ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
November 04, 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 September 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 October 17, 2014, 72,007,833 shares of common stock, par value $.01 per share, were outstanding.

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GLOSSARY

Abbreviations or acronyms frequently used in this document:

ABR	Annualized Base Rent
ACKS	The Alexandria Center™ at Kendall Square in the Greater Boston Area
AFFO	Adjusted Funds from Operations
ASU	Accounting Standards Update
bps	Basis Points
CIP	Construction in Progress
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
EPS	Earnings per Share
FASB	Financial Accounting Standards Board
FFO	Funds from Operations
GAAP	U.S. Generally Accepted Accounting Principles
HVAC	Heating, Ventilation, and Air Conditioning
JV	Joint Venture
LEED	Leadership in Energy and Environmental Design
LIBOR	London Interbank Offered Rate
NAREIT	National Association of Real Estate Investment Trusts
NOI	Net Operating Income
REIT	Real Estate Investment Trust
RSF	Rentable Square Feet
SEC	Securities and Exchange Commission
SoMa	South of Market submarket of the San Francisco Bay Area
TI	Tenant Improvement
U.S.	United States
VIE	Variable Interest Entity

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2014	December 31, 2013
Assets		
Investments in real estate	$7,197,630	$6,776,914
Cash and cash equivalents	67,023	57,696
Restricted cash	24,245	27,709
Tenant receivables	10,830	9,918
Deferred rent	225,506	190,425
Deferred leasing and financing costs	199,835	192,658
Investments	177,577	140,288
Other assets	117,668	134,156
Total assets	$8,020,314	$7,529,764
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$636,825	$708,831
Unsecured senior notes payable	1,747,290	1,048,230
Unsecured senior line of credit	142,000	204,000
Unsecured senior bank term loans	975,000	1,100,000
Accounts payable, accrued expenses, and tenant security deposits	504,535	435,342
Dividends payable	57,549	54,420
Total liabilities	4,063,199	3,550,823
Commitments and contingencies		
Redeemable noncontrolling interests	14,348	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	714	712
Additional paid-in capital	3,523,195	3,572,281
Accumulated other comprehensive loss	(28,711)	(36,204)
Alexandria's stockholders' equity	3,875,198	3,916,789
Noncontrolling interests	67,569	47,708
Total equity	3,942,767	3,964,497
Total liabilities, noncontrolling interests, and equity	$8,020,314	$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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental	$137,718	$116,052	$403,280	$342,071
Tenant recoveries	45,572	38,691	128,198	110,125
Other income	2,325	3,572	6,725	10,132
Total revenues	185,615	158,315	538,203	462,328
Expenses:				
Rental operations	57,423	47,684	162,283	139,147
General and administrative	12,609	11,666	39,669	35,769
Interest	20,555	16,171	57,111	50,169
Depreciation and amortization	58,388	48,866	166,123	141,039
Loss on early extinguishment of debt	525	1,432	525	1,992
Total expenses	149,500	125,819	425,711	368,116
Income from continuing operations	36,115	32,496	112,492	94,212
(Loss) income from discontinued operations	(180)	(43)	(489)	1,043
Gain on sales of land parcels	8	—	805	772
Net income	35,943	32,453	112,808	96,027
Dividends on preferred stock	(6,471)	(6,472)	(19,414)	(19,414)
Net income attributable to noncontrolling interests	(1,340)	(960)	(3,842)	(2,922)
Net income attributable to unvested restricted stock awards	(506)	(442)	(1,285)	(1,187)
Net income attributable to Alexandria’s common stockholders	$27,626	$24,579	$88,267	$72,504
EPS attributable to Alexandria’s common stockholders – basic and diluted:				
Continuing operations	$0.39	$0.35	$1.25	$1.06
Discontinued operations	—	—	(0.01)	0.02
EPS – basic and diluted	$0.39	$0.35	$1.24	$1.08
Dividends declared per share of common stock	$0.72	$0.68	$2.14	$1.93

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$35,943	$32,453	$112,808	$96,027
Other comprehensive (loss) income:				
Unrealized (losses) gains on marketable securities:				
Unrealized holding (losses) gains arising during the period	(2,454)	(37)	13,591	323
Reclassification adjustment for losses (gains) included in net income	111	(250)	517	(480)
Unrealized (losses) gains on marketable securities, net	(2,343)	(287)	14,108	(157)
Unrealized gains on interest rate swap agreements:				
Unrealized interest rate swap gains (losses) arising during the period	1,206	(676)	(2,708)	(704)
Reclassification adjustment for amortization of interest expense included in net income	1,129	3,904	5,742	12,046
Unrealized gains on interest rate swap agreements, net	2,335	3,228	3,034	11,342
Unrealized losses on foreign currency translation:				
Unrealized foreign currency translation losses during the period	(12,259)	(3,404)	(9,450)	(26,461)
Reclassification adjustment for gains included in net income	(199)	—	(199)	—
Unrealized losses on foreign currency translation, net	(12,458)	(3,404)	(9,649)	(26,461)
Total other comprehensive (loss) income	(12,466)	(463)	7,493	(15,276)
Comprehensive income	23,477	31,990	120,301	80,751
Less: comprehensive income attributable to noncontrolling interests	(1,340)	(933)	(3,842)	(2,839)
Comprehensive income attributable to Alexandria's common stockholders	$22,137	$31,057	$116,459	$77,912

