

BOSTON PROPERTIES INC  
Form 10-Q  
November 06, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

.. 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: 1-13087

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BOSTON PROPERTIES, INC.  
(Exact name of Registrant as specified in its charter)

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Delaware 04-2473675  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)

Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103  
(Address of principal executive offices) (Zip Code)  
(617) 236-3300

(Registrant’s telephone number, including area code)

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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  No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.01 per share 153,576,272  
(Class) (Outstanding on November 2, 2015)



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 FORM 10-Q  
 for the quarter ended September 30, 2015  
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## PART I. FINANCIAL INFORMATION

## ITEM 1—Financial Statements.

BOSTON PROPERTIES, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited )

	September 30, 2015	December 31, 2014
	(in thousands, except for share and par value amounts)	
<b>ASSETS</b>		
Real estate, at cost	\$18,412,086	\$18,231,978
Construction in progress	725,601	736,311
Land held for future development	264,598	268,114
Less: accumulated depreciation	(3,833,277 )	(3,547,659 )
Total real estate	15,569,008	15,688,744
Cash and cash equivalents	1,387,007	1,763,079
Cash held in escrows	90,379	487,321
Investments in securities	19,645	19,459
Tenant and other receivables (net of allowance for doubtful accounts of \$1,164 and \$1,142, respectively)	66,446	46,595
Accrued rental income (net of allowance of \$1,558 and \$1,499, respectively)	737,145	691,999
Deferred charges, net	749,628	831,744
Prepaid expenses and other assets	143,476	164,432
Investments in unconsolidated joint ventures	217,529	193,394
Total assets	\$18,980,263	\$19,886,767
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Mortgage notes payable	\$4,132,071	\$4,309,484
Unsecured senior notes (net of discount of \$11,092 and \$12,296, respectively)	5,288,908	5,287,704
Unsecured line of credit	—	—
Mezzanine notes payable	308,817	309,796
Outside members' notes payable	180,000	180,000
Accounts payable and accrued expenses	245,200	243,263
Dividends and distributions payable	112,912	882,472
Accrued interest payable	200,916	163,532
Other liabilities	448,680	502,255
Total liabilities	10,917,504	11,878,506
Commitments and contingencies	—	—
Noncontrolling interests:		
Redeemable preferred units of the Operating Partnership	—	633
Redeemable interest in property partnership	—	104,692
Equity:		
Stockholders' equity attributable to Boston Properties, Inc.:		
Excess stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding	—	—
Preferred stock, \$.01 par value, 50,000,000 shares authorized;		
5.25% Series B cumulative redeemable preferred stock, \$.01 par value, liquidation preference \$2,500 per share, 92,000 shares authorized, 80,000 shares issued and	200,000	200,000

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outstanding at September 30, 2015 and December 31, 2014

Common stock, \$.01 par value, 250,000,000 shares authorized, 153,653,500 and 153,192,845 issued and 153,574,600 and 153,113,945 outstanding at September 30, 2015 and December 31, 2014, respectively	1,536	1,531
Additional paid-in capital	6,300,780	6,270,257
Dividends in excess of earnings	(627,054	) (762,464 )
Treasury common stock at cost, 78,900 shares at September 30, 2015 and December 31, 2014	(2,722	) (2,722 )
Accumulated other comprehensive loss	(20,625	) (9,304 )
Total stockholders' equity attributable to Boston Properties, Inc.	5,851,915	5,697,298
Noncontrolling interests:		
Common units of the Operating Partnership	620,036	603,171
Property partnerships	1,590,808	1,602,467
Total equity	8,062,759	7,902,936
Total liabilities and equity	\$18,980,263	\$19,886,767

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

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BOSTON PROPERTIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	\$494,300	\$484,071	\$1,471,591	\$1,402,328
Recoveries from tenants	91,544	90,103	266,932	253,419
Parking and other	25,509	26,236	76,849	76,869
Total rental revenue	611,353	600,410	1,815,372	1,732,616
Hotel revenue	12,619	11,918	35,107	32,478
Development and management services	5,912	6,475	16,102	18,197
Total revenue	629,884	618,803	1,866,581	1,783,291
Expenses				
Operating				
Rental	219,796	215,179	655,610	624,213
Hotel	8,125	7,585	24,196	21,697
General and administrative	20,944	22,589	72,019	75,765
Transaction costs	254	1,402	789	2,500
Depreciation and amortization	153,015	157,245	475,082	466,143
Total expenses	402,134	404,000	1,227,696	1,190,318
Operating income	227,750	214,803	638,885	592,973
Other income (expense)				
Income from unconsolidated joint ventures	2,647	4,419	20,559	10,069
Interest and other income	3,637	3,421	6,337	6,841
Gains (losses) from investments in securities	(1,515 )	(297 )	(1,146 )	651
Interest expense	(108,727 )	(113,308 )	(326,018 )	(337,839 )
Income before gains on sales of real estate	123,792	109,038	338,617	272,695
Gains on sales of real estate	199,479	41,937	294,563	41,937
Net income	323,271	150,975	633,180	314,632
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(115,240 )	(5,566 )	(139,712 )	(17,473 )
Noncontrolling interest—redeemable preferred units of the Operating Partnership		(75 )	(6 )	(1,014 )
Noncontrolling interest—common units of the Operating Partnership	(21,302 )	(14,963 )	(50,906 )	(29,819 )
Net income attributable to Boston Properties, Inc.	186,729	130,371	442,556	266,326
Preferred dividends	(2,647 )	(2,647 )	(7,854 )	(7,854 )
Net income attributable to Boston Properties, Inc. common shareholders	\$184,082	\$127,724	\$434,702	\$258,472
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	\$1.20	\$0.83	\$2.83	\$1.69
Weighted average number of common shares outstanding	153,595	153,120	153,426	153,077
Diluted earnings per common share attributable to Boston Properties, Inc. common shareholders:				

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Net income	\$1.20	\$0.83	\$2.82	\$1.69
Weighted average number of common and common equivalent shares outstanding	153,786	153,273	153,825	153,228

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

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BOSTON PROPERTIES, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income	\$323,271	\$150,975	\$633,180	\$314,632
Other comprehensive income (loss):				
Effective portion of interest rate contracts	(30,156 )	—	(18,050 )	—
Amortization of interest rate contracts (1)	627	628	1,882	1,881
Other comprehensive income (loss)	(29,529 )	628	(16,168 )	1,881
Comprehensive income	293,742	151,603	617,012	316,513
Net income attributable to noncontrolling interests	(136,542 )	(20,604 )	(190,624 )	(48,306 )
Other comprehensive income (loss) attributable to noncontrolling interests	7,056	(65 )	4,847	(191 )
Comprehensive income attributable to Boston Properties, Inc.	\$164,256	\$130,934	\$431,235	\$268,016

(1) Amounts reclassified from comprehensive income primarily to interest expense within the Company's Consolidated Statements of Operations.



