ALEXANDRIA REAL ESTATE EQUITIES INC
Form 10-Q
May 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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 x 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 x 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,” “smaller reporting company,” and “emerging growth 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
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 x

As of April 16, 2018, 102,982,599 shares of common stock, par value $0.01 per share, were outstanding.

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GLOSSARY

The following abbreviations or acronyms that may be used in this document shall have the adjacent meanings set forth below:

ASU	Accounting Standards Update
ATM	At the Market
CIP	Construction in Progress
EPS	Earnings per Share
FASB	Financial Accounting Standards Board
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
REIT	Real Estate Investment Trust
RSF	Rentable Square Feet/Foot
SEC	Securities and Exchange Commission
SF	Square Feet/Foot
SoMa	South of Market (submarket of the San Francisco market)
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)

	March 31, 2018	December 31, 2017
Assets		
Investments in real estate	$10,671,227	$10,298,019
Investments in unconsolidated real estate joint ventures	169,865	110,618
Cash and cash equivalents	221,645	254,381
Restricted cash	37,337	22,805
Tenant receivables	11,258	10,262
Deferred rent	467,112	434,731
Deferred leasing costs	226,803	221,430
Investments	724,310	523,254
Other assets	291,639	228,453
Total assets	$12,821,196	$12,103,953
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	$775,689	$771,061
Unsecured senior notes payable	3,396,912	3,395,804
Unsecured senior line of credit	490,000	50,000
Unsecured senior bank term loans	548,197	547,942
Accounts payable, accrued expenses, and tenant security deposits	783,986	763,832
Dividends payable	93,065	92,145
Total liabilities	6,087,849	5,620,784
Commitments and contingencies		
Redeemable noncontrolling interests	10,212	11,509
Alexandria Real Estate Equities, Inc.'s stockholders' equity:		
7.00% Series D cumulative convertible preferred stock	74,386	74,386
Common stock	1,007	998
Additional paid-in capital	6,117,976	5,824,258
Accumulated other comprehensive income	1,228	50,024
Alexandria Real Estate Equities, Inc.'s stockholders' equity	6,194,597	5,949,666
Noncontrolling interests	528,538	521,994
Total equity	6,723,135	6,471,660
Total liabilities, noncontrolling interests, and equity	$12,821,196	$12,103,953

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 March 31,	
	2018	2017
Revenues:		
Rental	$244,485	$207,193
Tenant recoveries	73,170	61,346
Other income	2,484	2,338
Total revenues	320,139	270,877
Expenses:		
Rental operations	91,771	77,087
General and administrative	22,421	19,229
Interest	36,915	29,784
Depreciation and amortization	114,219	97,183
Loss on early extinguishment of debt	—	670
Total expenses	265,326	223,953
Equity in earnings of unconsolidated real estate joint ventures	1,144	361
Investment income	85,561	—
Gain on sale of real estate – rental property	—	270
Net income	141,518	47,555
Net income attributable to noncontrolling interests	(5,888)	(5,844)
Net income attributable to Alexandria Real Estate Equities, Inc.'s stockholders	135,630	41,711
Dividends on preferred stock	(1,302)	(3,784)
Preferred stock redemption charge	—	(11,279)
Net income attributable to unvested restricted stock awards	(1,941)	(987)
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$132,387	$25,661
Net income per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders:		
Basic	$1.33	$0.29
Diluted	$1.32	$0.29
Dividends declared per share of common stock	$0.90	$0.83

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 March 31,	
	2018	2017
Net income	$141,518	$47,555
Other comprehensive income		
Unrealized gains on public investments:		
Unrealized holding gains arising during the period	—	10,421
Reclassification adjustment for losses included in net income	—	133
Unrealized gains on public investments, net	—	10,554
Unrealized gains on interest rate hedge agreements:		
Unrealized interest rate hedge gains arising during the period	1,982	1,217
Reclassification adjustment for amortization of interest (income) expense included in net income	(678)	905
Unrealized gains on interest rate hedge agreements, net	1,304	2,122
Unrealized (losses) gains on foreign currency translation:		
Unrealized foreign currency translation (losses) gains arising during the period	(329)	1,012
Reclassification adjustment for cumulative foreign currency translation losses included in net income upon sale or liquidation	—	2,421
Unrealized (losses) gains on foreign currency translation, net	(329)	3,433
Total other comprehensive income	975	16,109
Comprehensive income	142,493	63,664
Less: comprehensive income attributable to noncontrolling interests	(5,888)	(5,848)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	$136,605	$57,816

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								
	7.00% Series D Cumulative Convertible Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance as of December 31, 2017	$74,386	99,783,686	$998	$5,824,258	$ —	$ 50,024	$521,994	$6,471,660	$ 11,509
Net income	—	—	—	—	135,630	—	5,674	141,304	214
Total other comprehensive income	—	—	—	—	—	975	—	975	—
Reclassification of cumulative net unrealized gains on non-real estate investments upon adoption of new ASU on financial instruments	—	—	—	—	140,521	(49,771)	—	90,750	—
Redemption of noncontrolling interests	—	—	—	—	—	—	—	—	(1,297)
Distributions to noncontrolling interests	—	—	—	—	—	—	(5,709)	(5,709)	(214)
Contributions from noncontrolling interests	—	—	—	—	—	—	6,579	6,579	—
Issuance of common stock	—	843,600	8	99,361	—	—	—	99,369	—
Issuance pursuant to stock plan	—	69,075	1	11,488	—	—	—	11,489	—
Dividends declared on common stock	—	—	—	—	(91,980)	—	—	(91,980)	—
Dividends declared on preferred stock	—	—	—	—	(1,302)	—	—	(1,302)	—

Reclassification for cumulative distributions in excess of earnings	—	—	—	182,869	(182,869)		—	—	—
Balance as of March 31, 2018	$74,386	100,696,361	$1,007	$6,117,976	$ —	$1,228	$528,538	$6,723,135	$10,212

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)

	Three Months Ended March 31, 2018	2017
Operating Activities		
Net income	$141,518	$47,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,219	97,183
Loss on early extinguishment of debt	—	670
Gain on sale of real estate – rental property	—	(270)
Equity in earnings of unconsolidated real estate joint ventures	(1,144)	(361)
Distributions of earnings from unconsolidated real estate joint ventures	144	125
Amortization of loan fees	2,543	2,895
Amortization of debt premiums	(575)	(596)
Amortization of acquired below-market leases	(6,170)	(5,359)
Deferred rent	(32,631)	(35,592)
Stock compensation expense	7,248	5,252
Investment income	(85,561)	(1,487)
Changes in operating assets and liabilities:		
Tenant receivables	(988)	(235)
Deferred leasing costs	(13,819)	(16,072)
Other assets	(14,279)	(3,987)
Accounts payable, accrued expenses, and tenant security deposits	18,416	17,923
Net cash provided by operating activities	128,921	107,644
Investing Activities		
Proceeds from sales of real estate	—	2,827
Additions to real estate	(206,404)	(218,473)
Purchases of real estate	(303,156)	(217,643)
Deposits for investing activities	(7,786)	3,200
Acquisitions of interests in unconsolidated real estate joint ventures	(35,922)	—
Investments in unconsolidated real estate joint ventures	(22,325)	—
Additions to investments	(50,287)	(43,974)
Sales of investments	27,842	5,707
Net cash used in investing activities	$(598,038)	$(468,356)

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

	Three Months Ended March 31,	
	2018	2017
Financing Activities		
Borrowings from secured notes payable	$6,142	$73,401
Repayments of borrowings from secured notes payable	(1,189)	(829)
Proceeds from issuance of unsecured senior notes payable	—	424,384
Borrowings from unsecured senior line of credit	1,035,000	1,139,000
Repayments of borrowings from unsecured senior line of credit	(595,000)	(1,167,000)
Repayments of borrowings from unsecured senior bank term loans	—	(200,000)
Payment of loan fees	—	(4,335)
Repurchase of 7.00% Series D cumulative convertible preferred stock	—	(17,934)
Proceeds from the issuance of common stock	99,369	217,759
Dividends on common stock	(91,060)	(73,705)
Dividends on preferred stock	(1,302)	(3,617)
Contributions from noncontrolling interests	6,579	6,888
Distributions to and purchases of noncontrolling interests	(7,220)	(5,322)
Net cash provided by financing activities	451,319	388,690
Effect of foreign exchange rate changes on cash and cash equivalents	(406)	185
Net (decrease) increase in cash, cash equivalents, and restricted cash	(18,204)	28,163
Cash, cash equivalents, and restricted cash as of the beginning of period	277,186	141,366
Cash, cash equivalents, and restricted cash as of the end of period	$258,982	$169,529
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest, net of interest capitalized	$35,493	$30,080
Non-Cash Investing Activities:		
Change in accrued construction	$19,565	$(1,693)
Non-Cash Financing Activities:		
Payable for redemption of preferred stock	$—	$130,000

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

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

1. Organization and basis of presentation

Alexandria Real Estate Equities, Inc. (NYSE:ARE), an S&P 500® company, is an urban office REIT uniquely focused on collaborative life science and technology campuses in AAA innovation cluster locations. As used in this quarterly report on Form 10 Q, references to the "Company," "Alexandria," "ARE," "we," "us," and "our" refer to Alexandria Real Esta Equities, Inc. and its consolidated subsidiaries. The accompanying unaudited 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 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, of a normal recurring nature, 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, 2018. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10 K for the year ended December 31, 2017. Any references to our market capitalization, number or quality of buildings, quality of location, square footage, number of leases, occupancy percentage, and tenants, and any amounts derived from these values in the notes to consolidated financial statements, are outside the scope of our independent registered public accounting firm's interim review.

2. Summary of significant accounting policies

Consolidation

On an ongoing basis, as circumstances indicate the need for reconsideration, we evaluate each legal entity that is not wholly owned by us in accordance with the consolidation guidance. Our evaluation considers all of our variable interests, including equity ownership, as well as fees paid to us for our involvement in the management of each partially owned entity. To fall within the scope of the consolidation guidance, an entity must meet both of the following criteria:

- The entity has a legal structure that has been established to conduct business activities and to hold assets; such entity can be in the form of a partnership, limited liability company, or corporation, among others; and
- We have a variable interest in the legal entity – i.e., variable interests that are contractual, such as equity ownership, or other financial interests that change with changes in the fair value of the entity's net assets.

If an entity does not meet both criteria above, we apply other accounting literature, such as the cost or equity method of accounting. If an entity does meet both criteria above, we evaluate such entity for consolidation under either the variable interest model if the legal entity meets any of the following characteristics to qualify as a VIE, or under the voting model for all other legal entities that are not VIEs.

