

organization and method of operation comply with the rules and regulations promulgated under the Internal Revenue Code to enable us to qualify, and continue to qualify, as a REIT. However, it is possible that we have been organized or have operated in a manner that would not allow us to qualify as a REIT, or that our future operations could cause us to fail to qualify.

If we fail to qualify as a REIT in any taxable year, then we will be required to pay federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. If we lose our REIT status, then our net earnings available for investment or distribution to stockholders would be significantly reduced for each of the years involved and we would no longer be required to make distributions to our stockholders.

Rental Properties and Properties Under Development

In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), we perform the following procedures when making an allocation of the purchase price of real estate: 1) estimate the value of the real estate as of the acquisition date on an "as if vacant" basis, 2) allocate the "as if vacant" value among land, land improvements, buildings, building improvements, tenant improvements and equipment, 3) calculate the value of the intangibles as the difference between the "as if vacant" value and the purchase price, and 4) allocate the intangible value to above, below and at market leases, origination costs associated with in-place leases, tenant relationships and other intangible assets.

The values allocated to land improvements, buildings, building improvements, tenant improvements and equipment are depreciated on a straight-line basis using an estimated life of 20 years for land improvements, 40 years for buildings and building improvements, the respective lease term for tenant improvements and the estimated useful life of equipment. The values of above and below market leases are amortized over the life of the related lease and recorded as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The values of at-market leases and origination costs are classified as leasing costs, included in other assets on our balance sheets and amortized over the remaining life of the lease. The values of other intangible assets are amortized over the estimated useful life.

Rental properties and properties under development are individually evaluated for impairment when conditions exist which may indicate that it is probable that the sum of expected future undiscounted cash flows is less than its carrying amount. Upon determination that an impairment has occurred, a write-down is recorded to reduce the carrying amount of the property to its estimated fair value.

Capitalization of Costs

We capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and indirect project costs, including payroll and other costs directly associated with the acquisition, development or construction of a project. Payroll costs not related to the construction, development or redevelopment of a project, or acquisition of a property that will be classified as operating at the date of acquisition, are expensed as incurred. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Costs previously capitalized related to abandoned acquisition or development opportunities are written-off. Should development activity cease, a portion of interest, property taxes, insurance and certain costs would no longer be eligible for capitalization, and would be expensed as incurred.

We also capitalize costs directly related and essential to our leasing activities, including broker fees and certain costs related to our leasing personnel. These costs are amortized on a straight-line basis over the terms of the related leases. Costs previously capitalized related to unsuccessful leasing opportunities are written-off.

Accounting for Investments

We hold equity investments in certain publicly-traded companies and privately held entities primarily involved in the life science industry. All of our investments in publicly-traded companies are considered "available for sale" under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), and are recorded at fair value. Fair value has been determined by the closing trading price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity. The classification of investments under SFAS 115 is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of investments sold is determined by the specific identification method, with realized gains and losses included in other income.

Investments in privately held entities are generally accounted for under the cost method because we do not influence any operating or financial policies of the entities in which we invest. Certain investments are accounted for under the equity method of accounting