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

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BOSTON PROPERTIES, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited and in thousands)

	Common Stock		Preferred	Additional	Dividends in	Treasury	Accumulated	Noncontrolling	Total
	Shares	Amount	Stock	Paid-in	Excess of	Stock,	Other	Interests	
				Capital	Earnings	at cost	Comprehensive	Loss	
Equity, December 31, 2014	153,114	\$1,531	\$200,000	\$6,270,257	\$(762,464)	\$(2,722)	\$(9,304)	\$2,205,638	\$7,902,936
Redemption of operating partnership units to common stock	419	5	—	14,152	—	—	—	(14,157)	—
Allocated net income for the year	—	—	—	—	442,556	—	—	185,497	628,053
Dividends/distributions declared	—	—	—	—	(307,146)	—	—	(35,307)	(342,453)
Shares issued pursuant to stock purchase plan	6	—	—	780	—	—	—	—	780
Net activity from stock option and incentive plan	36	—	—	4,600	—	—	—	29,307	33,907
Acquisition of redeemable noncontrolling interest in property partnership	—	—	—	(1,586)	—	—	—	—	(1,586)
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	1,758	1,758
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(144,468)	(144,468)
Effective portion of interest rate contracts	—	—	—	—	—	—	(13,008)	(5,042)	(18,050)
Amortization of interest rate contracts	—	—	—	—	—	—	1,687	195	1,882
Reallocation of noncontrolling interest	—	—	—	12,577	—	—	—	(12,577)	—
Equity, September 30, 2015	153,575	\$1,536	\$200,000	\$6,300,780	\$(627,054)	\$(2,722)	\$(20,625)	\$2,210,844	\$8,062,759
Equity, December 31, 2013	152,983	\$1,530	\$200,000	\$5,662,453	\$(108,552)	\$(2,722)	\$(11,556)	\$1,302,465	\$7,043,618
Redemption of operating partnership units to common stock	70	1	—	2,367	—	—	—	(2,368)	—
Conversion of redeemable preferred	—	—	—	—	—	—	—	33,306	33,306

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units to common units									
Allocated net income for the year	—	—	—	—	266,326	—	—	38,496	304,822
Dividends/distributions declared	—	—	—	—	(306,340 )	—	—	(34,426 )	(340,766 )
Shares issued pursuant to stock purchase plan	7	—	—	761	—	—	—	—	761
Net activity from stock option and incentive plan	40	—	—	5,177	—	—	—	17,038	22,215
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	2,980	2,980
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(21,224 )	(21,224 )
Amortization of interest rate contracts	—	—	—	—	—	—	1,690	191	1,881
Reallocation of noncontrolling interest	—	—	—	13,891	—	—	—	(13,891 )	—
Equity, September 30, 2014	153,100	\$1,531	\$200,000	\$5,684,649	\$(148,566)	\$(2,722)	\$(9,866 )	\$1,322,567	\$7,047,593

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

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BOSTON PROPERTIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the nine months ended September 30,	
	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income	\$633,180	\$314,632
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	475,082	466,143
Non-cash compensation expense	22,825	22,708
Income from unconsolidated joint ventures	(20,559)	(10,069)
Distributions of net cash flow from operations of unconsolidated joint ventures	6,484	3,130
Losses (gains) from investments in securities	1,146	(651)
Non-cash portion of interest expense	(32,818)	(28,753)
Settlement of accreted debt discount on repurchases of unsecured exchangeable senior notes	—	(92,979)
Gains on sales of real estate	(294,563)	(41,937)
Change in assets and liabilities:		
Cash held in escrows	(32,750)	3,957
Tenant and other receivables, net	(19,851)	16,254
Accrued rental income, net	(55,941)	(42,180)
Prepaid expenses and other assets	20,988	(34,804)
Accounts payable and accrued expenses	(2,937)	4,237
Accrued interest payable	37,384	14,431
Other liabilities	(73,370)	(60,795)
Tenant leasing costs	(55,422)	(63,647)
Total adjustments	(24,302)	155,045
Net cash provided by operating activities	608,878	469,677
Cash flows from investing activities:		
Construction in progress	(251,984)	(305,192)
Building and other capital improvements	(84,644)	(57,329)
Tenant improvements	(86,052)	(80,692)
Proceeds from sales of real estate	389,457	103,542
Proceeds from sales of real estate placed in escrow	(200,612)	(99,917)
Proceeds from sales of real estate released from escrow	634,165	—
Cash placed in escrow for land sale contracts	(7,111)	—
Cash released from escrow for land sale contracts	3,250	—
Capital contributions to unconsolidated joint ventures	(20,863)	(47,767)
Capital distributions from unconsolidated joint ventures	24,527	641
Investments in securities, net	(1,332)	(1,542)
Net cash provided by (used in) investing activities	398,801	(488,256)