A legal entity is determined to be a VIE if it has any of the following three characteristics:

1) The entity does not have sufficient equity to finance its activities without additional subordinated financial support;
2) The entity is established with non-substantive voting rights (i.e., where the entity deprives the majority economic interest holder(s) of voting rights); or
3)

The equity holders, as a group, lack the characteristics of a controlling financial interest. Equity holders meet this criterion if they lack any of the following:

- The power, through voting rights or similar rights, to direct the activities of the entity that most significantly influence the entity's economic performance, as evidenced by:
- Substantive participating rights in day-to-day management of the entity's activities; or
- Substantive kick-out rights over the party responsible for significant decisions;
- The obligation to absorb the entity's expected losses; or
- The right to receive the entity's expected residual returns.

2. Summary of significant accounting policies (continued)

Once we consider the sufficiency of equity and voting rights of each legal entity, we then evaluate the characteristics of the equity holders' interests, as a group, to see if they qualify as controlling financial interests. Our real estate joint ventures consist of limited partnerships or limited liability companies. For an entity structured as a limited partnership or a limited liability company, our evaluation of whether the equity holders (equity partners other than us in each of our joint ventures) lack the characteristics of a controlling financial interest includes the evaluation of whether the limited partners or non-managing members (the noncontrolling equity holders) lack both substantive participating rights and substantive kick-out rights, defined as follows:

- Participating rights provide the noncontrolling equity holders the ability to direct significant financial and operating decisions made in the ordinary course of business that most significantly influence the entity's economic performance.
- Kick-out rights allow the noncontrolling equity holders to remove the general partner or managing member without cause.

If we conclude that any of the three characteristics of a VIE are met, including that the equity holders lack the characteristics of a controlling financial interest because they lack both substantive participating rights and substantive kick-out rights, we conclude that the entity is a VIE and evaluate it for consolidation under the variable interest model.

Variable interest model

If an entity is determined to be a VIE, we evaluate whether we are the primary beneficiary. The primary beneficiary analysis is a qualitative analysis based on power and benefits. We consolidate a VIE if we have both power and benefits – that is, (i) we have the power to direct the activities of a VIE that most significantly influence the VIE's economic performance (power), and (ii) we have the obligation to absorb losses of the VIE that could potentially be significant to the VIE, or the right to receive benefits from the VIE that potentially could be significant to the VIE (benefits). We consolidate VIEs whenever we determine that we are the primary beneficiary. Refer to Note 4 – "Consolidated and Unconsolidated Real Estate Joint Ventures" to these unaudited consolidated financial statements for information on specific joint ventures that qualify as VIEs. If we have a variable interest in a VIE but we are not the primary beneficiary, we account for our investment using the equity method of accounting.

Voting model

If a legal entity fails to meet any of the three characteristics of a VIE (due to insufficiency of equity, existence of non-substantive voting rights, or lack of a controlling financial interest), we then evaluate such entity under the voting model. Under the voting model, we consolidate the entity if we determine that we, directly or indirectly, have greater than 50% of the voting shares and that other equity holders do not have substantive participating rights. Refer to Note 4 – "Consolidated and Unconsolidated Real Estate Joint Ventures" to these unaudited consolidated financial statements for further information on our unconsolidated real estate joint ventures that qualify for evaluation under the voting model.

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

Evaluation of business combination or asset acquisition

We evaluate each acquisition of real estate or in-substance real estate (including equity interests in entities that predominantly hold real estate assets) to determine whether the integrated set of assets and activities acquired meets the definition of a business and need to be accounted as a business combination. An acquisition of an integrated set of assets and activities that does not meet the definition of a business is accounted for as an asset acquisition. If either of the following criteria is met, the integrated set of assets and activities acquired would not qualify as a business:

- Substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets; or
- The integrated set of assets and activities is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., revenue generated before and after the transaction).

2. Summary of significant accounting policies (continued)

An acquired process is considered substantive if:

- The process includes an organized workforce (or includes an acquired contract that provides access to an organized workforce) that is skilled, knowledgeable, and experienced in performing the process;
- The process cannot be replaced without significant cost, effort, or delay; or
- The process is considered unique or scarce.

Generally, we expect that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e., land, buildings, and related intangible assets) or because the acquisition does not include a substantive process in the form of an acquired workforce or an acquired contract that cannot be replaced without significant cost, effort, or delay. When evaluating acquired service or management contracts, we consider the nature of the services performed, the terms of the contract relative to similar arm's-length contracts, and the availability of comparable vendors in evaluating whether the acquired contract constitutes a substantive process.

Recognition of real estate acquired

For acquisitions of real estate or in-substance real estate that are accounted for as business combinations, we recognize the assets acquired (including the intangible value of acquired above- or below-market leases, acquired in-place leases, tenant relationships, and other intangible assets or liabilities), liabilities assumed, noncontrolling interests, and previously existing ownership interests at fair value as of the acquisition date. Any excess (deficit) of the consideration transferred relative to the fair value of the net assets acquired is accounted for as goodwill (bargain purchase gain). Acquisition costs related to business combinations are expensed as incurred.

Acquisitions of real estate and in-substance real estate that do not meet the definition of a business are accounted for as asset acquisitions. The accounting model for asset acquisitions is similar to the accounting model for business combinations except that the acquisition consideration (including acquisition costs) is allocated to the individual assets acquired and liabilities assumed on a relative fair value basis. As a result, asset acquisitions do not result in the recognition of goodwill or a bargain purchase gain. Additionally, because the accounting model for asset acquisitions is a cost accumulation model, preexisting interests in the acquired assets, if any, are not remeasured to fair value but continue to be accounted for at their historical cost. Direct acquisition costs are capitalized if an asset acquisition is probable. If we determine that an asset acquisition is no longer probable, no new costs are capitalized and all capitalized costs that are not recoverable are expensed.

The relative fair values used to allocate the cost of an asset acquisition are determined by the same methodologies and assumptions we utilize to determine fair value in a business combination.

If a real estate property is acquired with an in-place lease that contains 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 its space 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 renewal option will be exercised, we consider the option 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 under the 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.

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 up to 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 terms of the related leases and recognized as either increases (for below-market leases) or decreases (for above-market leases) to rental revenue. The values of acquired above- and below-market ground leases are amortized over the terms of the related ground leases and recognized as either increases (for below-market ground leases) or decreases (for above-market ground leases) to rental operating expense. 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. Summary of significant accounting policies (continued)

Capitalized project costs

We capitalize project costs, including pre-construction costs, interest, property taxes, insurance, and other costs directly related and essential to the development, redevelopment, pre-construction, or construction of a project. Capitalization of development, redevelopment, pre-construction, and construction costs is required while activities are ongoing to prepare an asset for its intended use. Fluctuations in our development, redevelopment, pre-construction, 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, pre-construction, or construction activity 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.

Real estate sales

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. Depreciation of assets ceases upon designation of a property as held for sale.

If the disposal of a property represents a strategic shift that has (or will have) a major effect on our operations or financial results, such as (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, then the operations of the property, 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. The disposal of an individual property generally will not represent a strategic shift and, therefore, will typically not meet the criteria for classification as a discontinued operation.

Impairment of long-lived assets

On a quarterly basis, we review current activities and changes in the business conditions of all of our properties prior to and subsequent to the end of each quarter to determine the existence of any triggering events requiring an impairment analysis. If triggering events are identified, we review an estimate of the future undiscounted cash flows for the properties, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration.

Long-lived assets to be held and used, including our rental properties, CIP, land held for development, and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying 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, CIP, land held for development, and intangibles, are assessed by project and include significant fluctuations in estimated net operating income, 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 carrying 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. Summary of significant accounting policies (continued)

International operations

In addition to operating properties in the U.S., we have three operating properties in Canada and one operating property in China. The functional currency for our subsidiaries operating in the U.S. is the U.S. dollar. The functional currencies for our foreign subsidiaries are the local currencies in each respective country. The assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect as of the financial statement date. Income statement accounts of our foreign subsidiaries are translated using the weighted-average exchange rate for the periods presented. Gains or losses resulting from the translation are classified in accumulated other comprehensive income as a separate component of total equity.

Whenever a foreign investment meets the criteria for classification as held for sale, we evaluate the recoverability of the investment under the held for sale impairment model. We may recognize an impairment charge if the carrying amount of the investment exceeds its fair value less cost to sell. In determining an investment's carrying amount, we consider its net book value and any cumulative unrealized foreign currency translation adjustment related to the investment.

The appropriate amounts of foreign exchange rate gains or losses classified in accumulated other comprehensive income are reclassified to net income when realized upon the sale of our investment or upon the complete or substantially complete liquidation of our investment.

Investments

We hold investments in publicly traded companies and privately held entities primarily involved in the life science and technology industries. As a REIT, we generally limit our ownership percentage in the voting stock of each individual entity to less than 10%.

Prior to January 1, 2018

Prior to the adoption of a new ASU on financial instruments effective January 1, 2018, all of our equity investments in actively traded public companies were considered available-for-sale and were reflected in the accompanying consolidated balance sheets at fair value. Fair value was determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of other comprehensive income within equity (excluded from net income). The classification of each investment was determined at the time each investment was made, and such determination was reevaluated at each balance sheet date. The cost of each investment sold was determined by the specific identification method, with realized gains or losses classified in other income in the accompanying consolidated statements of operations. Investments in privately held entities were generally accounted for under the cost method when our interest in the entity was so minor that we had virtually no influence over the entity's operating and financial policies. Investments in privately held entities were accounted for under the equity method unless our interest in the entity was deemed to be so minor that we had virtually no influence over the entity's operating and financial policies. Under the equity method of accounting, we recognized our investment initially at cost and adjusted the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

We periodically assessed our investments in available-for-sale equity securities and privately held companies accounted for under the cost method for other-than-temporary impairment. We monitored 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 were evaluated for impairment when changes in conditions indicated an impairment may exist. The factors that we considered in making these assessments included, but were 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 an unrealized loss related to an available-for-sale equity security was determined to be other-than-temporary, such unrealized loss was reclassified from other comprehensive income within equity into earnings. For a cost method investment, if a decline in the fair value of an investment below its carrying value was determined to be other-than-temporary, such investment was written down to its estimated fair value with a charge to earnings. If there were no identified events or changes in circumstances that might have had an adverse effect on our cost method investments, we did not estimate the investment's fair value.

