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COMPANY INTERVIEW

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Alexandria Real Estate Equities, Inc. (NYSE:ARE)

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Alexandria Real Estate Equities, Inc. (NYSE:ARE)

DEAN A. SHIGENAGA has served as Executive Vice President of Alexandria Real Estate Equities, Inc., since May 2012, Treasurer since March 2008 and Chief Financial Officer since December 2004. He served in various other executive roles within Alexandria from December 2000 to December 2004. Mr. Shigenaga is a CPA and a member of the American Institute of Certified Public Accountants. He received his B.S. degree in accounting from the University of Southern California.

SECTOR — REAL ESTATE

(AZY603) TWST: For readers who might not be familiar with the company, let's start with a brief overview of Alexandria's history and business focus.

Mr. Shigenaga: Alexandria's history is really unique. The founders identified the opportunity to become the first and best-in-class REIT uniquely focused on world-class collaborative science and technology campuses in AAA innovation cluster locations. The company was founded with only \$19 million in initial seed capital back in 1994 and has since grown into a leading company in the REIT sector with a total market capitalization of \$11 billion. We have about 25 million rentable square feet in North America, with significant market presence in key centers of innovation, including Greater Boston/Cambridge, San Francisco, New York City, San Diego, Seattle, Maryland and Research Triangle Park. Our mission focuses on the development of dynamic urban cluster campuses and vibrant ecosystems that enable and inspire the world's most brilliant minds and innovative companies to create life-changing scientific and technological breakthroughs.

TWST: Would you tell us more about your tenant base, including specific examples if you are able to or, more generally, the kinds of companies they are and how many are investment-grade?

Mr. Shigenaga: Our tenant base is predominantly focused on the life science industry. 52% of our annualized base rent — ABR — today is generated from investment-grade tenants. Within our overall business and primary mix of tenants, large multinational, large market-cap pharma companies generate about 21% of our ABR. Life science product, service and device-related businesses, which tend to be a revenue-producing segment of our tenant base, generate about 21% of our ABR.

The institutional segment of our tenant mix is about 20%, and that consists of universities, nonprofits and some U.S. government, but that's really focused on translational research needs. Public biotechnology companies are roughly 27% of our ABR. An important segment, high-quality private biotech companies are about 8% of the business. Traditional office and tech office space is about 3% of our total ABR.

If you think of our top 20 tenants, they are very diversified, and we're not concentrated on any single tenant. The top tenant is only 4.8% of our total ABR. Within the top 20, 81% of our ABR is

from investment-grade tenants. We have very long lease durations, which is healthy for the revenue predictability, including 8.2 years of average remaining lease durations for our top 20 tenants, which include the likes of Novartis, Illumina, NYU and MIT — which are a part of our institutional segment — Eli Lilly, Amgen, Roche, Dana-Farber, Biogen and a number of other really high-quality companies. So our top 20 tenants, substantially almost all of which are investment-grade, generate about 49% of our total ABR.

TWST: Could you use a recent example of leasing activity to illustrate your tenants and typical lease terms?

Mr. Shigenaga: 2015 was a record year for leasing activity at Alexandria. We had the opportunity to proactively work through an environment that was fairly supply-constrained in each of our core markets, very little supply of Class A product, and we also had the opportunity to lease up and commence construction on a number of ground-up development sites — the combination of which drove leasing activity in 2015 to about 5 million square feet. If you think about lease duration, these development projects, bringing brand-new product to the market, typically capture lease terms in the 10- to 20-year range. Most of the requirements have been really high-quality growth expansion needs of biotech and pharma companies.

In the last couple of years, as an example, we've developed a number of buildings for Illumina, one of the leaders in the gene-sequencing area of the industry. We've also done some expansion for Eli Lilly, Roche and Dana-Farber. A few years ago, we completed a development for Biogen in Cambridge, and we're working on development projects today for Bristol-Myers Squibb and Sanofi Genzyme in Cambridge as well. We're dealing with some of the largest and the highest-quality biopharma companies today, which represent the bulk of the demand and growth opportunities for our business.

TWST: You have a project in San Francisco with TMG Partners. Is it unusual for Alexandria to JV with another company like this? And what else would you note in terms of recently completed or ongoing development?

Mr. Shigenaga: TMG is a highly experienced development team with a great track record of designing, entitling and constructing first-class facilities for the technology sector. They're highly respected in Silicon Valley, well-connected with the development agencies and various parties that come into play with ground-up development projects. TMG represented a great partner

to do business with on technology opportunities in San Francisco. We don't engage in development partners too often unless there is a great opportunity to bring expertise into our business.