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BOSTON PROPERTIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the nine months ended September 30,	
	2015	2014
	(in thousands)	
Cash flows from financing activities:		
Repayments of mortgage notes payable	(20,137 )	(82,030 )
Repayment of unsecured exchangeable senior notes	—	(654,521 )
Proceeds from real estate financing transaction	6,000	—
Payments on real estate financing transaction	(2,364 )	—
Deferred financing costs	(1,288 )	(31 )
Net proceeds from equity transactions	799	1,530
Redemption of preferred units	(633 )	(15,984 )
Dividends and distributions	(1,112,019 )	(726,314 )
Acquisition of noncontrolling interest	(108,499 )	—
Contributions from noncontrolling interests in property partnerships	1,758	2,980
Distributions to noncontrolling interests in property partnerships	(147,368 )	(25,524 )
Net cash used in financing activities	(1,383,751 )	(1,499,894 )
Net decrease in cash and cash equivalents	(376,072 )	(1,518,473 )
Cash and cash equivalents, beginning of period	1,763,079	2,365,137
Cash and cash equivalents, end of period	\$1,387,007	\$846,664
Supplemental disclosures:		
Cash paid for interest	\$347,367	\$489,949
Interest capitalized	\$25,915	\$44,809
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable and accrued expenses	\$28,246	\$20,016
Dividends and distributions declared but not paid	\$112,912	\$112,708
Mortgage notes payable assigned in connection with the sale of real estate	\$116,993	\$—
Conversions of noncontrolling interests to stockholders' equity	\$14,157	\$2,368
Conversions of redeemable preferred units to common units	\$—	\$33,306
Issuance of restricted securities to employees	\$43,363	\$27,445

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

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## BOSTON PROPERTIES, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Organization

Boston Properties, Inc. (the “Company”), a Delaware corporation, is a self-administered and self-managed real estate investment trust (“REIT”). The Company is the sole general partner of Boston Properties Limited Partnership (the “Operating Partnership”) and at September 30, 2015 and December 31, 2014 owned an approximate 89.5% general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as “common units of partnership interest” (also referred to as “OP Units”), “long term incentive units of partnership interest” (also referred to as “LTIP Units”) or “preferred units of partnership interest” (also referred to as “Preferred Units”). In addition, in February 2012, the Company issued LTIP Units in connection with the granting to employees of outperformance awards (also referred to as “2012 OPP Units”). On February 6, 2015, the measurement period for the Company’s 2012 OPP Unit awards expired and the Company’s total return to shareholders (“TRS”) was sufficient for employees to earn and therefore become eligible to vest in a portion of the 2012 OPP Unit awards (See Notes 8 and 11). In February 2013, February 2014 and February 2015, the Company issued LTIP Units in connection with the granting to employees of multi-year, long-term incentive program (“MYLTIP”) awards (also referred to as “2013 MYLTIP Units,” “2014 MYLTIP Units” and “2015 MYLTIP Units,” respectively, and collectively as “MYLTIP Units”). Because the rights, preferences and privileges of MYLTIP Units differ from other LTIP Units granted to employees as part of the annual compensation process (including, as of February 6, 2015, the 2012 OPP Units), unless specifically noted otherwise, all references to LTIP Units exclude MYLTIP Units (See Notes 8 and 11).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership is obligated to redeem such OP Unit for cash equal to the value of a share of common stock of the Company (“Common Stock”) at such time. In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. When issued, LTIP Units are not economically equivalent in value to a share of Common Stock, but over time can increase in value to one-for-one parity with Common Stock if there is sufficient appreciation in the value of the Company's assets. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 9).

At September 30, 2015, there was one series of Preferred Units outstanding (i.e., Series B Preferred Units). The Series B Preferred Units were issued to the Company on March 27, 2013 in connection with the Company's issuance of 80,000 shares (8,000,000 depositary shares each representing 1/100th of a share) of 5.25% Series B Cumulative Redeemable Preferred Stock (the “Series B Preferred Stock”). The Company contributed the net proceeds from the offering to the Operating Partnership in exchange for 80,000 Series B Preferred Units having terms and preferences generally mirroring those of the Series B Preferred Stock (See Note 9).

All references herein to the Company refer to Boston Properties, Inc. and its consolidated subsidiaries, including the Operating Partnership, collectively, unless the context otherwise requires.

## Properties

At September 30, 2015, the Company owned or had interests in a portfolio of 171 commercial real estate properties (the “Properties”) aggregating approximately 46.6 million net rentable square feet, including fourteen properties under construction/redevelopment totaling approximately 4.7 million net rentable square feet. At September 30, 2015, the Properties consisted of:

- 161 office properties, including 130 Class A office properties (including eleven properties under construction/redevelopment) and 31 Office/Technical properties;
- one hotel;

five retail properties (including one property under construction); and  
four residential properties (including two properties under construction).

The Company owns or controls undeveloped land parcels totaling approximately 479.9 acres.

The Company considers Class A office properties to be centrally located buildings that are professionally managed and maintained, attract high-quality tenants and command upper-tier rental rates, and that are modern structures or have been

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modernized to compete with newer buildings. The Company considers Office/Technical properties to be properties that support office, research and development, laboratory and other technical uses. The Company's definitions of Class A Office and Office/Technical properties may be different than those used by other companies.

## 2. Basis of Presentation and Summary of Significant Accounting Policies

Boston Properties, Inc. does not have any other significant assets, liabilities or operations, other than its investment in the Operating Partnership, nor does it have employees of its own. The Operating Partnership, not Boston Properties, Inc., generally executes all significant business relationships other than transactions involving securities of Boston Properties, Inc. All majority-owned subsidiaries and joint ventures over which the Company has financial and operating control and variable interest entities ("VIEs") in which the Company has determined it is the primary beneficiary are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. The Company accounts for all other unconsolidated joint ventures using the equity method of accounting. Accordingly, the Company's share of the earnings of these joint ventures and companies is included in consolidated net income.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission.

Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's financial statements and notes thereto contained in the Company's Annual Report in the Company's Form 10-K for its fiscal year ended December 31, 2014.

### Fair Value of Financial Instruments

The Company determines the fair value of its unsecured senior notes using market prices. The inputs used in determining the fair value of the Company's unsecured senior notes are categorized at a level 1 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company uses quoted market rates to value these instruments. However, the inputs used in determining the fair value could be categorized at a level 2 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) if trading volumes are low. The Company determines the fair value of its mortgage notes payable using discounted cash flow analyses by discounting the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on current market rates for similar securities. In determining the current market rates, the Company adds its estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to its debt. The inputs used in determining the fair value of the Company's mortgage notes payable and mezzanine notes payable are categorized at a level 3 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company considers the rates used in the valuation techniques to be unobservable inputs.