2. Summary of significant accounting policies (continued)

Effective January 1, 2018

Beginning on January 1, 2018, under the new ASU, equity investments (except those accounted for under the equity method and those that result in consolidation of the investee) are measured at fair value, with changes in fair value recognized in net income, as follows:

- Investments in publicly traded companies are classified as investments with readily determinable fair values. These investments are carried at fair value, with changes in fair value recognized through earnings, rather than other comprehensive income within equity. The fair values for our investments in publicly traded companies continue to be determined based on sales prices/quotes available on securities exchanges, or published prices that serve as the basis for current transactions.
- Investments in privately held entities without readily determinable fair values fall into two categories:
- Investments in privately held entities that report net asset value per share ("NAV"), such as our privately held investments in limited partnerships, are carried at fair value using NAV as a practical expedient with changes in fair value recognized in net income.
- Investments in privately held entities that do not report NAV are accounted for using a measurement alternative which allows these investments to be measured at cost, adjusted for observable price changes and impairments, with changes recognized in net income.

For investments in privately held entities that do not report NAV, an observable price is a price observed in an orderly transaction for an identical or similar investment of the same issuer. Observable price changes result from, among other things, equity transactions for the same issuer executed during the reporting period including subsequent equity offerings or other reported equity transactions. For these transactions to be considered observable price changes, we evaluate whether the investments have similar rights and obligations including voting rights, distribution preferences, conversion rights, and other factors to the investments we hold.

Investments in privately held entities that do not report NAV will continue to be evaluated on the basis of a qualitative assessment for indicators of impairment, utilizing the same monitoring criteria described above. If such indicators are present, we are required to estimate the investment's fair value and immediately recognize an impairment loss, without consideration as to whether the impairment is other-than-temporary, in an amount equal to the investment's carrying value in excess of its estimated fair value.

Investments in privately held entities will continue to be accounted for under the equity method unless our interest in the entity is deemed to be so minor that we have virtually no influence over the entity's operating and financial policies. Under the equity method of accounting, we continue to recognize our investment initially at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

Initial adoption of new ASU

On January 1, 2018, we recognized the following adjustments upon adoption of the new ASU:

- For investments in publicly traded companies, reclassification of unrealized gains as of December 31, 2017, aggregating $49.8 million, from accumulated other comprehensive income to retained earnings.
- For investments in privately held entities without readily determinable fair values that were previously accounted for under the cost method:
-

Adjustment to investments for unrealized gains aggregating $90.8 million related to investments in privately held entities that report NAV, representing the difference between fair value as of December 31, 2017, using NAV as a practical expedient, and the carrying value of the investments as of December 31, 2017, with a corresponding adjustment to retained earnings.

- No adjustment was required for investments in privately held entities that do not report NAV. The ASU requires a prospective transition approach for investments in privately held entities that do not report NAV. The FASB clarified that it would be difficult for entities to determine the last observable transaction price existing prior to the adoption of this ASU. Therefore, unlike our investments in privately held entities that report NAV that were adjusted to reflect fair values upon adoption of the new ASU, our investments in privately held entities that do not report NAV were not retrospectively adjusted to fair values upon adoption. As such, any initial valuation adjustments made for investments in privately held entities that do not report NAV subsequent to January 1, 2018 as a result of future observable price changes will include recognition of cumulative unrealized gains or losses equal to the difference between the carrying basis of the investment and the observable price at the date of measurement.

2. Summary of significant accounting policies (continued)

Recognition of rental income and tenant recoveries

Rental revenue from operating leases is recognized on a straight-line basis over the respective lease terms. We classify amounts currently recognized as rental revenue in our consolidated statements of income, and amounts expected to be received in later years as deferred rent in the accompanying consolidated balance sheets. Amounts received currently but recognized as revenue 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 revenue at the date the property is ready for its intended use and the tenant takes possession of or controls the physical use of the property.

Rental revenue from direct financing leases is recognized over the respective lease terms using the effective interest rate method. At lease inception, we record an asset within other assets in our consolidated balance sheets, which represents our net investment in the direct financing lease. This initial net investment is determined by aggregating the total future minimum lease payments attributable to the direct financing lease and the estimated residual value of the property less unearned income. Over the lease term, the investment in the direct financing lease is reduced and rental income is recognized as rental revenue in our consolidated statements of income and produces a constant periodic rate of return on the net investment in the direct financing lease.

Tenant recoveries related to reimbursement of real estate taxes, insurance, utilities, repairs and maintenance, common area expenses, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred and the tenant's obligation to reimburse us arises.

Tenant receivables consist primarily of amounts due for contractual lease payments and tenant recoveries. These 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 tenants to make payments required under the terms of the lease and for tenant recoveries due. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of uncollectible tenant receivables and deferred rent arising from the straight-lining of rent. As of March 31, 2018, and December 31, 2017, no allowance for uncollectible tenant receivables and deferred rent was deemed necessary.

Monitoring tenant credit quality

During the term of each lease, we monitor the credit quality of our tenants by (i) monitoring the credit rating of tenants that are rated by a nationally recognized credit rating agency, (ii) reviewing financial statements of the 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, and (iv) monitoring the timeliness of lease payments. Our research team is responsible for assessing and monitoring the credit quality of our tenants and any material changes in their credit quality.

Income taxes

We are organized and operate as a REIT pursuant to the Internal Revenue Code (the "Code"). Under the Code, a REIT that distributes at least 90% of its REIT taxable income to its stockholders annually (excluding net capital gains) and meets certain other conditions is not subject to federal income tax on its distributed taxable income, but could be subject to certain federal, foreign, state, and local taxes. We distribute 100% of our taxable income annually; therefore, a provision for federal income taxes is not required. In addition to our REIT returns, we file federal, foreign, state, and local tax returns for our subsidiaries. We file with jurisdictions located in the U.S., Canada, India, China, and other international locations. Our tax returns are subject to routine examination in various jurisdictions for the 2012 through 2016 calendar years.

On December 22, 2017, the U.S. President signed a tax reform bill commonly referred to as the Tax Cuts and Jobs Act into law. The tax reform legislation is a far-reaching and complex revision to the U.S. federal income tax laws with disparate and, in some cases, countervailing effect on different categories of taxpayers and industries. The legislation is unclear in many respects and will require clarification and interpretation by the U.S. Treasury Department and the Internal Revenue Service (“IRS”) in the form of amendments, technical corrections, regulations, or other forms of guidance, any of which could lessen or increase the effect of the legislation on us or our stockholders. The outcome of this legislation on state and local tax authorities, and the response by such authorities, is also unclear. We will continue to monitor changes made to, or as a result of, the federal tax law and its potential effect on us.

2. Summary of significant accounting policies (continued)

Employee share-based payments

We account for forfeitures of share-based awards granted to employees when they occur. This entity-wide accounting policy election only applies to service conditions; for performance conditions, we continue to assess the probability that such conditions will be achieved. As a result of this election, we recognize expense on share-based awards with the time-based vesting condition without reduction for an estimate of forfeitures. Expenses related to forfeited awards are reversed as forfeitures occur. In addition, all nonforfeitable dividends paid on share-based payment awards are initially recognized in retained earnings and reclassified to compensation cost only if forfeitures of the underlying awards occur.

Recent accounting pronouncements

Lease accounting

Overview related to both lessee and lessor accounting

In February 2016, the FASB issued an ASU that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a lease agreement (i.e., lessees and lessors). The ASU is effective for us no later than January 1, 2019, with early adoption permitted. We expect to adopt the new lease accounting standard on January 1, 2019. The ASU requires us to identify lease and nonlease components of a lease agreement. This ASU will govern the recognition of revenue for lease components. Revenue related to nonlease components under our lease agreements will be subject to the new revenue recognition standard, effective upon adoption of the new lease accounting standard. However, in March 2018, the FASB tentatively approved significant changes to the application of this ASU by lessors to lease and nonlease components within lease agreements. See further discussion related to this update and other proposed changes in the "Lessor Accounting" section below.

The lease ASU sets new criteria for determining the classification of finance leases for lessees and sales-type leases for lessors. The criteria to determine if a lease should be accounted for as a finance (sales-type) lease include the following: (i) ownership is transferred from lessor to lessee by the end of the lease term, (ii) an option to purchase is reasonably certain to be exercised, (iii) the lease term is for the major part of the underlying asset's remaining economic life, (iv) the present value of lease payments exceeds substantially all of the fair value of the underlying asset, and (v) the underlying asset is specialized and is expected to have no alternative use at the end of the lease term. If any of these criteria is met, a lease will be classified as a finance lease by the lessee and as a sales-type lease by the lessor. If none of the criteria are met, a lease will be classified as an operating lease by the lessee, but may still qualify as a direct financing lease or an operating lease for the lessor. The existence of a residual value guarantee by either the lessee or any other third party unrelated to the lessor may qualify the lease as a direct financing lease by the lessor. Otherwise, the lease will be classified as an operating lease by both the lessee and lessor.

The lease ASU requires the use of the modified retrospective transition method and does not allow for a full retrospective approach. However, it provides two options for the application of the modified retrospective transition method:

- Under the first option, this ASU requires application of the standard to all leases that exist at, or commence after, January 1, 2017 (the beginning of the earliest comparative period presented in the 2019 financial statements), with a cumulative adjustment to the opening balance of retained earnings on January 1, 2017, for the effect of applying the standard at the date of initial application, and restatement of the amounts presented prior to January 1, 2019.

- Under the second option, an entity may elect a practical expedient package, which allows for the following:

- An entity need not reassess whether any expired or existing contracts are or contain leases;
- An entity need not reassess the lease classification for any expired or existing leases; and
- An entity need not reassess initial direct costs for any existing leases.

This practical expedient package is available as a single election that must be consistently applied to all existing leases at the date of adoption. Lessors that adopt this package are not expected to reassess expired or existing leases at the date of initial application, which is January 1, 2017, under the ASU. This option enables entities to "run off" their existing leases for the remainder of the respective lease terms, which eliminates the need to calculate a cumulative adjustment to the opening balance of retained earnings.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Lease accounting (continued)

Furthermore, in March 2018, the FASB directed its staff to issue an ASU that provides an optional transition method to make January 1, 2019, the initial application date of the ASU, rather than January 1, 2017. Consequently, entities that elect both the practical expedient package and the optional transitional method will apply the new lease ASU prospectively to leases commencing or modified after January 1, 2019, and will not be required to apply the disclosures under the new lease ASU to comparative periods.

Under either option above, lessees will be required to recognize a right-of-use asset and a lease liability for all operating leases on the date of the initial application based on the present value of the remaining minimum rental payments that were tracked and disclosed under current accounting standards.

The FASB has also clarified that the lease ASU will require an assessment of whether a land easement meets the definition of a lease under the new lease ASU. An entity with existing land easements that are not accounted for as leases under the current lease accounting standards, however, may elect a practical expedient to exclude those land easements from assessment under the new lease accounting standards. The new lease ASU will be applied to all land easement arrangements entered into or modified on and after the ASU effective date; however, it is expected to have little or no effect on land easements that contain minimal or no consideration.

