Sung Nam
November 15, 2012

Alexandria Real Estate Equities (ARE)

The co. is the largest life science real estate company with 173 properties, 15.3MM in rentable square footage, of which 95% is leased. They focused on retiring debt, improving cashflows through development, and amending unsecured credit lines in 2011. Interest coverage ratio is 3.4x and debt to EBITDA is 7x. We love how management provided the maturity schedule for their debt, as well as the retirement of certain debt at the beginning of the 10K to emphasize their deleveraging, thereby increasing the available unsecured line of credit from $0.5B to $1.2B.

Key Debt Financings	Maturity Date	Amount Outstanding	Weighted Average Interest Rate (2)	Date of Loan
2017 Unsecured Bank Term Loan	1/31/2017	$ 600,000	1.93%	December 2011
Refinancing of a secured loan	4/20/2014	76,000	2.29	December 2011
2016 Unsecured Bank Term Loan	6/30/2016	750,000	3.28	June 2011
Unsecured line of credit (1)	1/31/2015	370,000	2.59	January 2011
		$ 1,796,000	2.65%	

	Debt Repayments	Loss on Early Extinguishment of Debt
Repurchase of 3.70% Unsecured Convertible Notes	$ 217,133	$ 5,237
Repayment of 2012 Unsecured Bank Term Loan	500,000	1,248
Secured loan repayments	55,677	–
	$ 772,810	$ 6,485

Acquisition/Leasing

The co. has been acquiring properties from a 6.0 to 8.0 "stabilization yield on cost", or quotient of NOI and investment in property at stabilization, which would be the figures after the renovation. 95% of leases were triple net leases, or where the tenant is responsible for base rent payments as well as taxes, utilities, insurance, common area, and operating expenses, and 94% included effective annual rent escalations. A great website explaining the triple net agreement can be found in this link. CCIM The investors who purchase properties with NNN agreements are essentially purchasing the lease, more so than the building and land.

Year of Lease Expiration	Number of Leases Expiring	Rentable Square Footage ("RSF") of Expiring Leases	Percentage of Aggregate Total RSF	Annualized Base Rent of Expiring Leases (per RSF)
2012	89 (1)	1,289,154 (1)	9.5%	$27.13
2013	84	1,338,019	9.8	29.27
2014	77	1,305,724	9.6	29.73
2015	57	1,222,622	9.0	32.79
2016	47	1,370,504	10.1	31.21
2017	30	1,069,380	7.9	32.88
2018	21	1,160,033	8.5	36.24
2019	11	499,498	3.7	35.50
2020	15	731,631	5.4	40.39
2021	18	611,863	4.5	38.42

Properties

Focus on San Diego, San Francisco, NY, Boston, Washington D.C., Seattle and International. Encumberances represent the dollar amount of which the properties are used as collateral for secured notes.

	Rentable Square Feet							% of	
Markets	Operating	Develop-ment	Redevelop-ment	Total	% of Total	# of Properties	Annualized Base Rent (1)	Annualized Base Rent	Encum-brances (2)
California – San Diego	2,038,575	168,685	407,474	2,614,734	17.1%	35	$ 65,628	15.8%	$ 116,666
California – San Francisco	2,269,578	319,766	–	2,589,344	16.9	24	83,542	20.2	165,576
Greater Boston	3,124,818	303,143	329,438	3,757,399	24.5	39	117,080	28.3	244,636
NYC/New Jersey/Suburban Philadelphia	748,216	–	–	748,216	4.9	9	33,186	8.0	15,071
North Carolina – Research Triangle Park	822,919	–	18,060	840,979	5.5	13	17,787	4.3	–
Suburban Washington, D.C.	2,447,674	–	105,706	2,553,380	16.7	32	54,074	13.1	138,316
Washington – Seattle	887,824	–	59,179	947,003	6.2	11	33,527	8.1	44,040
Other non-cluster markets	61,002	–	–	61,002	0.4	2	763	0.2	–
Domestic markets	12,400,606	791,594	919,857	14,112,057	92.2	165	405,587	98.0	724,305
International	1,069,651	26,426	–	1,096,077	7.2	5	8,503	2.0	–
Subtotal	13,470,257	818,020	919,857	15,208,134	99.4	170	$ 414,090	100.0%	$ 724,305
Discontinued Operations/ "Held for Sale"	97,740	–	–	97,740	0.6	3			
Total	13,567,997	818,020	919,857	15,305,874	100.0%	173			

Investment

The co. essentially acts like a fund manager of 474 leases, or contracts that is structured similar to a bond cash flow, minus the par recovery at the end, as well as participating in capital gain/loss when they decide to dispose of the properties. I would imagine the co. generates consistent cash flow, and FFO is $200MM annually and EBITDA of $375MM covers the $120 MM in interest payments and $28 MM in preferred stock dividends. Net debt of $2.7BB is not much compared to the $6BB historic acquisition cost for the properties.

So the debt can be secured by the assets, ensuring the continued flow of cash to repay preferred common shareholders, and 90% of earnings to common shareholders, which has averaged $75 MM. Stable dividend payments.

The co. is adding about $700 MM to new investments, mainly financed by operating cash flow and new issuance of shares. The co. has paid down a lot of debt, which has low interest rates. Not sure why the co. doesn't issue more debt, in order to take advantage of the lower cost of capital, but from the creditors' perspective, the deleveraging allows the co. to borrow at lower rates. Should the co. halt their investment activity, the co. would be flushed with cash. We value the co.'s equity piece at $5BB, and the overall EV at $8.5BB. A $75 MM dividend on $5 BB is a measly 1.5% yield, but the current market equity price at $4BB props the figure up to a comparable 3%. Our valuation took the historic costs at face, but the market is pricing in weaker market prices for those properties, and possibly focusing more on the dividend yield than the asset value of the properties.