Because the Company's valuations of its financial instruments are based on these types of estimates, the actual fair values of its financial instruments may differ materially if the Company's estimates do not prove to be accurate. The following table presents the aggregate carrying value of the Company's indebtedness and the Company's corresponding estimate of fair value as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Mortgage notes payable	\$4,132,071	\$4,240,944	\$4,309,484	\$4,449,541
Mezzanine notes payable	308,817	306,116	309,796	306,156

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Unsecured senior notes	5,288,908	5,603,968	5,287,704	5,645,819
Total	\$9,729,796	\$10,151,028	\$9,906,984	\$10,401,516

The Company uses interest rate swap agreements to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. To comply with the provisions of ASC 820, the Company

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incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2015, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

**Out-of-Period Adjustment**

During the nine months ended September 30, 2014, the Company recorded an additional allocation of net income to the noncontrolling interest holder in its Fountain Square consolidated joint venture totaling approximately \$1.9 million related to the cumulative non-cash adjustment to the accretion of the changes in the redemption value of the noncontrolling interest. This resulted in the overstatement of Noncontrolling Interests in Property Partnerships by approximately \$1.9 million during the nine months ended September 30, 2014 and in the understatement of Noncontrolling Interests in Property Partnerships in the aggregate amount of approximately \$1.9 million in previous periods prior to 2014. Because this adjustment was not material to the prior periods' consolidated financial statements and the impact of recording the adjustment in 2014 was not material to the Company's consolidated financial statements, the Company recorded the related adjustment during the nine months ended September 30, 2014. The out-of-period adjustment was identified and recorded during the second quarter of 2014.

**Recent Accounting Pronouncements**

On April 10, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). ASU 2014-08 clarifies that discontinued operations presentation applies only to disposals representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results (e.g., a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity). ASU 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted, and the Company early adopted ASU 2014-08 during the first quarter of 2014. The Company's adoption of ASU 2014-08 resulted in the operating results and gains on sales of real estate from the operating properties sold during the nine months ended September 30, 2015 not being reflected as Discontinued Operations in the Company's Consolidated Statements of Operations (See Note 3).

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. A reporting entity may apply the amendments in ASU 2015-02 using: (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption; or (b) by applying the amendments retrospectively. The Company does not expect the adoption of ASU 2015-02 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and shall be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Early adoption is permitted for financial statements that have not

been previously issued. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

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## 3. Real Estate Activity During the Nine Months Ended September 30, 2015

## Acquisitions

On July 31, 2015, the Company entered into a 99-year ground and air rights lease (the “Lease”) with the Massachusetts Department of Transportation (“MDOT”) with respect to the parking garage located at 100 Clarendon Street (the “Clarendon Garage”) and the concourse level of the Massachusetts Bay Transportation Authority’s Back Bay Station (the “Station”). The Lease amends and restates the air rights lease which the Company had assumed in 2010 at the time it acquired its interests in both the Clarendon Garage and the office tower located at 200 Clarendon Street (formerly known as the John Hancock Tower). The Lease requires the Company to pay a total of approximately \$37.0 million and provides the Company with options to acquire certain air rights above both the Clarendon Garage and the Station with the amount of developable square footage associated with the air rights to be determined at a later date. The previous lease had 45 years remaining in its term. Upon execution of the Lease, the Company made a \$5.0 million payment and the Lease requires the Company’s remaining obligation to be used to fund improvements to the Station.

## Dispositions

On February 19, 2015, the Company completed the sale of a parcel of land within its Washingtonian North property located in Gaithersburg, Maryland for a gross sale price of \$8.7 million. Net cash proceeds totaled approximately \$8.3 million, resulting in a gain on sale of real estate totaling approximately \$3.7 million. The parcel contains approximately 8.5 acres of the Company's approximately 27 acre property.

On March 17, 2015, the Company completed the sale of its Residences on The Avenue property located in Washington, DC for a gross sale price of \$196.0 million. Net cash proceeds totaled approximately \$192.5 million, resulting in a gain on sale of real estate totaling approximately \$91.4 million. The Company has agreed to provide net operating income support of up to \$6.0 million if the property’s net operating income fails to achieve certain thresholds. This amount has been recorded as a reduction to the gain on sale. The Residences on The Avenue is comprised of 335 apartment units and approximately 50,000 net rentable square feet of retail space, subject to a ground lease that expires on February 1, 2068. The Residences on The Avenue contributed approximately \$1.1 million of net income to the Company for the period from January 1, 2015 through March 16, 2015 and \$0.7 million and \$2.4 million for the three and nine months ended September 30, 2014, respectively.

On September 18, 2015, a consolidated entity in which the Company has a 50% interest completed the sale of its 505 9th Street, N.W. property located in Washington, DC for approximately \$318.0 million, including the assumption by the buyer of approximately \$117.0 million of mortgage indebtedness (See Note 5). 505 9th Street, N.W. is an approximately 322,000 net rentable square foot Class A office building. Net cash proceeds totaled approximately \$194.6 million, of which the Company’s share was approximately \$97.3 million. The Company recognized a gain on sale of real estate totaling approximately \$199.5 million, of which approximately \$101.1 million was allocated to the outside partners and is included within Noncontrolling Interests in Property Partnerships in the Company’s Consolidated Statements of Operations (See Note 8). 505 9th Street, N.W. contributed approximately \$1.1 million of net income to the Company for the period from July 1, 2015 through September 17, 2015, approximately \$2.3 million of net income to the Company for the period from January 1, 2015 through September 17, 2015 and \$0.5 million and \$1.7 million of net income for the three and nine months ended September 30, 2014, respectively.

## Development/Redevelopment

On May 1, 2015, the Company commenced the redevelopment of Reservoir Place North, a Class A office project with approximately 73,000 net rentable square feet located in Waltham, Massachusetts.

On July 23, 2015, the Company commenced construction of its Cambridge Residential project, a residential project aggregating approximately 164,000 square feet comprised of 274 apartment units and approximately 9,000 square feet of retail space located in Cambridge, Massachusetts. On August 13, 2015, the Company acquired an approximately 8,700 square foot parcel of land necessary for the development for a purchase price of approximately \$2.0 million.

On July 23, 2015, the Company commenced construction of its Reston Signature Site project, a residential project aggregating approximately 514,000 square feet comprised of 508 apartment units and approximately 24,000 square feet of retail space located in Reston Town Center in Reston, Virginia.