Lessor accounting

We recognized revenue from our lease agreements aggregating $307.2 million for the three months ended March 31, 2018. This revenue consisted primarily of rental revenue and tenant recoveries aggregating $234.1 million and $73.2 million, respectively.

Under current accounting standards, we recognize rental revenue from our operating leases on a straight-line basis over the respective lease terms. We commence recognition of rental revenue at the date the property is ready for its intended use and the tenant takes possession of or controls the physical use of the property. We recognize rental revenue from direct financing leases over the lease term using the effective interest rate method.

Under current accounting standards, tenant recoveries related to payments of real estate taxes, insurance, utilities, repairs and maintenance, common area expenses, and other operating expenses are considered lease components. We recognize these tenant recoveries as revenue when services are rendered in an amount equal to the related operating expenses incurred that are recoverable under the terms of the applicable lease. Under the new lease ASU, tenant recoveries for utilities, repairs and maintenance, and common area expenses are expected to primarily be categorized as nonlease components. Tenant recoveries for taxes and insurance are expected to be neither lease nor nonlease components under the lease ASU but instead will be considered additional lease revenue to be recognized by the lessor and classified within rental income in our consolidated statements of income.

Under the lease ASU, each lease agreement will be evaluated to identify the lease components and nonlease components at lease inception. The total consideration in the lease agreement will be allocated to the lease and nonlease components based on their relative standalone selling prices. Lessors will continue to recognize the lease revenue component using an approach that is substantially equivalent to existing guidance for operating leases (straight-line basis). Sale-type and direct financing leases will be accounted for as financing transactions with the lease payments being allocated to principal and interest utilizing the effective interest rate method.

In March 2018, the FASB directed its staff to issue an ASU to allow lessors to elect, as a practical expedient, not to allocate the total consideration to lease and nonlease components based on their relative standalone selling prices. If adopted, this single-lease component practical expedient will allow lessors to elect a combined single-lease component presentation if (i) the timing and pattern of transfer of the lease component and the nonlease component(s) associated with it are the same, and (ii) the lease component would be classified as an operating lease if it were accounted for separately. Nonlease components that do not meet the criteria of this practical expedient will be accounted for under the new revenue recognition ASU. The Board also decided to require lessors to account for a combined component that meets these two criteria under the new revenue recognition ASU if the nonlease component is the predominant component. If the nonlease component is not the predominant component, entities will be able to account for the combined component as an operating lease in accordance with the new lease ASU.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Lease accounting (continued)

If we elect the single-lease component practical expedient mentioned above, tenant recoveries that qualify for this expedient will be presented in rental revenue as a single-lease component and accounted for under the new lease ASU, primarily as variable consideration. Tenant recoveries that do not qualify for the single-lease component practical expedient and are considered nonlease components will be accounted for under the new revenue recognition ASU upon adoption of the new lease ASU.

Costs to execute leases

The new ASU will require that lessors and lessees capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease (e.g. commissions paid to leasing brokers). Under this ASU, allocated payroll costs and legal costs incurred as part of the leasing process prior to the execution of a lease will no longer qualify for classification as initial direct costs but will instead be expensed as incurred. During the three months ended March 31, 2018, we capitalized $4.2 million of such costs. Under the new lease ASU, these costs will be expensed as incurred. We will have the option, under the practical expedient package provided by the lease ASU, to continue to amortize previously capitalized initial direct costs incurred prior to the adoption of the ASU.

Lessee accounting

Under the new lease ASU, lessees are required to apply a dual approach by classifying leases as either finance or operating leases based on the principle of whether the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, which corresponds to a similar evaluation performed by lessors. In addition to this classification, a lessee is also required to recognize a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification, whereas a lessor is not required to recognize a right-of-use asset and a lease liability for any operating leases. Leases with a lease term of 12 months or less will be accounted for in a manner similar to existing guidance for operating leases (straight-line basis).

The ASU requires the recognition of a right-of-use asset and a related liability to account for our future obligations under our ground and office lease arrangements for which we are the lessee. At the date of initial application, depending on the practical expedients we elect as discussed above, we will be required to recognize a lease liability measured based on the present value of the remaining lease payments. The right-of-use asset will be equal to the corresponding lease liability, adjusted for initial direct leasing cost and any other consideration exchanged with the landlord prior to the commencement of the lease.

As of March 31, 2018, the remaining contractual payments under our ground and office lease agreements for which we are the lessee aggregated $590.7 million, and the estimated present value of these payments is in the range from $170.0 million to $230.0 million. This estimated present value range is based on a weighted average remaining lease term of 48 years and within a one-percent range of the current weighted average incremental borrowing rate of 5.96%. The actual lease liability and right-of-use asset to be recognized upon adoption of the new lease ASU will vary depending on changes to our incremental borrowing rate and the practical expedients we elect as discussed above.

All of our existing ground and office leases for which we are the lessee are currently classified as operating leases. Under the practical expedient package provided by the lease ASU, we will have the option to continue to classify these leases as operating leases upon adoption of the lease ASU. We are still evaluating the effect to our consolidated financial statements from the initial recognition of each lease asset and liability upon adoption, and the pattern of recognition of ground lease expense subsequent to adoption.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Allowance for credit losses

In June 2016, the FASB issued an ASU that changes the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the other-than-temporary impairment model. The ASU will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures (e.g., loan commitments). The ASU is effective for reporting periods beginning after December 15, 2019, with early adoption permitted, and will be applied as a cumulative adjustment to retained earnings as of the effective date. We are currently assessing the potential effect the adoption of this ASU will have on our consolidated financial statements.

Revenue Recognition

Recognition of revenue arising from contracts with customers

On January 1, 2018, we adopted an ASU on revenue recognition that requires a new model for recognition of revenue arising from contracts with customers, as well as recognition of gains and losses from the transfer of nonfinancial assets arising from contracts with noncustomers. A customer is distinguished from a noncustomer by the nature of the goods or services that are transferred. Customers are provided with goods or services that are generated by a company’s ordinary output activities, whereas noncustomers are provided with nonfinancial assets that are outside of a company’s ordinary output activities.

The core principle underlying the ASU on recognition of revenue arising from contracts with customers is that an entity must recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in such exchange. This requires entities to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The ASU requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that we (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy the performance obligation.

An entity is also required to determine if it controls the goods or services prior to the transfer to the customer in order to determine if it should account for the arrangement as a principal or agent. Principal arrangements, where the entity controls the goods or services provided, results in the recognition of the gross amount of consideration expected in the exchange. Agent arrangements, where the entity simply arranges but does not control the goods or services being transferred to the customer, results in the recognition of the net amount the entity is entitled to retain in the exchange. Upon adoption of the new lease ASU in 2019, we will be required to classify our tenant recoveries into lease and nonlease components, whereby the nonlease components would be subject to the ASU on recognition of revenue arising from contracts with customers. However, if we elect a practical expedient as discussed in “Lessor Accounting” within the “Lease Accounting” section above, tenant recoveries for goods and services that are categorized as nonlease components but which have the same timing and pattern of transfer as the related lease component may (subject to the predominance test) be accounted for under the new lease ASU. Tenant recoveries that do not qualify for the practical expedient will be accounted for under the ASU on recognition of revenue arising from contracts with customers upon adoption of the new lease ASU. Property services categorized as nonlease components that are reimbursed by our tenants may need to be presented on a net basis if it is determined that we hold an agent arrangement.

Entities had options to transition to the ASU on recognition of revenue arising from contracts with customers using either the full retrospective or the modified retrospective method. We adopted this ASU using the modified retrospective method, which requires a cumulative adjustment for effects of applying the new standard to periods prior to 2018 to be recorded to retained earnings as of January 1, 2018. We also elected to apply this ASU only to contracts not completed as of January 1, 2018. For all contracts within the scope of this ASU that were not completed as of January 1, 2018, we evaluated the revenue recognition under accounting standards in effect prior to January 1, 2018, and under the new ASU, and determined that amounts recognized and the pattern of revenue recognition were consistent. Therefore, the adoption of the ASU on recognition of revenue arising from contracts with customers did not result in an adjustment to our retained earnings on January 1, 2018.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Recognition of revenue arising from contracts with customers (continued)

The table below provides the detail of our consolidated revenue for the three months ended March 31, 2018, by (i) revenues that are subject to the ASU on recognition of revenue arising from contracts with customers, and (ii) revenues subject to other accounting standards (in thousands):

	Three Months Ended March 31, 2018		
	Subject to the ASU on Recognition of Revenue Arising from Contracts with Customers	Subject to Other Accounting Guidance	Consolidated
Rental revenues	$10,433	$ 234,052	$ 244,485
Tenant recoveries	—	73,170	73,170
Other income	2,020	464	2,484
Total revenue	$12,453	$ 307,686	$ 320,139

Rental revenues, subject to the new revenue recognition ASU, aggregating $10.4 million for the three months ended March 31, 2018, consist primarily of parking revenues. Parking revenues consist primarily of short term rental revenues that are not considered lease revenue. Under the previous accounting standards, we recognized parking and other revenue when the amounts were fixed or determinable, collectibility was reasonably assured, and services were rendered. Under the new ASU, the recognition of such revenue occurs when the services are provided and the performance obligations are satisfied. Parking services are normally provided at a point in time; therefore, revenue recognition under the new ASU is substantially similar to the recognition pattern under accounting standards that were in effect prior to January 1, 2018.

Other income, subject to the new revenue recognition ASU, aggregating $2.0 million for the three months ended March 31, 2018, consists primarily of construction management fees. We earn construction management fees for the day-to-day management of third-party construction projects. Construction management services represent a series of services that are substantially the same and that can be combined into a single performance obligation. Under the previous accounting guidance, we recognized construction management fees using the percentage of completion method. Under the new ASU, we recognize construction management fees using the output method, which is substantially similar to the percentage of completion method used under the guidance in effect prior to January 1, 2018.

In addition to the analysis above, we evaluated the following qualitative and quantitative disclosure requirements outlined in this ASU during the three months ended March 31, 2018, as follows:

- Prior to the adoption of this ASU, we did not have material contract assets and contract liabilities related to contracts with customers subject to the ASU on recognition of revenue arising from contracts with customers and no additional contract assets or contract liabilities were necessary subsequent to adoption on January 1, 2018.
- Parking and construction management services subjected to the ASU on recognition of revenue arising from contracts with customers do not normally create obligations for returns, refunds, warranties, and other similar obligations. Therefore, no corresponding disclosures were necessary.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

Recognition of revenue arising from contracts with noncustomers

On January 1, 2018, we also adopted a new ASU on the derecognition of nonfinancial assets in transactions, including real estate sales, with noncustomers. Our ordinary output activities consist of the leasing of space to our tenants in our operating properties, not the sales of real estate. Therefore, sales of real estate qualify as contracts with noncustomers and are subject to this new ASU.