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

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

	Alexandria Real Estate Equities, Inc.'s Stockholders' Equity									
	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	—	—	—	—	—	108,966	—	3,045	112,011	797
Total other comprehensive income	—	—	—	—	—	—	7,493	—	7,493	—
Contributions by noncontrolling interests	—	—	—	—	—	—	—	19,410	19,410	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(2,594)	(2,594)	(893)
Issuances pursuant to stock plan	—	—	199,628	2	15,031	—	—	—	15,033	—
Dividends declared on common stock	—	—	—	—	—	(153,669)	—	—	(153,669)	—
Dividends declared on preferred stock	—	—	—	—	—	(19,414)	—	—	(19,414)	—
Distributions in excess of earnings	—	—	—	—	(64,117)	64,117	—	—	—	—
Balance as of September 30, 2014	$250,000	$130,000	71,371,825	$714	$3,523,195	$—	$(28,711)	$67,569	$3,942,767	$14,348

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)

	Nine Months Ended September 30,	
	2014	2013
Operating Activities		
Net income	$112,808	$96,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166,123	142,677
Loss on early extinguishment of debt	525	1,992
Gain on sales of land parcels	(805)	(772)
Loss on sales of real estate	—	121
Amortization of loan fees and costs	8,090	7,300
Amortization of debt premiums/discounts	100	383
Amortization of acquired above and below market leases	(2,191)	(2,490)
Deferred rent	(35,511)	(20,007)
Stock compensation expense	9,372	11,541
Investment gains	(9,481)	(4,716)
Investment losses	8,725	529
Changes in operating assets and liabilities:		
Restricted cash	—	1,243
Tenant receivables	(939)	(271)
Deferred leasing costs	(25,910)	(37,190)
Other assets	(12,228)	(11,428)
Accounts payable, accrued expenses, and tenant security deposits	36,446	51,437
Net cash provided by operating activities	255,124	236,376
Investing Activities		
Proceeds from sales of properties	28,378	101,815
Additions to properties	(345,074)	(450,140)
Purchase of properties	(97,785)	(24,537)
Deposits for property acquisitions	(7,292)	—
Change in restricted cash related to construction projects	6,694	5,711
Investment in unconsolidated real estate JVs	(67,525)	(13,881)
Additions to investments	(35,484)	(22,835)
Proceeds from sales of investments	13,883	12,750
Proceeds from repayment of notes receivable	29,866	—
Net cash used in investing activities	$(474,339)	$(391,117)

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

	Nine Months Ended September 30,	
	2014	2013
Financing Activities		
Borrowings from secured notes payable	$108,626	$26,319
Repayments of borrowings from secured notes payable	(228,909)	(34,120)
Proceeds from issuance of unsecured senior notes payable	698,908	498,561
Principal borrowings from unsecured senior line of credit	890,000	319,000
Repayments of borrowings from unsecured senior line of credit	(952,000)	(871,000)
Repayment of unsecured senior bank term loan	(125,000)	(250,000)
Repurchase of unsecured senior convertible notes	—	(384)
Change in restricted cash related to financings	375	923
Deferred financing costs paid	(7,989)	(16,247)
Proceeds from common stock offering	—	535,686
Dividends paid on common stock	(150,540)	(120,367)
Dividends paid on preferred stock	(19,414)	(19,414)
Contributions by noncontrolling interests	19,410	—
Distributions to noncontrolling interests	(2,594)	(2,100)
Distributions to redeemable noncontrolling interests	(893)	—
Net cash provided by financing activities	229,980	66,857
Effect of foreign exchange rate changes on cash and cash equivalents	(1,438)	752
Net increase (decrease) in cash and cash equivalents	9,327	(87,132)
Cash and cash equivalents at beginning of period	57,696	140,971
Cash and cash equivalents at end of period	$67,023	$53,839
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, net of interest capitalized	$33,783	$34,281
Non-Cash Investing Activities		
Note receivable issued in connection with sale of real estate	$—	$38,820
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,” “ARE,” “Alexandria,” “we,” “our,” and “us” refe
Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries.

Alexandria Real Estate Equities, Inc. (NYSE:ARE), with a total market capitalization of $9.1 billion as of September 30, 2014, and an asset base of 31.6 million square feet, including 18.5 million RSF of operating and current value-creation projects, as well as an additional 13.1 million square feet in future ground-up development projects, is the largest and leading 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, New York City, San Diego, Seattle, Maryland, 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 53% of its total ABR results from investment-grade client tenants. 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 ecosystems, 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 www.are.com.