On August 14, 2015, the Company partially placed in-service 601 Massachusetts Avenue, a Class A office project with approximately 478,000 net rentable square feet located in Washington, DC.

On September 10, 2015, the Company partially placed in-service The Point (formerly 99 Third Avenue Retail), a retail project with approximately 17,000 net rentable square feet of retail space located in Waltham, Massachusetts.

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## 4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at September 30, 2015 and December 31, 2014:

Entity	Properties	Nominal % Ownership		Carrying Value of Investment (1)	
				September 30, 2015 (in thousands)	December 31, 2014
Square 407 Limited Partnership	Market Square North	50.0	%	\$(10,046 )	\$(8,022 )
The Metropolitan Square Associates LLC	Metropolitan Square	51.0	%	9,545	8,539
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0	%(2)	(12,015 )	(1,080 )
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3	%(3)	44,111	45,514
Annapolis Junction NFM, LLC	Annapolis Junction	50.0	%(4)	27,851	25,246
540 Madison Venture LLC	540 Madison Avenue	60.0	%	69,364	68,128
500 North Capitol LLC	500 North Capitol Street, NW	30.0	%	(3,015 )	(2,250 )
501 K Street LLC	1001 6th Street	50.0	%(5)	42,653	41,736
Podium Developer LLC	North Station (Phase I - Air Rights)	50.0	%	9,541	4,231
1265 Main Office JV LLC	1265 Main Street	50.0	%	4,182	N/A
BNY Tower Holdings LLC	Dock72 at the Brooklyn Navy Yard	50.0	%	10,282	N/A
				\$192,453	\$182,042

Investments with deficit balances aggregating approximately \$25.1 million and \$11.4 million at September 30, (1) 2015 and December 31, 2014, respectively, have been reflected within Other Liabilities on the Company's Consolidated Balance Sheets.

(2) The Company's economic ownership has increased based on the achievement of certain return thresholds.

(3) The Company's wholly-owned entity that owns the office component of the project also owns a 33.3% interest in the entity owning the land, parking garage and infrastructure of the project.

(4) The joint venture owns three in-service buildings, one building under construction and two undeveloped land parcels.

Under the joint venture agreement, the partner will be entitled to up to two additional payments from the venture (5) based on increases in total square footage of the project above 520,000 square feet and achieving certain project returns at stabilization.

Certain of the Company's unconsolidated joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures at an agreed upon fair value. Under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

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The combined summarized balance sheets of the Company's unconsolidated joint ventures are as follows:

	September 30, 2015 (in thousands)	December 31, 2014
<b>ASSETS</b>		
Real estate and development in process, net	\$ 1,048,836	\$ 1,034,552
Other assets	240,433	264,097
Total assets	\$ 1,289,269	\$ 1,298,649
<b>LIABILITIES AND MEMBERS'/PARTNERS' EQUITY</b>		
Mortgage and notes payable	\$ 832,958	\$ 830,075
Other liabilities	32,715	34,211
Members'/Partners' equity	423,596	434,363
Total liabilities and members'/partners' equity	\$ 1,289,269	\$ 1,298,649
Company's share of equity	\$ 219,705	\$ 209,828
Basis differentials (1)	(27,252	) (27,786
Carrying value of the Company's investments in unconsolidated joint ventures (2)	\$ 192,453	\$ 182,042

This amount represents the aggregate difference between the Company's historical cost basis and the basis reflected at the joint venture level, which is typically amortized over the life of the related assets and liabilities. Basis (1) differentials occur from impairment of investments and upon the transfer of assets that were previously owned by the Company into a joint venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the joint venture level.

Investments with deficit balances aggregating approximately \$25.1 million and \$11.4 million at September 30, (2) 2015 and December 31, 2014, respectively, have been reflected within Other Liabilities on the Company's Consolidated Balance Sheets.

The combined summarized statements of operations of the Company's unconsolidated joint ventures are as follows:

	For the three months ended September 30, 2015		For the nine months ended September 30, 2015	
	2015	2014	2015	2014
	(in thousands)			
Total revenue (1)	\$ 38,197	\$ 41,958	\$ 116,881	\$ 118,429
Expenses				
Operating	15,896	15,516	47,995	46,441
Depreciation and amortization	8,832	9,429	26,854	27,688
Total expenses	24,728	24,945	74,849	74,129
Operating income	13,469	17,013	42,032	44,300
Other expense				
Interest expense	8,019	7,950	23,985	23,946
Net income	\$ 5,450	\$ 9,063	\$ 18,047	\$ 20,354
Company's share of net income	\$ 2,481	\$ 4,200	\$ 20,025	(2) \$ 9,403
Basis differential	166	219	534	666
Income from unconsolidated joint ventures	\$ 2,647	\$ 4,419	\$ 20,559	\$ 10,069

(1) Includes straight-line rent adjustments of approximately \$(0.3) million and \$0.2 million for the three months ended September 30, 2015 and 2014, respectively, and approximately \$1.7 million and \$1.1 million for the nine months ended September 30, 2015 and 2014, respectively. Includes net above-/below-market rent adjustments of



approximately \$(24,000) and \$(0.1) million for the three months ended September 30, 2015 and 2014, respectively,

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and approximately \$(0.2) million and \$(0.1) million for the nine months ended September 30, 2015 and 2014, respectively.

(2) During the nine months ended September 30, 2015, the Company received a distribution of approximately \$24.5 million, which was generated from the excess loan proceeds from the refinancing of 901 New York Avenue's mortgage loan to a new 10-year mortgage loan totaling \$225.0 million. The Company's allocation of income and distributions for the nine months ended September 30, 2015 was not proportionate to its nominal ownership interest as a result of the achievement of specified investment return thresholds, as provided for in the joint venture agreement.

On May 8, 2015, the Company entered into a joint venture with an unrelated third party to redevelop an existing building into a Class A office building totaling approximately 115,000 net rentable square feet at 1265 Main Street in Waltham, Massachusetts. The joint venture partner contributed real estate and improvements, with an aggregate fair value of approximately \$9.4 million, for its initial 50% interest in the joint venture. For its initial 50% interest, the Company will contribute cash totaling approximately \$9.4 million as the joint venture incurs costs. The joint venture has entered into a fifteen-year lease with a tenant to occupy 100% of the building.