The new ASU on the derecognition of nonfinancial assets requires entities to apply certain recognition and measurement principles consistent with the new ASU on recognition of revenue arising from contracts with customers. The derecognition model is based on the transfer of control. If a real estate sale contract includes ongoing involvement by the seller with the property, the seller must evaluate each promised good or service under the contract to determine whether it represents a separate performance obligation, constitutes a guarantee, or prevents the transfer of control. If a good or service is considered a separate performance obligation, an allocated portion of the transaction price should be recognized as revenue as the entity transfers the related good or service to the buyer.

The recognition of gain or loss on the sale of a partial interest also depends on whether the seller retains a controlling or noncontrolling interest. Under the new standards, a partial sale of real estate in which the seller retains a controlling interest will result in the seller’s continuing to reflect the asset at its current book value, recording a noncontrolling interest for the book value of the partial interest sold, and recognizing additional paid-in capital for the difference between the consideration received and the partial interest at book value, consistent with the current accounting standards. Conversely, a partial sale of real estate in which a seller retains a noncontrolling interest will result in the recognition by the seller of a gain or loss as if 100% of the real estate was sold.

We adopted the new ASU on the derecognition of nonfinancial assets using the modified retrospective method, the same transition method used to adopt the ASU on recognition of revenue arising from contracts with customers. We also elected to apply this ASU on the derecognition of nonfinancial assets only to contracts not completed as of January 1, 2018. We had no contracts with noncustomers that were not completed as of January 1, 2018; therefore, the adoption of the ASU on the derecognition of nonfinancial assets had no effect on our consolidated financial statements.

During the three months ended March 31, 2018, we did complete any partial or full sale of real estate assets.

2. Summary of significant accounting policies (continued)

Joint venture distributions

On January 1, 2018, we adopted an ASU that provides guidance on the classification in the statement of cash flows of cash distributions received from equity method investments, including unconsolidated joint ventures. The ASU provides two approaches to determine the classification of cash distributions received from equity method investees: (i) the "cumulative earnings" approach, under which distributions up to the amount of cumulative equity in earnings recognized are classified as cash inflows from operating activities, and those in excess of that amount are classified as cash inflows from investing activities, and (ii) the "nature of the distribution" approach, under which distributions are classified based on the nature of the underlying activity that generated cash distributions. An entity could elect either the "cumulative earnings" or the "nature of the distribution" approach. If the "nature of the distribution" approach is elected and the entity lacks the information necessary to apply it in the future, that entity will have to apply the "cumulative earnings" approach as an accounting change on a retrospective basis. We adopted this ASU using the "nature of the distribution" approach and applied it retrospectively, as required by the ASU. We previously presented distributions from our equity method investees utilizing the "nature of the distribution" approach; therefore, the adoption of this ASU had no effect on our consolidated financial statements.

Restricted cash

On January 1, 2018, we adopted an ASU that requires entities to include restricted cash with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown in the statement of cash flows. The ASU requires disclosure of a reconciliation between the balance sheet and the statement of cash flows when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. An entity with material restricted cash and restricted cash equivalents balances is required to disclose the nature of the restrictions. The ASU required a retrospective application to all periods presented. Subsequent to the adoption of this ASU, restricted cash balances are included with cash and cash equivalents balances as of the beginning and ending of each period presented in our consolidated statements of cash flows; separate line items reconciling changes in restricted cash balances to the changes in cash and cash equivalents are no longer presented within the operating, investing, and financing sections of our consolidated statements of cash flows.

Hedge accounting

On January 1, 2018, we adopted an ASU that simplifies hedge accounting. The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The purpose of this updated ASU is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. For cash flow hedges that are highly effective, the new standard requires all changes (effective and ineffective components) in the fair value of the hedging instrument to be recorded in other comprehensive income within equity and to be reclassified into earnings only when the hedged item affects earnings.

Prior to the adoption of this ASU, a quantitative assessment was made on an ongoing basis to determine whether a hedge is highly effective in offsetting changes in cash flows associated with the hedged item. Previously applied hedge accounting guidance required hedge ineffectiveness to be recognized in earnings. Under the new ASU, an entity is still required to perform an initial quantitative test. However, the new standard allows an entity to elect to subsequently perform only a qualitative assessment, unless facts and circumstances change. We made this election upon adoption of the new ASU on January 1, 2018.

For cash flow hedges in existence at the date of adoption, an entity is required to apply a cumulative-effect adjustment for previously recognized ineffectiveness from retained earnings to accumulated other comprehensive income as of the beginning of the fiscal year when an entity adopts the amendments in this ASU.

We utilize interest rate hedge agreements to hedge a portion of our exposure to variable interest rates primarily associated with borrowings based on LIBOR. As a result, all of our interest rate hedge agreements are designated as cash flow hedges. We performed an analysis of all our cash flow hedges existing on January 1, 2018, and determined that all hedges had been highly effective since their inception; therefore, no cumulative-effect adjustment of previously recognized ineffectiveness from retained earnings to accumulated other comprehensive income was needed. During the three months ended March 31, 2018 and 2017, we did not have any hedge ineffectiveness related to our interest rate hedge agreements. The adoption of this ASU had no effect on our financial statements on January 1, 2018, or the three months ended March 31, 2018.

3. Investments in real estate

Our consolidated investments in real estate consisted of the following as of March 31, 2018, and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Land (related to rental properties)	$1,403,659	$1,312,072
Buildings and building improvements	9,219,013	9,000,626
Other improvements	845,772	780,117
Rental properties	11,468,444	11,092,815
Development and redevelopment of new Class A properties:		
Development and redevelopment projects (under construction or pre-construction)	1,044,377	955,218
Future development projects	96,813	96,112
Gross investments in real estate	12,609,634	12,144,145
Less: accumulated depreciation	(1,969,084)	(1,875,810)
Net investments in real estate – North America	10,640,550	10,268,335
Net investments in real estate – Asia	30,677	29,684
Investments in real estate	$10,671,227	$10,298,019

Acquisitions

Our real estate asset acquisitions during the three months ended March 31, 2018, consisted of the following (dollars in thousands):

Square Footage			
Operating	Development/Redevelopment	Future Development	Purchase Price
490,659	697,066	50,000	$320,500

We evaluated each of the transactions detailed below to determine whether the integrated set of assets and activities acquired met the definition of a business. Acquisitions that do not meet the definition of a business are accounted for as asset acquisitions. An integrated set of assets and activities does not qualify as a business if substantially all of the fair value of the gross assets is concentrated in either a single identifiable asset or a group of similar identifiable assets, or if the acquired assets do not include a substantive process.

We evaluated each of the completed acquisitions and determined that substantially all of the fair value related to each acquisition is concentrated in a single identifiable asset or a group of similar identifiable assets, or is a land parcel with no operations. Accordingly, each transaction did not meet the definition of a business and consequently was accounted for as an asset acquisition. In each of these transactions, we allocated the total consideration for each acquisition to the individual assets and liabilities acquired on a relative fair value basis.

Mission Bay/SoMa, San Francisco

1655 and 1725 Third Street

In March 2018, we acquired a 10% interest in a real estate joint venture with Uber Technologies, Inc. (“Uber”) and the Golden State Warriors in 1655 and 1725 Third Street, located in our Mission Bay/SoMa submarket. The joint venture is developing two buildings aggregating 593,765 RSF that are integrated within the new Golden State Warriors complex under development. The buildings are 100% leased to Uber. At the closing of the joint venture agreement, we contributed equity totaling $32.0 million. Refer to Note 4 – "Consolidated and Unconsolidated Real Estate Joint Ventures" to these unaudited consolidated financial statements for additional information.

3. Investments in real estate (continued)

Greater Stanford, San Francisco

Alexandria PARC

In January 2018, we acquired Alexandria PARC located at 2100, 2200, 2300, and 2400 Geng Road, a four-building office campus on 11 acres with 14 in-place leases with a weighted average remaining lease term of three years, aggregating 197,498 RSF, in our Greater Stanford submarket of San Francisco for a purchase price of $136.0 million. We are redeveloping 45,115 RSF from existing office space into office/laboratory space.

Sorrento Mesa, San Diego

Summers Ridge Science Park

In January 2018, we acquired Summers Ridge Science Park located at 9965, 9975, 9985, and 9995 Summers Ridge Road, a campus with on-site amenities, consisting of four operating properties aggregating 316,531 RSF of office/laboratory space located in our Sorrento Mesa submarket of San Diego for a purchase price of $148.7 million. The property also includes a future development opportunity for an additional 50,000 RSF building. The properties are 100% leased as of March 31, 2018, to two life science product, service, and device companies for 15 years.

Gaithersburg, Maryland

704 Quince Orchard Road

In March 2018, we acquired a 56.8% interest in 704 Quince Orchard Road, an office building aggregating 79,931 RSF, located in our Gaithersburg submarket of Maryland for a purchase price of $3.9 million. The building is an expansion of the Alexandria Technology Center® – Gaithersburg II campus. We are redeveloping 58,186 RSF from existing office space into office/laboratory space. Refer to Note 4 – “Consolidated and Unconsolidated Real Estate Joint Ventures” to these unaudited consolidated financial statements for additional information.

Sales of real estate assets

In January 2017, we completed the sale of a vacant property at 6146 Nancy Ridge Drive located in our Sorrento Mesa submarket of San Diego for a purchase price of $3.0 million and recognized a gain of $270 thousand.

4. Consolidated and unconsolidated real estate joint ventures

From time to time we enter into joint venture agreements through which we own a partial interest in real estate entities that own, develop and operate real estate properties. As of March 31, 2018, we had the following properties that were held by our real estate joint ventures:

Property[1]	Market	Submarket	Our Ownership Interest	RSF
Consolidated joint ventures:				
225 Binney Street	Greater Boston	Cambridge	30.0%	305,212
409 and 499 Illinois Street	San Francisco	Mission Bay/ SoMa	60.0%	455,069
1500 Owens Street	San Francisco	Mission Bay/ SoMa	50.1%	158,267
Campus Pointe by Alexandria	San Diego	University Town Center	55.0%	798,799
9625 Towne Centre Drive	San Diego	University Town Center	54.7%	163,648
Unconsolidated joint ventures:				
Menlo Gateway	San Francisco	Greater Stanford	25.2%	772,983
1401/1413 Research Blvd	Maryland	Rockville	65.0% [2]	(3)
360 Longwood Avenue	Greater Boston	Longwood Medical Area	27.5%	210,709
704 Quince Orchard Road	Maryland	Gaithersburg	56.8% [2]	79,931
1655 and 1725 Third Street	San Francisco	Mission Bay/ SoMa	10.0%	593,765

(1) In addition to the real estate joint ventures listed above, various partners hold insignificant noncontrolling interests in three other properties in North America.