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We do have a project in the Longwood Medical Area of Boston, where we partnered with National Development, which has tremendous experience, is highly respected in that particular market, and has remarkable success with entitling and developing projects. In that case, we took advantage of the opportunity to bring in a development partner in that manner. Typically though, we do our ground-up developments on our own. We have a tremendous team with development and project management experience, and that has really allowed us to excel in the development component of our external growth platform.

TWST: What should investors understand in terms of how your properties differ from typical office space? I would imagine they are more tenant-improvement-intensive, for example. How do those expenses but also rental rates compare?

Mr. Shigenaga: First and foremost, location is a key attribute of our real estate footprint, with our campuses and properties strategically located in some of the most innovative urban centers across the country. The building exteriors look like traditional Class A office buildings, but our properties differ from typical office space in the interior of the facilities. Laboratory research space is very unique and tends to, in comparison to traditional office, have higher floor-to-floor heights, typically 13 feet to 16 feet in a laboratory building; more robust mechanical systems, which allow for 100% of fresh air in the laboratory space versus two to three changes of air per hour in traditional office; as well as more robust electrical and plumbing systems, primarily for the research needs and laboratory equipment.

But the rental rates vary market by market. More importantly, traditional office has more volatility in rental rates over cycles, so they tend to peak at highs as well as hit extreme lows during the down cycle. Laboratory rents operate within a narrower bandwidth. Our operating performance has been extremely consistent over multiple years. As an example, over 10 years, our same-property cash net operating income — NOI — growth has averaged about 9% annually. I think that reflects the quality of our real estate location focus, as well as the quality of the facilities that we bring to our markets and well-managed tenant relationships through our science and technology research team.

TWST: The non-real-estate-specific things that the company does — such as the Venture Fund, the Alexandria Summit and the recently launched Seed Fund — tell us about

these and what their importance is for Alexandria as a real estate owner and operator.

Mr. Shigenaga: Alexandria is a mission-driven company. Our niche business is focused on four core verticals: real estate, venture investments, thought leadership and corporate social responsibility. First, our real estate, which is focused on collaborative science and technology campuses in AAA cluster locations, is an essential element of our business model. Our real estate provides sustainable and vibrant environments that support the critical efforts of leading-edge companies to develop new medicines and technologies to improve human health.

Our business also focuses on venture investments through our strategic venture capital arm, Alexandria Venture Investments, which has a little over \$300 million invested in equity securities as of March 31, primarily within the life science and technology industries. Our average investment is about \$1.3 million. Most of these investments are made in early-stage private companies, and to the extent they are acquired by a public company, we then have a small portfolio of publicly traded securities.

From day one, the primary strategy behind our venture-investment side of the business was to develop a knowledge base within the company around the key areas of growth within science and technology, and then be able to integrate the key areas of growth and to target areas of tenancy for the business. Second, we wanted to make money investing in high growth emerging companies, and we've done very well. It has also made us a very important player within the life science industry.

As a mission-driven company, we are always looking for new ways to enable life science and technology breakthroughs, and we understand that funding the growth of companies is integral for catalyzing innovation in our clusters. The Seed Fund that you mentioned is a new initiative that we announced in June, which will provide seed-stage capital to support entrepreneurship and emerging companies across the New York City life science ecosystem. As the developer of the Alexandria Center for Life Science, Manhattan's first and only commercial life science park, we have a very active and important role in fostering and supporting life science innovation in New York City. We recognized the urgent need to solve the funding bottleneck that New York City seed-stage companies currently face as the quality of science spinning out of the city's leading academic medical institutions continues to reach new heights, and decided to take action and create a seed fund to address the funding gap and further support the growth of the New York City life science community.

I think that ties well into part of your question about our thought leadership programming with the Alexandria Summit and Converge at the Alexandria Center in New York City. Our thought leadership platform has really become an important component of our business. We've built a global network, a group of diverse key stakeholders in pharma, biotech, technology, medicine, academia, finance, venture capital, philanthropy, patients as well as the government to bring about a highly unique and interactive environment for conferences and events. We're really focused on fostering collaboration and innovation across the fields of both science and technology, and it's through this collective voice that is convened at these events that we can drive really high-impact programs to inspire actionable outcomes that will shape the future of health care,

and the development of new drugs and therapies for the industry.