On June 26, 2015, the Company entered into a joint venture with an unrelated third party to develop Dock72, an office building totaling approximately 670,000 net rentable square feet located at the Brooklyn Navy Yard in Brooklyn, New York. Each partner contributed cash totaling approximately \$9.1 million for their initial 50% interest in the joint venture. The joint venture entered into a 96-year ground lease, comprised of an initial term of 46 years, which may be extended by the joint venture to 2111, subject to certain conditions. The joint venture also entered into a 20-year lease with a tenant to occupy approximately 222,000 net rentable square feet at the building. In addition, the joint venture entered into an option agreement pursuant to which it may lease an additional land parcel at the site, which could support between 600,000 and 1,000,000 net rentable square feet of development. In connection with the execution of the option agreement, the joint venture paid a non-refundable option payment of \$1.0 million.

On September 22, 2015, a joint venture in which the Company has a 50% interest completed and fully placed in-service Annapolis Junction Building Seven, a Class A office project with approximately 127,000 net rentable square feet located in Annapolis, Maryland.

On September 30, 2015, a joint venture in which the Company has a 50% interest extended the loan collateralized by its Annapolis Junction Building Six property. At the time of the extension, the outstanding balance of the construction loan totaled approximately \$13.4 million and was scheduled to mature on November 17, 2015. The extended loan has a total commitment amount of \$15.9 million, bears interest at a variable rate equal to LIBOR plus 2.25% per annum and matures on November 17, 2016. Annapolis Junction Building Six is a Class A office property with approximately 119,000 net rentable square feet located in Annapolis, Maryland.

#### 5. Mortgage Notes Payable

On September 18, 2015, in connection with the sale of 505 9th Street, N.W. located in Washington, DC by a consolidated entity in which the Company has a 50% interest, the consolidated entity assigned to the buyer the mortgage loan collateralized by the property totaling approximately \$117.0 million. The assigned mortgage loan bears interest at a fixed rate of 5.73% per annum and matures on November 1, 2017 (See Note 3).

#### 6. Derivative Instruments and Hedging Activities

On February 19, 2015, the Company commenced a planned interest rate hedging program. The Company entered into sixteen forward-starting interest rate swap contracts during the nine months ended September 30, 2015, which fix the 10-year swap rate at a weighted-average rate of approximately 2.437% per annum on notional amounts aggregating \$525.0 million. These interest rate swap contracts were entered into in advance of a financing with a target commencement date in September 2016 and maturity in September 2026 (See Note 13). In addition, during the nine months ended September 30, 2015, 767 Fifth Partners LLC, which is the consolidated entity (in which the Company has a 60% interest and owns 767 Fifth Avenue (the General Motors Building) in New York City), entered into nine forward-starting interest rate swap contracts, which fix the 10-year swap rate at a weighted-average rate of approximately 2.801% per annum on notional amounts aggregating \$250.0 million. These interest rate swap contracts were entered into in advance of a financing with a target commencement date in June 2017 and maturity in June 2027 (See Note 13). The Company's interest rate swap contracts consisted of the following at September 30, 2015:



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Derivative Instrument	Aggregate Notional Amount (in thousands)	Effective Date	Maturity Date	Strike Rate Range		Balance Sheet Location	Fair Value (in thousands)
				Low	High		
Boston Properties Limited Partnership:							
Interest Rate Swaps	\$ 475,000	September 1, 2016	September 1, 2026	2.249 %-	2.571 %	Other Liabilities	\$ (9,231 )
Interest Rate Swaps	50,000	September 1, 2016	September 1, 2026	2.238 %-	2.242 %	Prepaid Expenses and Other Assets	32
	\$ 525,000						\$ (9,199 )
767 Fifth Partners LLC:							
Interest Rate Swaps	\$ 250,000	June 7, 2017	June 7, 2027	2.677 %-	2.950 %	Other Liabilities	\$ (8,851 )
	\$ 775,000						\$ (18,050 )

The Company entered into the interest rate swap contracts designated and qualifying as cash flow hedges to reduce its exposure to the variability in future cash flows attributable to changes in the 10-year swap rate in contemplation of obtaining 10-year fixed-rate financing in September 2016. The Company's 767 Fifth Partners LLC consolidated entity entered into the interest rate swap contracts designated and qualifying as cash flow hedges to reduce its exposure to the variability in future cash flows attributable to changes in the 10-year swap rate in contemplation of obtaining 10-year fixed-rate financing in June 2017. The Company has formally documented all of its relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses and documents, both at the hedging instrument's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. All components of the forward-starting interest rate swap contracts were included in the assessment of hedge effectiveness. The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the Company's indebtedness is accelerated by the lender due to the Company's default on the indebtedness. As of September 30, 2015, the fair value of derivatives in a net liability position, which excludes any adjustment for nonperformance risk and excludes accrued interest, related to these agreements was approximately \$18.1 million. As of September 30, 2015, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2015, it could have been required to settle its obligations under the agreements at their termination value of approximately \$18.1 million. The Company accounts for the effective portion of changes in the fair value of a derivative in accumulated other comprehensive loss and subsequently reclassifies the effective portion to earnings over the term that the hedged transaction affects earnings. The Company accounts for the ineffective portion of changes in the fair value of a derivative directly in earnings. During the nine months ended September 30, 2015, the Company has recorded the changes in fair value of the swap contracts related to the effective portion of the interest rate contracts aggregating approximately \$18.1 million in Other Liabilities and approximately \$32,000 in Prepaid Expenses and Other Assets and Accumulated Other Comprehensive Loss within the Company's Consolidated Balance Sheets. During the nine months ended September 30, 2015, the Company did not record any hedge ineffectiveness. The Company expects that within the next twelve months it will reclassify into earnings as an increase to interest expense approximately \$77,000 of the amounts recorded within Accumulated Other Comprehensive Loss relating to the forward-starting interest rate swap contracts in effect and as of September 30, 2015.