(2) Represents our ownership interest; our voting interest is limited to 50%.

(3) Joint venture with a distinguished retail real estate developer for the development of a 90,000 RSF retail shopping center.

Our consolidation guidance is fully described under the "Consolidation" section within Note 2 – "Summary of Significant Accounting Policies" to these unaudited consolidated financial statements. This guidance is highly technical, but its framework is primarily based on the controlling financial interests and benefits of the joint ventures. We generally consolidate a joint venture that is a legal entity that we control (i.e., we have the power to direct the activities of the joint venture that most significantly affect its economic performance) through contractual rights, regardless of our ownership interest, and where we determine that we have benefits through the allocation of earnings or losses and fees paid to us that could be significant to the joint venture (VIE model). We also generally consolidate joint ventures when we have a controlling financial interest through voting rights and where our voting interest is greater than 50% (Voting model). Voting interest differs from ownership interest for some joint ventures. We account for joint ventures that do not meet the consolidation criteria under the equity method of accounting, recognizing our share of income and losses. The table below shows our categorization of our existing joint ventures under the consolidation framework:

Property	Consolidation Model	Voting Interest	Consolidation Analysis	Conclusion
225 Binney Street 409 and 499 Illinois Street 1500 Owens Street Campus Pointe by Alexandria	VIE model	Not applicable under VIE model	We have control, and benefits that can be significant to the joint venture, therefore we are the primary beneficiary of each VIE	Consolidated

9625 Towne Centre Drive Menlo Gateway 1401/1413 Research Blvd 360 Longwood Avenue 704 Quince Orchard Road 1655 and 1725 Third Street	Voting model	Does not exceed 50%	We do not control the joint venture, and therefore are not the primary beneficiary Our voting interest is 50% or less	Equity method of accounting

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4. Consolidated and unconsolidated real estate joint ventures (continued)

Consolidated VIEs' balance sheet information

The table below aggregates the balance sheet information of our consolidated VIEs as of March 31, 2018, and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Investments in real estate	$1,050,066	$ 1,047,472
Cash and cash equivalents	46,040	41,112
Other assets	70,752	68,754
Total assets	$1,166,858	$ 1,157,338
Secured notes payable	$—	$ —
Other liabilities	54,666	52,201
Total liabilities	54,666	52,201
Alexandria Real Estate Equities, Inc.'s share of equity	584,683	584,160
Noncontrolling interests' share of equity	527,509	520,977
Total liabilities and equity	$1,166,858	$ 1,157,338

In determining whether to aggregate the balance sheet information of our consolidated VIEs, we considered the similarity of each VIE, including the primary purpose of these entities to own, manage, operate, and lease real estate properties owned by the VIEs, and the similar nature of our involvement in each VIE as a managing member. Due to the similarity of the characteristics, we present the balance sheet information of these entities on an aggregated basis. For each of our consolidated VIEs, none of its assets have restrictions that limit their use to settle specific obligations of the VIE. There are no creditors or other partners of our consolidated VIEs that have recourse to our general credit. Our maximum exposure to all our VIEs is limited to our variable interests in each VIE.

Unconsolidated real estate joint ventures

As of March 31, 2018, our investments in unconsolidated real estate joint ventures accounted for under the equity method of accounting presented in our consolidated balance sheet aggregated $169.9 million, which consists of the following (in thousands):

Property	March 31, 2018
Menlo Gateway	$97,452
1401/1413 Research Blvd	7,406
360 Longwood Avenue	25,393
704 Quince Orchard Road	4,230
1655 and 1725 Third Street	35,384
	$169,865

4. Consolidated and unconsolidated real estate joint ventures (continued)

As of March 31, 2018, our unconsolidated real estate joint ventures have the following non-recourse secured loans that include the following key terms (dollars in thousands):

Unconsolidated Joint Venture	Our Share	Initial Maturity Date	Extension Option Maturity Date(1)	Stated Interest Rate(2)	Interest Rate(2)(3)	100% at Joint Venture Level Debt Balance(4)	Remaining Commitments	
Menlo Gateway, Phase I	25.2%	3/1/19	3/3/20	L+2.50%	4.11%	$124,382	$ 23,454	
1401/1413 Research Boulevard	65.0%	5/17/20	7/1/20	L+2.50%	5.11%	9,784	14,733	
360 Longwood Avenue	27.5%	9/1/22	9/1/24	3.32%	3.61%	94,091	17,000	(5)
704 Quince Orchard Road	56.8%	3/16/23	N/A	L+1.95%	4.26%	836	13,979	
1655 and 1725 Third Street	10.0%	6/29/21	6/29/24	L+3.70%	4.82%	42,197	332,803	
						$271,290	$ 401,969	
Loan closed in April 2018								
Menlo Gateway, Phase II	25.2%	5/1/35	N/A	4.53%	N/A	$—	$ 157,270	

(1) Reflects extension options that exist, which may be subject to certain conditions.
(2) For acquired loans, interest rate includes adjustments to reflect our effective borrowing costs at the time of acquisition.
(3) Represents interest rate, including interest expense and amortization of loan fees and discount/premium as of March 31, 2018.
(4) Represents outstanding principal, net of unamortized deferred financing costs and discount/premium.
(5) The remaining loan commitment balance excludes an earn-out advance provision that allows for incremental borrowings up to $48.0 million, subject to certain conditions.

5. Cash, cash equivalents, and restricted cash

Cash, cash equivalents, and restricted cash consisted of the following as of March 31, 2018, and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$221,645	$254,381
Restricted cash:		
Funds held in trust under the terms of certain secured notes payable	$15,558	$12,301
Funds held in escrow related to construction projects and investing activities	17,048	4,546
Other	4,731	5,958
	37,337	22,805
Total	$258,982	$277,186

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6. Investments

We hold investments in publicly traded companies and privately held entities primarily involved in the life science and technology industries. On January 1, 2018, we adopted a new ASU on financial instruments that prospectively changed how we recognize, measure, present, and disclose these investments.

Key differences between prior accounting standards and the new ASU

Prior to January 1, 2018

- Investments in publicly traded companies were reflected at fair value in the accompanying balance sheet, with changes in fair value recognized in other comprehensive income classified in accumulated other comprehensive income within equity.
- Investments in privately held entities were accounted for under the cost method of accounting.
- Gains or losses were recognized in net income upon the sale of an investment.
- Investments in privately held entities required accounting under the equity method unless our interest in the entity was deemed to be so minor that we had virtually no influence over the entity's operating and financial policies. Under the equity method of accounting, we recognized our investment initially at cost and adjusted the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. We had no investments accounted for under the equity method as of December 31, 2017.
- Investments were evaluated for impairment, with other-than-temporary impairments recognized in net income.

Effective January 1, 2018

- Investments in publicly traded companies are reflected at fair value in the accompanying balance sheet, with changes in fair value recognized in net income.
- Investments in privately held entities without readily determinable fair values previously accounted for under the cost method are accounted for as follows:
- Investments in privately held entities that report NAV are reflected at fair value using NAV as a practical expedient, with changes in fair value recognized in net income.
- Investments in privately held entities that do not report NAV are carried at cost, adjusted for observable price changes and impairments, with changes recognized in net income.
- One time adjustments recognized on January 1, 2018:
- For investments in publicly traded companies, reclassification of cumulative net unrealized gain as of December 31, 2017, aggregating $49.8 million, from accumulated other comprehensive income to retained earnings.
- For investments in privately held entities without readily determinable fair values that were previously accounted for under the cost method:
- Adjustment to investments for cumulative unrealized gains related to investments in privately held entities that report NAV, representing the difference between fair value as of December 31, 2017, using NAV as a practical expedient, and the carrying value of the investments as of December 31, 2017, previously accounted for under the cost method, aggregating $90.8 million, with a corresponding adjustment to retained earnings.
- No adjustment was required for investments in privately held entities that do not report NAV. The ASU requires a prospective transition approach for investments in privately held entities that do not report NAV. The FASB clarified that it would be difficult for entities to determine the last observable transaction price existing prior to the adoption of this ASU. Therefore, unlike our investments in privately held entities that report NAV that were adjusted to reflect fair values upon adoption of the new ASU, our investments in privately held entities that do not report NAV were not retrospectively adjusted to fair values upon adoption. As such, any initial valuation adjustments made for investments in privately held entities that do not report NAV subsequent to January 1, 2018 as a result of future observable price changes will include recognition of cumulative unrealized gains or losses equal to the difference between the carrying basis of the investment and the observable price at the date of measurement.
- Investments in privately held entities will continue to require accounting under the equity method unless our interest in the entity is deemed to be 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 carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment. We had no investments accounted for under the equity method as of March 31, 2018.

Changes in fair value for investments in publicly traded companies and investments in privately held entities that report NAV, and observable price changes for investments in privately held entities that do not report NAV, are recognized as unrealized gains or losses and classified as investment income in our consolidated statements of income. For further information regarding the new ASU, refer to the “Investments” section within Note 2 – “Summary of Significant Accounting Policies” to these unaudited consolidated financial statements.

6. Investments (continued)

The following table summarizes our investments as of March 31, 2018 and December 31, 2017 (in thousands):

	As of March 31, 2018		
	Cost	Cumulative Unrealized Gains	Total
Investments in publicly traded companies	$67,801	$ 95,870	$163,671
Investments in privately held entities without readily determinable fair values (previously cost method investments):			
Investments in privately held entities that report NAV	159,231	106,235	265,466
Investments in privately held entities that do not report NAV (see discussion below)			
Entities with observable price changes since January 1, 2018	23,491	11,043	34,534
Entities without observable price changes since January 1, 2018	260,639	—	260,639
Total investments	$511,162	$ 213,148	$724,310

Cumulative unrealized gains on investments in privately held entities that do not report NAV aggregating $11.0 million as of March 31, 2018, consisted of upward adjustments representing unrealized gains of $11.4 million and downward adjustments representing unrealized losses of $353 thousand recognized in net income during the three months ended March 31, 2018. We adjusted our investments in privately held entities that do not report NAV based on observable price changes from subsequent equity offerings. The subsequent equity offerings observed were for similar securities to those we hold as the securities had similar (i) voting rights, (ii) distribution preferences, and (iii) conversion rights.

	As of December 31, 2017		
	Cost	Cumulative Unrealized Gains	Total
Investments in publicly traded companies	$59,740	$ 49,771	$109,511
Investments in privately held entities without readily determinable fair values (cost method investments):			
Investments in privately held entities that report NAV	148,627	N/A	148,627
Investments in privately held entities that do not report NAV	265,116	N/A	265,116
Total investments	$473,483	$ 49,771	$523,254

Investments in privately held entities that report NAV

Investments in privately held entities that report NAV consist primarily of investments in limited partnerships that invest in life science and technology entities. We are committed to funding approximately $175.7 million for all investments over the next several years, primarily consisting of $173.0 million related to these investments.