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

	Square Feet
Operating properties	16,373,416
Development properties	1,941,186
Redevelopment properties	143,777
Total operating and current value-creation projects	18,458,379
Near-term value-creation projects in North America (CIP)	1,926,331
Future value-creation projects	10,983,108
Land under sales contract	250,000
Total	31,617,818

Investment-grade client tenants represented approximately 53% of our total ABR;
Approximately 95% of our leases (on an RSF basis) contained effective annual rent escalations that were either fixed (generally ranging from 3% to 3.5%) or indexed based on a consumer price index or other index;
Approximately 95% 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 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 GAAP and in conformity with the rules and regulations of the SEC. In our opinion, the interim consolidated financial statements presented herein reflect all adjustments 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.

Consolidation

The accompanying consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated. In certain circumstances, we may enter into joint venture arrangements with outside partners. On a quarterly basis, we evaluate each JV arrangement under the VIE model and if the entity is determined not to be a VIE, then we evaluate the entity under the voting model to determine if the entity should be consolidated.

Under the VIE model an entity is determined to be a VIE if it has any of the following characteristics:

- the entity does not have enough equity to finance its activities without additional subordinated financial support;
- the equity holders, as a group, lack the characteristics of a controlling financial interest, or
- the legal entity is established with non-substantive voting rights.

If an entity is determined to be a VIE, we evaluate whether we are the primary beneficiary. We perform this evaluation on a quarterly basis. We use qualitative analyses when determining whether or not we are the primary beneficiary of a VIE. Factors considered include, but are not limited to, the purpose and design of the VIE, risks that the VIE was designed to create and pass through, the form of our ownership interest, our representation on the entity's governing body, the size and seniority of our investment, our ability to participate in policy-making decisions, and the rights of the other investors to participate in the decision-making process and/or liquidate the venture, if applicable. We consolidate VIEs whenever we determine that we are the primary beneficiary.

If an entity is determined not to be a VIE, we then evaluate such entity under the voting model. Under the voting model, if we are the general partner, managing member, or a similar role that can direct the operations of the entity, we have a presumption that we control the entity and we should consolidate regardless of our ownership percentage. If we determine that the other equity holders have any one of the following rights, it is assumed that we do not control the entity and therefore should not consolidate the entity: (i) the substantive ability to dissolve the entity or remove us from the lead role of the entity, or (ii) substantive rights that allow them to participate in the activities that most significantly impact the entity's economic performance.

As of September 30, 2014, we have two joint ventures that do not meet the requirements for consolidation and are accounted for under the equity method of accounting. See Note 3 – Investments in Real Estate, to our consolidated financial statements (unaudited) appearing elsewhere in this quarterly report on Form 10-Q for further information on our unconsolidated real estate entities.

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.

2. Basis of presentation (continued)

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 TIs, 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.

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 (including the removal of significant contingencies or the fulfillment of significant conditions precedent to the sale) 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."

2. Basis of presentation (continued)

Impairment of long-lived assets

Long-lived assets to be held and used, including our rental properties, land held for development, CIP, 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 CIP, are assessed by project and include significant fluctuations in estimated 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 to be held and used, to require the recognition of an impairment charge upon classification as held for sale.

Investments

We hold equity investments in certain publicly traded companies and investments in certain privately held entities 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 September 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.

2. Basis of presentation (continued)

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 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 expense for uncollectible accounts in future periods equal to the amount of uncollectible rent and tenant recoveries, and deferred rent receivables arising from the straight-lining of rent. As of September 30, 2014, and December 31, 2013, we had no allowance for uncollectible receivables.

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 tenants and their respective businesses, (iv) monitoring the timeliness of lease payments, and (v) periodically meeting with our client tenants' senior management. 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 their credit quality and any material changes in credit quality.

Interest and other income

Interest and other income was $2.0 million and $1.2 million during the three months ended September 30, 2014 and 2013, respectively. Interest and other income was $3.8 million and $3.5 million during the nine months ended September 30, 2014 and 2013, respectively. Interest and other income is included in other income in the accompanying consolidated statements of income.

2. Basis of presentation (continued)

Impact of recently issued accounting standards

In April 2014, the FASB issued an 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 non-profit 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.

3. Investments in real estate

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

	September 30, 2014	December 31, 2013
Rental properties	$6,849,966	$6,442,208
CIP/current value-creation projects:		
Current development in North America	532,053	511,838
Current redevelopment in North America	32,661	8,856
Current development in Asia	35,602	60,928
	600,316	581,622
Near-term value-creation projects in North America (CIP):		
50, 60, and 100 Binney Street	313,379	284,672
Other projects	90,843	97,617
	404,222	382,289
Future value-creation projects:		
North America	221,572	176,063
Asia	78,319	77,251
	299,891	253,314
Land under sales contract	12,236	22,943
Near-term and future value-creation projects	716,349	658,546
Gross investments in real estate	8,166,631	7,682,376
Less: accumulated depreciation	(1,083,169)	(952,106)
Equity method of accounting – unconsolidated JV	114,168	46,644
Investments in real estate	$7,197,630	