The following table presents the location in the financial statements of the losses recognized related to the Company's cash flow hedges for the three and nine months ended September 30, 2015 and 2014:

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	Three months ended		Nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Amount of loss related to the effective portion recognized in other comprehensive loss	\$(30,156 )	\$—	\$(18,050 )	\$—
Amount of loss related to the effective portion subsequently reclassified to earnings (1)	\$(627 )	\$(628 )	\$(1,882 )	\$(1,881 )
Amount of gain (loss) related to the ineffective portion and amount excluded from effectiveness testing	\$—	\$—	\$—	\$—

(1) Consists of amounts from previous interest rate hedging programs.

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The following table reflects the changes in accumulated other comprehensive loss for the nine months ended September 30, 2015 and 2014 (in thousands):

Balance at December 31, 2014	\$(9,304	)
Effective portion of interest rate contracts	(18,050	)
Amortization of interest rate contracts (1)	1,882	
Other comprehensive loss attributable to noncontrolling interests	4,847	
Balance at September 30, 2015	\$(20,625	)
Balance at December 31, 2013	\$(11,556	)
Amortization of interest rate contracts (1)	1,881	
Other comprehensive income attributable to noncontrolling interests	(191	)
Balance at September 30, 2014	\$(9,866	)

(1) Consists of amounts from previous interest rate hedging programs.

## 7. Commitments and Contingencies

### General

In the normal course of business, the Company guarantees its performance of services or indemnifies third parties against its negligence. In addition, in the normal course of business, the Company guarantees to certain tenants the obligations of its subsidiaries for the payment of tenant improvement allowances and brokerage commissions in connection with their leases and limited costs arising from delays in delivery of their premises.

The Company has letter of credit and performance obligations related to lender and development requirements that total approximately \$36.2 million.

Certain of the Company's joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures. With limited exception, under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners (See also Note 8). Under certain of the Company's joint venture agreements, if certain return thresholds are achieved the partners will be entitled to an additional promoted interest or payments.

In connection with the assumption of 767 Fifth Avenue's (the General Motors Building) secured loan by the Company's consolidated joint venture entity, 767 Venture, LLC, the Company guaranteed the consolidated joint venture's obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of September 30, 2015, the maximum funding obligation under the guarantee was approximately \$13.4 million. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee.

In connection with 767 Fifth Partners LLC entering into interest rate swap contracts (See Note 6), the Company guaranteed 767 Fifth Partners LLC's obligations under the hedging agreements in favor of each hedge counterparty. 767 Fifth Partners LLC is the entity that owns 767 Fifth Avenue (the General Motors Building). It is a subsidiary of 767 Venture, LLC, a consolidated entity in which the Company has a 60% interest. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee.

In connection with the mortgage financing collateralized by the Company's 200 Clarendon Street (formerly the John Hancock Tower) property located in Boston, Massachusetts, the Company has agreed to guarantee approximately \$21.2 million related to its obligations to provide funds for certain tenant re-leasing costs. In addition, in connection with the execution of the ground and air rights lease with respect to the parking garage at 100 Clarendon Street and the concourse level of the Massachusetts Bay Transportation Authority's Back Bay Station, the Company has agreed to guarantee its obligations and liabilities under the lease (See Note 3). The mortgage financing will mature on January 6, 2017.



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In connection with the mortgage financing collateralized by the Company's Fountain Square property located in Reston, Virginia, the Company has agreed to guarantee approximately \$0.7 million related to its obligation to provide funds for certain tenant re-leasing costs. The mortgage financing will mature on October 11, 2016.

From time to time, the Company (or the applicable joint venture) has also agreed to guarantee portions of the principal, interest or other amounts in connection with other unconsolidated joint venture borrowings. In addition to the financial guarantees referenced above, the Company has agreed to customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) on certain of its unconsolidated joint venture loans.

In 2009, the Company filed a general unsecured creditor's claim against Lehman Brothers, Inc. for approximately \$45.3 million related to its rejection of a lease at 399 Park Avenue in New York City. On January 10, 2014, the trustee for the liquidation of the business of Lehman Brothers allowed the Company's claim in the amount of approximately \$45.2 million. During 2014, the Company received an initial distribution totaling approximately \$7.7 million, which is included in Base Rent in the accompanying Consolidated Statements of Operations. On March 11, 2015, the Company received a second interim distribution totaling approximately \$4.5 million, which is included in Base Rent in the accompanying Consolidated Statements of Operations for the nine months ended September 30, 2015. On September 9, 2015, the Company received a third interim distribution totaling approximately \$3.6 million, which is also included in Base Rent in the accompanying Consolidated Statements of Operations for the three and nine months ended September 30, 2015, leaving a remaining claim of approximately \$29.4 million. The Company will continue to evaluate whether to attempt to sell the remaining claim or wait until the trustee distributes proceeds from the Lehman Brothers estate. Given the inherent uncertainties in bankruptcy proceedings, there can be no assurance as to the timing or amount of additional proceeds, if any, that the Company may ultimately realize on the remaining claim, whether by sale to a third party or by one or more distributions from the trustee. Accordingly, the Company has not recorded any estimated recoveries associated with this gain contingency within its Consolidated Financial Statements at September 30, 2015.

#### Insurance

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act (as amended, "TRIA") was enacted in November 2002 to require regulated insurers to make available coverage for "certified" acts of terrorism (as defined by the statute). The expiration date of TRIA was extended to December 31, 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 and further extended to December 31, 2020 by the Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA"), and the Company can provide no assurance that it will be extended further. Currently, the Company's property insurance program per occurrence limits are \$1.0 billion for its portfolio insurance program, including coverage for acts of terrorism other than nuclear, biological, chemical or radiological terrorism ("Terrorism Coverage"). The Company also carries \$250 million of Terrorism Coverage for 601 Lexington Avenue, New York, New York ("601 Lexington Avenue") in excess of the \$1.0 billion of coverage in the Company's property insurance program. Certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York ("767 Fifth Avenue"), are currently insured in separate insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are \$1.625 billion, including Terrorism Coverage. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage for acts of terrorism certified under TRIA ("NBCR Coverage"), which is provided by IXP as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding certain other properties owned in joint ventures with third parties or which the Company manages. The per occurrence limit for NBCR Coverage is \$1.0 billion. Under TRIA, after the payment of the required deductible and coinsurance, the NBCR Coverage provided by IXP is backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a "program trigger." In 2015, the program trigger is \$100 million and the coinsurance is 15%, however, both will increase in subsequent years pursuant to TRIPRA. If the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. The



Company may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in its portfolio or for any other reason. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain terrorism insurance in amounts and on terms that are commercially reasonable.