These investments are not redeemable by us, but we normally receive distributions from these investments throughout their term. Our investments in privately held entities that report NAV generally have an expected initial term in excess of 10 years. Weighted average remaining term during which these investments are expected to be liquidated was 4.6 years as of March 31, 2018.

6. Investments (continued)

Investment income for the three months ended March 31, 2018

Our investment income for the three months ended March 31, 2018 consisted of the following (in thousands):

	Three months ended March 31, 2018
Realized gains and losses	$ 13,332
Unrealized gains and losses:	
Investments in publicly traded companies	46,099
Investments in privately held entities without readily determinable fair values:	
Investments in privately held entities that report NAV	15,087
Investments in privately held entities that do not report NAV (upward adjustments for observable price changes)	11,043
Unrealized gains and losses	$ 72,229
Investment income	$ 85,561

Total investment income of $85.6 million for the three months ended March 31, 2018 includes $77.0 million of unrealized gains and losses related to investments still held at March 31, 2018.

7. Other assets

The following table summarizes the components of other assets as of March 31, 2018, and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Acquired below-market ground leases	$12,626	$12,684
Acquired in-place leases	94,948	64,979
Deferred compensation plan	18,264	15,534
Deferred financing costs – $1.65 billion unsecured senior line of credit	9,596	10,525
Deposits	18,415	10,576
Furniture, fixtures, and equipment	10,904	11,070
Interest rate hedge assets	6,461	5,260
Net investment in direct financing lease	38,574	38,382
Notes receivable	593	614
Prepaid expenses	20,646	10,972
Property, plant, and equipment	42,802	32,073
Other assets	17,810	15,784
Total	$291,639	$228,453

The components of our net investment in direct financing lease as of March 31, 2018, and December 31, 2017, are summarized in the table below (in thousands):

	March 31, 2018	December 31, 2017
Gross investment in direct financing lease	$263,322	$263,719
Less: unearned income	(224,748)	(225,337)
Net investment in direct financing lease	$38,574	$38,382

Future minimum lease payments to be received under our direct financing lease as of March 31, 2018, were as follows (in thousands):

Year	Total
2018	$1,210
2019	1,655
2020	1,705
2021	1,756
2022	1,809
Thereafter	255,187
Total	$263,322

8. Fair value measurements

We provide fair value information about all financial instruments 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. 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 months ended March 31, 2018 and 2017.

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 March 31, 2018 and December 31, 2017 (in thousands):

		March 31, 2018		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments in publicly traded companies	$163,671	$163,671	$ —	$ —
Interest rate hedge agreements	$6,461	$—	$ 6,461	$ —
Liabilities:				
Interest rate hedge agreements	$—	$—	$ —	$ —

		December 31, 2017		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments in publicly traded companies	$109,511	$109,511	$ —	$ —
Interest rate hedge agreements	$5,260	$—	$ 5,260	$ —
Liabilities:				
Interest rate hedge agreements	$103	$—	$ 103	$ —

Our investments in publicly traded companies have been recognized at fair value. Investments in privately held entities that report NAV, which are carried at their reported NAV as a practical expedient to fair value, are excluded from the fair value hierarchy above as required by the fair value standards. Investments in privately held entities that do not report NAV, measured at cost less impairments, adjusted for observable price changes, which do not necessarily represent fair value, are also excluded from the fair value hierarchy above. Refer to Note 6 – "Investments" to these unaudited consolidated financial statements for further details.

Our interest rate hedge agreements have been recognized at fair value. Refer to Note 10 – “Interest Rate Hedge Agreements” to these unaudited consolidated financial statements for further details. The carrying values of cash and cash equivalents, restricted cash, tenant receivables, other assets, accounts payable, accrued expenses, and tenant security deposits approximate fair value.

8. Fair value measurements (continued)

The fair values of our secured notes payable, unsecured senior notes payable, $1.65 billion unsecured senior line of credit, and unsecured senior bank term loans were estimated using widely accepted valuation techniques, including discounted cash flow analyses using 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.

As of March 31, 2018, and December 31, 2017, the book and estimated fair values of our investments in privately held entities that report NAV, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	March 31, 2018		December 31, 2017	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
Investments in privately held entities that report NAV	$265,466	$265,466	$—	$—
Liabilities:				
Secured notes payable	$775,689	$774,627	$771,061	$776,222
Unsecured senior notes payable	$3,396,912	$3,426,630	$3,395,804	$3,529,713
Unsecured senior line of credit	$490,000	$489,133	$50,000	$49,986
Unsecured senior bank term loans	$548,197	$545,356	$547,942	$549,361

Nonrecurring fair value measurements

Refer to Note 6 – “Investments” and Note 15 – “Assets Classified as Held for Sale” to these unaudited consolidated financial statements for further discussion.

9. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt as of March 31, 2018 (dollars in thousands):

	Fixed-Rate/Hedged Variable-Rate Debt	Unhedged Variable-Rate Debt	Total	Percentage	Weighted-Average Interest Rate (1)	Weighted-Average Remaining Term (in years)
Secured notes payable	$ 444,228	$ 331,461	$775,689	14.9 %	4.08 %	3.0
Unsecured senior notes payable	3,396,912	—	3,396,912	65.2	4.06	6.6
$1.65 billion unsecured senior line of credit	50,000	440,000	490,000	9.4	2.53	3.6
2019 Unsecured Senior Bank Term Loan	199,622	—	199,622	3.8	2.77	0.8
2021 Unsecured Senior Bank Term Loan	348,575	—	348,575	6.7	2.56	2.8
Total/weighted average	$ 4,439,337	$ 771,461	$5,210,798	100.0 %	3.77 %	5.3
Percentage of total debt	85 %	15 %	100 %			

(1) Represents the weighted-average interest rate as of the end of the applicable period, including expense/income related to our interest rate hedge agreements, amortization of loan fees, amortization of debt premiums (discounts),

and other bank fees.

9. Secured and unsecured senior debt (continued)

The following table summarizes our outstanding indebtedness and respective principal payments as of March 31, 2018 (dollars in thousands):

Debt	Stated Rate	Interest Rate (1)	Maturity Date (2)	Principal	Unamortized (Deferred Financing Cost), (Discount)/Premium	Total
Secured notes payable						
Greater Boston	L+1.50%	3.36 %	1/28/19 (3)	$331,461	$ (998)	$330,463
Greater Boston, San Diego, Seattle, and Maryland	7.75 %	8.12	4/1/20	107,989	(668)	107,321
San Diego	4.66 %	4.90	1/1/23	34,579	(313)	34,266
Greater Boston	3.93 %	3.19	3/10/23	82,000	2,697	84,697
Greater Boston	4.82 %	3.39	2/6/24	202,694	15,475	218,169
San Francisco	6.50 %	6.67	7/1/36	773	—	773
Secured debt weighted-average interest rate/subtotal	4.51 %	4.08		759,496	16,193	775,689
2019 Unsecured Senior Bank Term Loan	L+1.20%	2.77	1/3/19	200,000	(378)	199,622
2021 Unsecured Senior Bank Term Loan	L+1.10%	2.56	1/15/21	350,000	(1,425)	348,575
$1.65 billion unsecured senior line of credit	L+1.00%	2.53	10/29/21	490,000	—	490,000
Unsecured senior notes payable	2.75 %	2.96	1/15/20	400,000	(1,432)	398,568
Unsecured senior notes payable	4.60 %	4.74	4/1/22	550,000	(2,600)	547,400
Unsecured senior notes payable	3.90 %	4.04	6/15/23	500,000	(3,091)	496,909
Unsecured senior notes payable	3.45 %	3.63	4/30/25	600,000	(6,167)	593,833
Unsecured senior notes payable	4.30 %	4.51	1/15/26	300,000	(3,765)	296,235
Unsecured senior notes payable	3.95 %	4.14	1/15/27	350,000	(4,398)	345,602
Unsecured senior notes payable	3.95 %	4.09	1/15/28	425,000	(4,128)	420,872
Unsecured senior notes payable	4.50 %	4.61	7/30/29	300,000	(2,507)	297,493
Unsecured debt weighted average/subtotal		3.72		4,465,000	(29,891)	4,435,109
Weighted-average interest rate/total		3.77 %		$5,224,496	$ (13,698)	$5,210,798

(1) Represents the weighted-average interest rate as of the end of the applicable period, including expense/income related to our interest rate hedge agreements, amortization of loan fees, amortization of debt premiums (discounts), and other bank fees.

(2) Reflects any extension options that we control.

(3) Secured construction loan for our property at 50 and 60 Binney Street in our Cambridge submarket with aggregate commitments of $350.0 million. We have two one-year options to extend the stated maturity date to January 28, 2021, subject to certain conditions. As of March 31, 2018, the aggregate remaining commitments were $18.5 million.

3.45% Unsecured senior notes payable due in 2025

In November 2017, we completed a $600.0 million public offering of our unsecured senior notes payable due on April 30, 2025, at a stated interest rate of 3.45%. We used the net proceeds, after discounts and issuance costs, of

593.5 million to repay two secured notes payable aggregating $389.8 million and for general corporate purposes including the reduction of the outstanding balance on our $1.65 billion unsecured senior line of credit.

3.95% Unsecured senior notes payable due in 2028

In March 2017, we completed a $425.0 million public offering of our unsecured senior notes payable due on January 15, 2028, at a stated interest rate of 3.95%. We used the net proceeds, after discounts and issuance costs, of $420.5 million to repay outstanding borrowings under our $1.65 billion unsecured senior line of credit.

Repayment of unsecured senior bank term loan

During the three months ended March 31, 2017, we completed a partial principal repayment of $200 million of our 2019 Unsecured Senior Bank Term Loan, reducing the total outstanding balance from $400 million to $200 million, and recognized a loss on early extinguishment of debt of $670 thousand related to the write-off of unamortized loan fees.

9. Secured and unsecured senior debt (continued)

Interest expense

The following table summarizes interest expense for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Gross interest	$50,275	$42,948
Capitalized interest	(13,360)	(13,164)
Interest expense	$36,915	$29,784

10. Interest rate hedge agreements

We use interest rate derivatives to hedge the variable cash flows associated with certain of our existing LIBOR-based variable-rate debt, including our $1.65 billion unsecured senior line of credit, unsecured senior bank term loans, and secured notes payable, and to manage our exposure to interest rate volatility.