Finally, our corporate social responsibility vertical is fundamental to everything we do at Alexandria. In each of our markets, we build highly sustainable work environments that support the success of our tenants. Through our strategic corporate giving, we support scientific research, development, and education, programs and organizations that cultivate growth in the local communities where we live and work, and many other unique philanthropic opportunities. Also, our community volunteerism engages our team members across the country to work together to improve the health and vitality of our local communities.

What I think is truly unique about Alexandria is, first, we're a great real estate company, but our involvement in the life science industry is really driving change. It's a unique aspect that brings in a bit of a franchise value to the business that is almost unquantifiable with the relationships with all the key players in the industry that we have access to.

TWST: How much non-real-estate exposure does an investor end up having as a result?

Mr. Shigenaga: Roughly \$300 million on a roughly \$9 billion balance sheet, so it's a pretty small percentage. It typically will range somewhere in the 2% to 4% over time. Importantly, a portion of the securities are publicly traded today. We have about a \$22 million cost base, and the fair value of the securities today are approximately \$85 million, so it's about three times return on our cost. We are making money. So I think the real estate investors in our business actually have an incremental benefit to the total return performance through the portfolio of non-real-estate investments.

TWST: What are the key trends in the life sciences industry that you are focused on today as a result of the company's network?

Mr. Shigenaga: The life science industry fundamentals are actually very solid today. Innovation, as we know, is really the key to solving disease and lowering long-term health care cost in the U.S. Our tenants are developing drugs to improve both the quality of life and reduce long-term health care cost. The FDA has become much more collaborative and efficient recently, and when you combine that with a strong product pipeline, this has and will continue to result in a very strong volume of drug approvals by the FDA. I think over the last five years, there has been a 64% increase in the average drug approvals each year, which was recently averaging about 36 drug approvals per year, and the FDA review time has been reduced significantly by 61% to roughly nine months, which is down from 24 months. I think the most exciting statistic is that 54% of these FDA drug approvals over the last five years have been received by Alexandria's tenants.

And I think one of the more interesting developments recently within the industry has been the convergence of science and technology, which is focused on the acceleration of drug discovery programs and innovation within the life science industry. We believe this important intersection will be a significant driver of innovation going forward. A couple of examples in this area of technology integrating with the life science industry: IBM Watson just took

some space in one of our facilities in Cambridge, Massachusetts, and they're focused on accelerating drug discovery programs and innovation solutions with the power of Big Data through their IBM Watson cloud systems. And Verily, which is the life science subsidiary of Alphabet, is also looking at transforming health care with technology. So there is an exciting evolution coming about with the intersection of traditional technology with the life science industry, which I think will significantly accelerate innovation in the next number of years. It's a very exciting part of our business today.

TWST: What do you consider the highlights of your most recent quarterly results?

Mr. Shigenaga: Our results for the first quarter can be summarized simply as another solid quarter of consistent execution of our business strategy. Over the past roughly two years, we have delivered 25% growth in funds from operations — FFO — per share, 36% growth in net asset value per share and 18% growth in our quarterly common stock dividends per share. I think these three key operating and performing statistics really are the primary drivers to what we believe will drive total return performance.

Specifically, for the first quarter, FFO per share growth was up 4.7% over the first quarter of 2015. Total revenues were up 9.8%. We delivered very solid internal growth: 17% growth in cash rental rates on our leasing activity, 6.2% same-property cash net operating income growth. And importantly, we continued very disciplined execution of our external growth, which is focused on our 81% leased pipeline of development and redevelopment projects that will ultimately generate incremental annual net operating income of approximately \$200 million. This represents a 40% increase in NOI over our NOI run rate for the first quarter of 2016.

TWST: Is there anything else you think investors should know about Alexandria?

Mr. Shigenaga: In closing, Alexandria really has a unique business strategy that has allowed us to deliver solid internal growth and external growth. Our key internal growth drivers over 10 years have resulted in average occupancy over that time period of 95%. Our cash same-property NOI growth has averaged 5% over that same 10-year period. And we're well-positioned with a highly visible external growth pipeline, which I think is really unique within the REIT industry — again, the ability to deliver, primarily in 2016 and 2017, incremental NOI to the business of roughly 40% growth over the current run rate, all backed by very solid industry fundamentals. So we believe we're well-positioned to continue great execution going forward.

TWST: Thank you. (MN)

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