, 2014, and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Rental properties	$6,668,458	$6,442,208
Less: accumulated depreciation	(1,039,810)	(952,106)
Rental properties, net	5,628,648	5,490,102
Construction in progress ("CIP")/current value-creation projects:		
Current development in North America	613,104	558,482
Current redevelopment in North America	32,139	8,856
Current development in Asia	60,944	60,928
	706,187	628,266
	6,334,835	6,118,368
Near-term value-creation projects in North America (CIP):		
50, 60, and 100 Binney Street	294,048	284,672
Other projects	108,790	97,617
	402,838	382,289
Future value-creation projects:		
North America	205,421	176,063
Asia	79,328	77,251
	284,749	253,314
Land subject to sale negotiations	7,695	22,943
Investments in real estate	$7,030,117	$6,776,914

Acquisitions

In January 2014, we acquired 3545 Cray Court, a 116,556 RSF laboratory/office property located in the Torrey Pines submarket of San Diego, for $64.0 million. The property was 100% occupied on the date of acquisition. In connection with the acquisition, we assumed a $40.7 million non-recourse secured note payable with a contractual interest rate of 4.66% and a maturity in January 2023.

In March 2014, we acquired 225 Second Avenue, a vacant 112,500 RSF office property located in the Route 128 submarket of Greater Boston, for $16.3 million. In May 2014, we leased 100% of the project to accommodate expansion requirements of an existing tenant. The property is undergoing conversion into laboratory/office space through redevelopment.

In March 2014, we acquired 4025/4031/4045 Sorrento Valley Boulevard, three adjacent buildings aggregating 42,566 RSF located in the Sorrento Valley submarket of San Diego, for a total purchase price of $12.4 million. These properties were 100% occupied on the date of acquisition. In connection with the acquisition, we assumed a $7.6 million non-recourse secured note payable with a contractual interest rate of 5.74% and a maturity in April 2016.

In April 2014, we acquired 500 Townsend Street, a land parcel supporting approximately 300,000 gross square feet, in the South of Market ("SoMa") submarket of the San Francisco Bay Area for a purchase price of $50.0 million. We are in the process of perfecting entitlements, marketing for lease, and subject to market conditions, we plan to commence construction as soon as possible in 2015.

3. Investments in real estate (continued)

Current development and redevelopment projects

As of June 30, 2014, we had six ground-up development projects in process in North America aggregating 1.4 million RSF, including an unconsolidated joint venture development project. We also had three projects undergoing redevelopment in North America aggregating 197,289 RSF.

Investment in unconsolidated real estate entity

We are currently developing a building aggregating 413,536 RSF in the Longwood Medical Area of the Greater Boston market through an unconsolidated joint venture. The cost at completion for this unconsolidated joint venture is approximately $350.0 million. The project is 37% pre-leased to Dana-Farber Cancer Institute, Inc. The joint venture had a construction loan with commitments aggregating $213.2 million with $128.0 million outstanding as of June 30, 2014. The remaining cost to complete the development is expected to be funded primarily from the remaining commitments of $85.2 million under the construction loan. The construction loan bears interest at LIBOR+3.75%, with a floor of 5.25%, and has a maturity date of April 1, 2019, inclusive of two separate one-year options to extend the stated maturity date of April 1, 2017.

We have a 27.5% interest in this unconsolidated joint venture that we account for under the equity method of accounting. Our investment under the equity method of accounting was $48.0 million as of June 30, 2014.

We do not qualify as the primary beneficiary of the unconsolidated joint venture since we do not have the power to direct the activities of the entity that most significantly impact its economic performance. The decisions that most significantly impact the entity’s economic performance require both our consent and that of our partners, including all major operating, investing, and financing decisions, as well as decisions involving major expenditures. Consequently, we do not consolidate this joint venture, and we account for our investment under the equity method of accounting.

Land undergoing predevelopment activities (CIP)

Land undergoing predevelopment activities is classified as CIP and is undergoing activities prior to commencement of construction of aboveground building improvements. We generally will not commence ground-up development of any parcels undergoing predevelopment activities without first securing pre-leasing for such space, except when there is significant market demand. If aboveground construction is not initiated at completion of predevelopment activities, the land parcel will be classified as land held for development. Our objective with predevelopment is to reduce the time it takes to deliver projects to prospective client tenants. Additionally, during predevelopment, we focus on the design of cost-effective buildings with generic and reusable infrastructure to accommodate single and multi-tenancy. As of June 30, 2014, we held land undergoing predevelopment activities in North America aggregating 2.5 million RSF. The largest project included in land undergoing predevelopment activities consists of substantially all of our 1.1 million square feet at the Alexandria Center™ at Kendall Square located in East Cambridge, Massachusetts.