Changes in fair value, including accrued interest and adjustments for non-performance risk, on our interest rate hedge agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income 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 $5.8 million from accumulated other comprehensive income to earnings as a decrease of interest expense. As of March 31, 2018, and December 31, 2017, the fair values of our interest rate hedge agreements aggregating an asset balance were classified in other assets, and the fair values of our interest rate hedge agreements aggregating a liability balance were classified in accounts payable, accrued expenses, and tenant security deposits, based upon their respective fair values, without any offsetting pursuant to master netting agreements. Refer to Note 8 – “Fair Value Measurements” to these unaudited consolidated financial statements for further details. Under our interest rate hedge agreements, we have no collateral posting requirements.

We have agreements with certain of our derivative counterparties that contain a provision wherein we could be declared in default on our derivative obligations (i) if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness, or (ii) if we default on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender. If we had breached any of these provisions, we could have been required to settle our obligations under the agreements at their termination value. As of March 31, 2018, none of our interest rate hedge agreements were in a liability position, so there were no associated termination obligations.

We had the following outstanding interest rate hedge agreements that were designated as cash flow hedges of interest rate risk as of March 31, 2018 (dollars in thousands):

Effective Date	Maturity Date	Number of Contracts	Weighted-Average Interest Pay Rate(1)	Fair Value as of 3/31/18	Notional Amount in Effect as of 3/31/18	12/31/18	12/31/19
March 29, 2018	March 31, 2019	8	1.16%	$ 5,813	$600,000	$600,000	$—
March 29, 2019	March 31, 2020	1	1.89%	648	—	—	100,000

Total	$ 6,461	$600,000	$600,000	$100,000

(1) In addition to the interest pay rate for each swap agreement, interest is payable at an applicable margin over LIBOR for borrowings outstanding as of March 31, 2018, as listed under the column heading "Stated Rate" in our summary table of outstanding indebtedness and respective principal payments under Note 9 – "Secured and Unsecured Senior Debt" to these unaudited consolidated financial statements.

11. Accounts payable, accrued expenses, and tenant security deposits

The following table summarizes the components of accounts payable, accrued expenses, and tenant security deposits as of March 31, 2018, and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Accounts payable and accrued expenses	$370,183	$349,884
Acquired below-market leases	85,101	88,184
Conditional asset retirement obligations	6,997	7,397
Deferred rent liabilities	28,121	27,953
Interest rate hedge liabilities	—	103
Unearned rent and tenant security deposits	252,259	248,924
Other liabilities	41,325	41,387
Total	$783,986	$763,832

Some of our properties may contain asbestos, which, under certain conditions, requires remediation. Although we believe that the asbestos is appropriately contained in accordance with environmental regulations, our practice is to remediate the asbestos upon the development or redevelopment of the affected property. We recognize a liability for the fair value of a conditional asset retirement obligation (including asbestos) when the fair value of the liability can be reasonably estimated. For certain properties we do not recognize an asset retirement obligation when there is an indeterminate settlement date for the obligation because the period in which we may remediate the obligation may not be estimated with any level of precision to provide for a meaningful estimate of the retirement obligation.

12. Earnings per share

In January 2018, we entered into forward equity sales agreements to sell an aggregate of 6.9 million shares of our common stock (including the exercise of underwriters' option) at a public offering price of $123.50 per share, before underwriting discounts. In March 2018, we settled 843,600 shares from our forward equity sales agreements and received proceeds of $100.2 million, net of underwriting discounts and adjustments provided in the forward equity sales agreements. We expect to receive proceeds of $713.7 million upon settlement of the remaining outstanding forward equity sales agreements, to be further adjusted as provided in the sales agreements. The remaining forward equity sales agreements expire no later than April 2019, and we expect to settle these agreements in 2018.

In March 2017, we entered into agreements to sell an aggregate of 6.9 million shares of our common stock, which consisted of an initial issuance of 2.1 million shares and 4.8 million shares subject to forward equity sales agreements, at a public offering price of $108.55 per share less issuance costs, underwriters' discount, and further adjustments as provided in the sales agreements. We issued the initial 2.1 million shares at closing in March 2017 for net proceeds, after underwriters' discount and issuance costs, of $217.8 million and settled the forward equity sales agreements on the remaining 4.8 million shares of common stock in December 2017 for net proceeds, after underwriters' discount and issuance costs, of $484.6 million.

To account for the forward equity sales agreements, we considered the accounting guidance governing financial instruments and derivatives and concluded that our forward equity sales agreements were not liabilities as they did not embody obligations to repurchase our shares nor did they embody obligations to issue a variable number of shares for which the monetary value was predominantly fixed, varying with something other than the fair value of our shares, or varying inversely in relation to our shares. We then evaluated whether the agreements met the derivatives and hedging guidance scope exception to be accounted for as equity instruments and concluded that the agreements can be classified as equity contracts based on the following assessment: (i) none of the agreements' exercise contingencies were based on observable markets or indices besides those related to the market for our own stock price and operations; and (ii) none of the settlement provisions precluded the agreements from being indexed to our own stock.

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12. Earnings per share (continued)

We also considered the potential dilution resulting from the forward equity sales agreements on the EPS calculations. At inception, the agreements do not have an effect on the computation of basic EPS as no shares are delivered until settlement. We use the treasury stock method to determine the dilution resulting from the forward equity sales agreements during the period of time prior to settlement. The common shares issued upon the settlement of the forward equity sales agreements, weighted for the period these common shares were outstanding, are included in the denominator of basic EPS. The number of weighted-average shares outstanding – diluted used in the computation of EPS for the three months ended March 31, 2018, includes the effect from the assumed issuance of common stock pursuant to the settlement of forward equity sales agreements outstanding during the period at the contractual price, less the assumed repurchase of common shares at the average market price using the net proceeds, adjusted as provided for in the forward equity sales agreements. The effect to our weighted-average shares – diluted for the three months ended March 31, 2018, was 270 thousand weighted-average incremental shares. For the three months ended March 31, 2017, the effect to our weighted-average shares – diluted from similar forward equity sales transactions was 53 thousand weighted-average incremental shares. The common shares issued upon the settlement of the forward equity sales agreements in March 2018 aggregating 843,600, weighted for the period these common shares were outstanding, were included in the denominator of basic EPS.

For purposes of calculating diluted EPS, we did not assume conversion of our 7.00% Series D cumulative convertible preferred stock (“Series D Convertible Preferred Stock”) for the three months ended March 31, 2018 and 2017, since the result was antidilutive to EPS attributable to Alexandria Real Estate Equities, Inc.’s common stockholders from continuing operations during those periods. Refer to the “7.00% Series D Cumulative Convertible Preferred Stock Repurchases” section within Note 13 – “Stockholders’ Equity” to these unaudited consolidated financial statements for further discussion of the partial repurchases of our Series D Convertible Preferred Stock.

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of EPS using the two-class method. Our Series D Convertible Preferred Stock and forward equity sales agreements are not participating securities and, therefore, are not included in the computation of EPS using the two-class method. Under the two-class method, we allocate net income (after dividends on preferred stock, 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.

The table below is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three months ended March 31, 2018 and 2017 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2018	2017
Net income	$141,518	$47,555
Net income attributable to noncontrolling interests	(5,888)	(5,844)
Dividends on preferred stock	(1,302)	(3,784)
Preferred stock redemption charge	—	(11,279)
Net income attributable to unvested restricted stock awards	(1,941)	(987)
Numerator for basic and diluted EPS – net income attributable to Alexandria Real Estate Equities Inc.’s common stockholders	$132,387	$25,661
Denominator for basic EPS – weighted-average shares of common stock outstanding	99,855	88,147
Dilutive effect of forward equity sales agreements	270	53
Denominator for diluted EPS – adjusted – weighted-average shares of common stock outstanding	100,125	88,200

Net income per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders:		
Basic	$1.33	$0.29
Diluted	$1.32	$0.29

13. Stockholders’ equity

ATM common stock offering program

In August 2017, we established a new ATM common stock offering program that allows us to sell up to an aggregate of $750.0 million of our common stock. As of March 31, 2018, we sold an aggregate of 2.8 million shares of common stock under this program for gross proceeds of $336.6 million, or $121.37 per share, and received net proceeds of $331.2 million. As of March 31, 2018, the remaining aggregate amount available under our current program for future sales of common stock was $413.4 million. During the three months ended March 31, 2018, we did not sell any shares under this program.

Forward equity sales agreements

Refer to Note 12 – “Earnings per Share” to these unaudited consolidated financial statements for a discussion related to our forward equity sales agreements executed in January 2018 and March 2017.

7.00% Series D cumulative convertible preferred stock repurchases

As of March 31, 2018 and 2017, we had 3.0 million shares of our Series D Convertible Preferred Stock outstanding. During the three months ended March 31, 2017, we repurchased, in privately negotiated transactions, 501,115 outstanding shares of our Series D Convertible Preferred Stock at an aggregate price of $17.9 million, or $35.79 per share. We recognized a preferred stock redemption charge of $5.8 million during the three months ended March 31, 2017, including the write-off of original issuance costs of approximately $391 thousand.

6.45% Series E cumulative redeemable preferred stock redemption

In March 2017, we announced the redemption of our 6.45% Series E cumulative redeemable preferred stock (“Series E Redeemable Preferred Stock”) and recognized a preferred stock redemption charge of $5.5 million related to the write-off of original issuance costs. On April 14, 2017, we completed the redemption of all 5.2 million outstanding shares of our Series E Redeemable Preferred Stock at a redemption price of $25.00 per share, or an aggregate of $130.0 million, plus accrued dividends, using funds primarily from the proceeds of our March 2017 common stock offering.

Dividends

In March 2018, we declared cash dividends on our common stock for the three months ended March 31, 2018, aggregating $92.0 million, or $0.90 per share. Also in March 2018, we declared cash dividends on our Series D Convertible Preferred Stock for the three months ended March 31, 2018, aggregating approximately $1.3 million, or $0.4375 per share. In April 2018, we paid the cash dividends on our common stock and Series D Convertible Preferred Stock declared for the three months ended March 31, 2018.

13. Stockholders' equity (continued)

Accumulated other comprehensive income

Accumulated other comprehensive income attributable to Alexandria Real Estate Equities, Inc. consists of the following (in thousands):

	Net Unrealized Gain (Loss) on:			
	Available-for-Sale Equity Securities	Interest Rate Hedge Agreements	Foreign Currency Translation	Total
Balance as of December 31, 2017	$49,771	$ 5,157	$ (4,904)	$50,024
Amounts reclassified from other comprehensive income to retained earnings	(49,771)[1]	—	—	(49,771)
Other comprehensive income (loss) before reclassifications	—	1,982	(329)	1,653
Amounts reclassified from other comprehensive income to net income	—	(678)	—	(678)
	—	1,304	(329)	975
Amounts attributable to noncontrolling interests	—	—	—	—
Net other comprehensive (loss) income	—	1,304	(329)	975
Balance as of March 31, 2018				