Predevelopment costs generally include the following activities prior to commencement of vertical construction:

Traditional predevelopment costs, including entitlement, design, construction drawings, BIM (3-D virtual modeling), budgeting, sustainability and energy optimization reviews, permitting, and planning for all aspects of the project; and

Site and infrastructure construction costs, including belowground site work, utility connections, land grading, drainage, egress and regress access points, foundation, and other costs to prepare the site for construction of aboveground building improvements. For example, site and infrastructure costs for the 1.1 million RSF primarily

related to 50, 60, and 100 Binney Street of the Alexandria Center™ at Kendall Square are classified as predevelopment prior to commencement of vertical construction.

Land held for development

Land held for development represents real estate we plan to develop in the future, but for which, as of each period presented, no construction or predevelopment activities were ongoing. As a result, interest, property taxes, insurance, and other costs are expensed as incurred. As of June 30, 2014, we had land held for development in North America supporting an aggregate of 3.2 million RSF of ground-up development.

3. Investments in real estate (continued)

Dispositions

During the six months ended June 30, 2014, we sold a land parcel for consideration of $19.0 million to a buyer expected to reposition the property for multi-family residential use. We recognized a gain of $0.8 million on the sale. This gain is classified in gain on sale of land parcel in the accompanying consolidated statements of income.

4. Investments

We hold investments in certain publicly traded companies and privately held entities, including limited partnerships, involved primarily in life science and related industries. Our investments in publicly traded companies are accounted for as "available for sale" securities and are carried at their fair values. Investments in "available for sale" securities with gross unrealized losses as of June 30, 2014, had been in a continuous unrealized loss position for less than 12 months. We have the ability and intent to hold these investments for a reasonable period of time sufficient for the recovery of our investment. We believe that these unrealized losses are temporary, and accordingly have not recognized other-than-temporary impairments related to "available for sale" securities as of June 30, 2014. As of June 30, 2014, and December 31, 2013, there were no unrealized losses in our investments in privately held entities, including limited partnerships.

The following table summarizes our investments as of June 30, 2014, and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
"Available-for-sale" marketable equity securities, cost basis	$12,937	$2,879
Unrealized gains	19,338 [1]	2,177
Unrealized losses	(1,297)	(587)
"Available-for-sale" marketable equity securities, at fair value	30,978	4,469
Investments accounted for under cost method	143,824	135,819
Total investments	$174,802	$140,288

(1) The increase in our investments during the six months ended June 30, 2014, was primarily related to an increase in unrealized gains of approximately $16.0 million related to our investments in publicly traded life science companies. These unrealized gains are a component of our comprehensive income, within our stockholders' equity, and have not been recognized in the accompanying consolidated statement of income for the six months ended June 30, 2014.

The following table outlines our investment (loss) income, which is classified in other income in the accompanying consolidated statements of income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Investment gains	$2,185	$2,220	$6,225	$2,666
Investment losses	(3,546)	(143)	(5,240)	(529)
Investment (loss) income	$(1,361)	$2,077	$985	$2,137

5. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt as of June 30, 2014 (dollars in thousands):

	Fixed Rate/Hedged Variable-Rate	Unhedged Variable-Rate	Total Consolidated		Weighted Average Interest Rate at End of Period [1]	Weighted Average Remaining Term (in years)
Secured notes payable	$415,655	$ 199,896	$615,551		4.83 %	3.2
Unsecured senior notes payable	1,048,310	—	1,048,310		4.29	8.3
$1.5 billion unsecured senior line of credit	—	571,000	571,000	[2]	1.25	4.5
2016 Unsecured Senior Bank Term Loan	350,000	150,000	500,000	[2]	1.40	2.1
2019 Unsecured Senior Bank Term Loan	600,000	—	600,000		2.05	4.5
Total/weighted average	$2,413,965	$ 920,896	$3,334,861		3.03 %	5.1
Percentage of total debt	72 %	28 %	100 %			

(1) Represents the weighted average interest rate as of the end of the period plus the impact of debt premiums/discounts and our interest rate swap agreements. The weighted average interest rate excludes bank fees and amortization of loan fees.

(2) These amounts do not reflect our unsecured senior notes payable offering completed on July 18, 2014. Net proceeds of $694 million were used to reduce variable-rate debt, including the partial repayment of $125 million of our 2016 Unsecured Senior Bank Term Loan and the reduction of $569 million of borrowings outstanding on our unsecured senior line of credit. See Note 13 – Subsequent Events, to our consolidated financial statements (unaudited) appearing elsewhere in this quarterly report on Form 10-Q for further information.

5. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding consolidated indebtedness and respective principal maturities as of June 30, 2014 (dollars in thousands):

Debt	Stated Rate	Weighted Average Interest Rate[1]	Maturity Date[2]	Principal Payments Remaining for the Period Ending December 31, 2014	2015	2016	2017	2018	Thereafter	Total
Secured notes payable										
San Diego	5.39 %	4.00 %	11/01/14	$7,386	$—	$—	$—	$—	$—	$7,386
Seattle	6.00	6.00	11/18/14	120	—	—	—	—	—	120
Maryland	5.64	4.50	06/01/15	69	5,777	—	—	—	—	5,846
San Francisco Bay Area	L+1.50	1.66	07/01/15	—	46,399	—	—	—	—	46,399
Greater Boston, San Francisco Bay Area, and San Diego	5.73	5.73	01/01/16	862	1,816	75,501	—	—	—	78,179
Greater Boston, San Diego, and New York City	5.82	5.82	04/01/16	465	988	29,389	—	—	—	30,842
San Diego	5.74	3.00	04/15/16	83	175	6,916	—	—	—	7,174
San Francisco Bay Area	L+1.40	1.56	06/01/16	—	—	11,936	—	—	—	11,936
San Francisco Bay Area	6.35	6.35	08/01/16	1,229	2,652	126,715	—	—	—	130,596
Maryland	2.14	2.14	01/20/17	—	—	—	76,000	—	—	76,000
Greater Boston	L+1.35	1.50	08/23/17	—	—	—	65,440	—	—	65,440
San Diego, Maryland, and Seattle	7.75	7.75	04/01/20	741	1,570	1,696	1,832	1,979	106,490	114,308
San Diego	4.66	4.66	01/01/23	669	1,402	1,464	1,540	1,614	33,367	40,056
San Francisco Bay Area	6.50	6.50	06/01/37	—	18	19	20	22	751	830
Unamortized premiums				161	218	60	—	—	—	439
Secured notes payable average/subtotal	4.89 %	4.83		11,785	61,015	253,696	144,832	3,615	140,608	615,551
2016 Unsecured Senior Bank Term Loan	L+1.20 %	1.40	07/31/16	—	—	500,000	—	—	—	500,000
2019 Unsecured Senior Bank Term Loan	L+1.20 %	2.05	01/03/19	—	—	—	—	—	600,000	600,000
$1.5 billion unsecured senior	L+1.10 %[3]	1.25	01/03/19	—	—	—	—	—	571,000	571,000

line of credit											
Unsecured senior notes payable	4.60	%	4.61	04/01/22	—	—	—	—	—	550,000	550,000
Unsecured senior notes payable	3.90	%	3.94	06/15/23	—	—	—	—	—	500,000	500,000
Unamortized discounts					(82)	(170)	(177)	(184)	(192)	(885)	(1,690
Unsecured debt average/subtotal			2.63		(82)	(170)	499,823	(184)	(192)	2,220,115	2,719,31
Average/total			3.03 %		$11,703	$60,845	$753,519	$144,648	$3,423	$2,360,723	$3,334,8
Balloon payments					$7,339	$52,139	$748,836	$141,440	$—	$2,351,238	$3,300,9
Principal amortization					4,364	8,706	4,683	3,208	3,423	9,485	33,869
Total consolidated debt					$11,703	$60,845	$753,519	$144,648	$3,423	$2,360,723	$3,334,8
Fixed-rate/hedged variable-rate debt					$11,583	$14,446	$591,582	$3,208	$3,423	$1,789,723	$2,413,9
Unhedged variable-rate debt					120	46,399	161,937	141,440	—	571,000	920,896
Total consolidated debt					$11,703	$60,845	$753,519	$144,648	$3,423	$2,360,723	$3,334,8

(1) Represents the weighted average interest rate as of the end of the period plus the impact of debt premiums/discounts and our interest rate swap agreements. The weighted average interest rate excludes bank fees and amortization of loan fees.

(2) Includes any extension options that we control.

(3) In addition to the stated rate, the unsecured senior line of credit is subject to an annual facility fee of 0.20%.

5. Secured and unsecured senior debt (continued)

Interest expense

The following table summarizes interest expense for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gross interest	$28,735	$31,668	$59,871	$63,709
Capitalized interest	(11,302)	(15,690)	(23,315)	(29,711)
Interest expense	$17,433	$15,978	$36,556	$33,998

Repayment of secured note payable

In January 2014, we repaid our $208.7 million secured note payable related to Alexandria Technology Square®. Our joint venture partner funded $20.9 million of the proceeds required to repay the secured note payable.

Secured construction loans

The following table summarizes our secured construction loans as of June 30, 2014 (dollars in thousands):

Address	Market	Stated Rate	Maturity Date	Outstanding Balance	Remaining Commitments	Total Aggregate Commitments
259 East Grand Avenue	San Francisco Bay Area	L+1.50 %	7/1/15 (1)	$46,399	$8,601	$55,000
269 East Grand Avenue	San Francisco Bay Area	L+1.40 %	6/1/16 (2)	11,936	24,064	36,000
75/125 Binney Street	Greater Boston	L+1.35 %	8/23/17 (3)	65,440	184,960	250,400
				$123,775	$217,625	$341,400

(1) We have two, one-year options to extend the stated maturity date to July 1, 2017, subject to certain conditions.
(2) We have two, one-year options to extend the stated maturity date to June 1, 2018, subject to certain conditions.
(3) We have a one-year option to extend the stated maturity date to August 23, 2018, subject to certain conditions.

6. Interest rate swap agreements

We use interest rate swap agreements to hedge the variable cash flows associated with certain of our existing LIBOR-based variable-rate debt, including our unsecured senior line of credit and unsecured senior bank term loans. The ineffective portion of the change in fair value of our interest rate swap agreements is required to be recognized directly in earnings. During the six months ended June 30, 2014 and 2013, our interest rate swap agreements were 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate swap agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive loss. Amounts classified in accumulated other comprehensive loss are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. During the next 12 months, we expect to reclassify approximately $3.1 million in accumulated other comprehensive loss to interest expense as an increase to interest expense. As of June 30, 2014, and December 31, 2013, the fair values of our interest rate swap agreements aggregating an asset balance were classified in other assets, and those aggregating a liability balance were classified in accounts payable, accrued expenses, and tenant security deposits, based upon their respective fair values. Under our interest rate swap agreements, we have no collateral posting requirements.

As of June 30, 2014, the fair value of derivatives in a net liability position was $2.6 million. The Company has agreements with certain of its derivative counterparties that contain a provision wherein (i) the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness; or (ii) if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. If the Company had breached any of these provisions at June 30, 2014, it could have been required to settle its obligations under the agreements at their termination value of $2.6 million.

We had the following outstanding interest rate swap agreements that were designated as cash flow hedges of interest rate risk as of June 30, 2014 (dollars in thousands):

Effective Date	Maturity Date	Number of Contracts	Weighted Average Interest Pay Rate [(1)]	Fair Value as of 6/30/14	Notional Amount in Effect as of 6/30/14	12/31/14	12/31/15	12/31/16
December 31, 2013	December 31, 2014	2	0.98%	$ (2,114)	$500,000	$—	$—	$—
December 31, 2013	March 31, 2015	2	0.23%	(144)	250,000	250,000	—	—
March 31, 2014	March 31, 2015	4	0.21%	(75)	200,000	200,000	—	—
December 31, 2014	March 31, 2016	3	0.53%	(335)	—	500,000	500,000	—
March 31, 2016	March 31, 2017	3	1.40%	46	—	—	—	500,000
Total				$ (2,622)	$950,000	$950,000	$500,000	$500,000

(1) In addition to the interest pay rate, borrowings outstanding as of June 30, 2014, under our unsecured senior bank term loans include an applicable margin of 1.20% and borrowings outstanding under our unsecured senior line of credit include an applicable margin of 1.10%.

7. Fair value measurements

We are required to disclose fair value information about all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. We measure and disclose the estimated fair value of financial assets and liabilities utilizing a fair value hierarchy that distinguishes between data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. This hierarchy consists of three broad levels, as follows: (i) quoted prices in active markets for identical assets or liabilities, (ii) "significant other observable inputs," and (iii) "significant unobservable inputs." "Significant other observable inputs" can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. "Significant unobservable inputs" are typically based on an entity's own assumptions, since there is little, if any, related market activity. In instances in which the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers between the levels in the fair value hierarchy during the three and six months ended June 30, 2014 and 2013.

The following tables set forth the assets and liabilities that we measure at fair value on a recurring basis by level within the fair value hierarchy as of June 30, 2014, and December 31, 2013 (in thousands):

		June 30, 2014		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
"Available-for-sale" securities	$30,978	$30,978	$—	$—
Interest rate swap agreements	$46	$—	$46	$—
Liabilities:				
Interest rate swap agreements	$2,668	$—	$2,668	$—

		December 31, 2013		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
"Available-for-sale" securities	$4,469	$4,469	$—	$—
Interest rate swap agreements	$2,870	$—	$2,870	$—
Liabilities:				
Interest rate swap agreements	$6,191	$—	$6,191	$—

Cash and cash equivalents, restricted cash, tenant receivables, other assets, accounts payable, accrued expenses, and tenant security deposits approximate fair value. Our "available-for-sale" securities and our interest rate swap agreements, respectively, have been recognized at fair value. See Note 6 – Interest Rate Swap Agreements for further details on our interest rate swap agreements. The fair values of our secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were estimated using widely accepted valuation techniques, including discounted cash flow analyses of "significant other observable inputs" such as available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Because the

valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate. Additionally, the use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

7. Fair value measurements (continued)

As of June 30, 2014, and December 31, 2013, the book and fair values of our "available-for-sale" marketable equity securities, interest rate swap agreements, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	June 30, 2014		December 31, 2013	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
"Available-for-sale" marketable equity securities	$30,978	$30,978	$4,469	$4,469
Interest rate swap agreements	$46	$46	$2,870	$2,870
Liabilities:				
Interest rate swap agreements	$2,668	$2,668	$6,191	$6,191
Secured notes payable	$615,551	$664,724	$708,831	$736,772
Unsecured senior notes payable	$1,048,310	$1,081,305	$1,048,230	$1,043,125
Unsecured senior line of credit	$571,000	$570,393	$204,000	$193,714
Unsecured senior bank term loans	$1,100,000	$1,099,326	$1,100,000	$1,099,897

8. Earnings per share

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

The land parcels we sold during the three and six months ended June 30, 2014 and 2013, did not meet the criteria for classification as discontinued operations because the land parcels did not have significant operations prior to disposition. Accordingly, for the three and six months ended June 30, 2014 and 2013, we classified approximately $797 thousand and $772 thousand, respectively, as gain on sale of land parcel below income from discontinued operations, net, in the accompanying consolidated statements of income, and included the gain in income from continuing operations attributable to Alexandria's common stockholders in the "control number," or numerator, for computation of earnings per share.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of earnings per share using the two-class method. Our Series D cumulative convertible preferred stock ("Series D Preferred Stock") is not a participating security, and is not included in the computation of earnings per share using the two-class method. Under the two-class method, we allocate net income after preferred stock dividends, preferred stock redemption charge, and amounts attributable to noncontrolling interests to common stockholders and unvested restricted stock awards based on their respective participation rights to dividends declared (or accumulated) and undistributed earnings. Diluted earnings per share is computed using the weighted average shares of common stock outstanding determined for the basic earnings per share computation plus the effect of any dilutive securities, including the dilutive effect of stock options using the treasury stock method, during the period the securities were outstanding.

8. Earnings per share (continued)

The table below is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three and six months ended June 30, 2014 and 2013 (dollars in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income from continuing operations	$35,466	$32,316	$76,377	$61,716
Gain on sale of land parcel	797	772	797	772
Dividends on preferred stock	(6,472)	(6,471)	(12,943)	(12,942)
Net income attributable to noncontrolling interests	(1,307)	(980)	(2,502)	(1,962)
Net income attributable to unvested restricted stock awards	(405)	(403)	(779)	(745)
Income from continuing operations attributable to Alexandria's common stockholders – basic and diluted	28,079	25,234	60,950	46,839
(Loss) income from discontinued operations	(147)	249	(309)	1,086
Net income attributable to Alexandria's common stockholders – basic and diluted	$27,932	$25,483	$60,641	$47,925
Weighted average shares of common stock outstanding – basic and diluted	71,126	66,973	71,100	65,078
Earnings per share attributable to Alexandria's common stockholders – basic and diluted:				
Continuing operations	$0.39	$0.38	$0.85	$0.72
Discontinued operations	—	—	—	0.02
Earnings per share – basic and diluted	$0.39	$0.38	$0.85	$0.74

For purposes of calculating diluted earnings per share, we did not assume conversion of our Series D Preferred Stock for the three and six months ended June 30, 2014 and 2013, since the impact was antidilutive to earnings per share attributable to Alexandria's common stockholders from continuing operations during those periods.