The Company also currently carries earthquake insurance on its properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that the Company believes is commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, the Company currently carries earthquake insurance which covers its San Francisco region (excluding Salesforce Tower) with a \$170 million per occurrence limit (increased on March 1, 2015 from \$120 million), and a \$170 million annual aggregate limit (increased on March 1, 2015 from \$120 million), \$20 million of which is provided by IXP, as a direct insurer. The builders risk policy

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maintained for the development of Salesforce Tower in San Francisco includes a \$60 million per occurrence and annual aggregate limit of earthquake coverage. The amount of the Company's earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact the Company's ability to finance properties subject to earthquake risk. The Company may discontinue earthquake insurance or change the structure of its earthquake insurance program on some or all of its properties in the future if the premiums exceed the Company's estimation of the value of the coverage.

IXP, a captive insurance company which is a wholly-owned subsidiary of the Company, acts as a direct insurer with respect to a portion of the Company's earthquake insurance coverage for its Greater San Francisco properties and the Company's NBCR Coverage. Insofar as the Company owns IXP, it is responsible for its liquidity and capital resources, and the accounts of IXP are part of the Company's consolidated financial statements. In particular, if a loss occurs which is covered by the Company's NBCR Coverage but is less than the applicable program trigger under TRIA, IXP would be responsible for the full amount of the loss without any backstop by the Federal Government. IXP would also be responsible for any recoupment charges by the Federal Government in the event losses are paid out and its insurance policy is maintained after the payout by the Federal Government. If the Company experiences a loss and IXP is required to pay under its insurance policy, the Company would ultimately record the loss to the extent of the required payment. Therefore, insurance coverage provided by IXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance. In addition, the Operating Partnership has issued a guarantee to cover liabilities of IXP in the amount of \$20.0 million.

The mortgages on the Company's properties typically contain requirements concerning the financial ratings of the insurers who provide policies covering the property. The Company provides the lenders on a regular basis with the identity of the insurance companies in the Company's insurance programs. The ratings of some of the Company's insurers are below the rating requirements in some of the Company's loan agreements and the lenders for these loans could attempt to claim that an event of default has occurred under the loan. The Company believes it could obtain insurance with insurers which satisfy the rating requirements. Additionally, in the future, the Company's ability to obtain debt financing secured by individual properties, or the terms of such financing, may be adversely affected if lenders generally insist on ratings for insurers or amounts of insurance which are difficult to obtain or which result in a commercially unreasonable premium. There can be no assurance that a deficiency in the financial ratings of one or more of the Company's insurers will not have a material adverse effect on the Company.

The Company continues to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism and California earthquake risk in particular, but the Company cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. There are other types of losses, such as from wars, for which the Company cannot obtain insurance at all or at a reasonable cost. With respect to such losses and losses from acts of terrorism, earthquakes or other catastrophic events, if the Company experiences a loss that is uninsured or that exceeds policy limits, the Company could lose the capital invested in the damaged properties, as well as the anticipated future revenues from those properties. Depending on the specific circumstances of each affected property, it is possible that the Company could be liable for mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect the Company's business and financial condition and results of operations.

#### 8. Noncontrolling Interests

Noncontrolling interests relate to the interests in the Operating Partnership not owned by the Company and interests in consolidated property partnerships not wholly-owned by the Company. As of September 30, 2015, the noncontrolling interests in the Operating Partnership consisted of 16,097,473 OP Units, 1,837,080 LTIP Units (including 216,854 2012 OPP Units), 309,818 2013 MYLTIP Units, 476,320 2014 MYLTIP Units and 368,415 2015 MYLTIP Units held by parties other than the Company.

#### Noncontrolling Interest—Redeemable Preferred Units of the Operating Partnership

On June 25, 2015, the Company's Operating Partnership redeemed the remaining 12,667 Series Four Preferred Units for cash totaling approximately \$0.6 million, plus accrued and unpaid distributions. The Series Four Preferred Units bore a preferred distribution equal to 2.00% per annum on a liquidation preference of \$50.00 per unit and were not convertible into OP Units. The holders of Series Four Preferred Units had the right, at certain times and subject to

certain conditions set forth in the Certificate of Designations establishing the rights, limitations and preferences of the Series Four Preferred Units, to require the Operating Partnership to redeem all of their units for cash at the redemption price of \$50.00 per unit. The Operating Partnership also had the right, at certain times and subject to certain conditions, to redeem all of the Series Four Preferred Units for cash at the redemption price of \$50.00 per unit. In order to secure the performance of certain post-issuance obligations by the holders, all of such outstanding Series Four Preferred Units were subject to forfeiture pursuant to the terms of a pledge agreement and not eligible for redemption until and unless such security interest was released. On May 19, 2014, the Company's Operating

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Partnership released to the holders 319,687 Series Four Preferred Units that were previously subject to the security interest. On July 3, 2014, the Company's Operating Partnership redeemed such units for cash totaling approximately \$16.0 million, plus accrued and unpaid distributions. On October 16, 2014, the Company's Operating Partnership released to the holders 27,773 Series Four Preferred Units that were previously subject to the security interest under the pledge agreement. On November 5, 2014, the Company's Operating Partnership redeemed such units for cash totaling approximately \$1.4 million. Due to the holders' redemption option existing outside the control of the Company, the Series Four Preferred Units were presented outside of permanent equity in the Company's Consolidated Balance Sheets.

On February 17, 2015, the Operating Partnership paid a distribution on its outstanding Series Four Preferred Units of \$0.25 per unit. On May 15, 2015, the Operating Partnership paid a distribution on its outstanding Series Four Preferred Units of \$0.25 per unit.

The following table reflects the activity of the noncontrolling interests—redeemable preferred units of the Operating Partnership for the nine months ended September 30, 2015 and 2014 (in thousands):

Balance at December 31, 2014	\$633	
Net income	6	
Distributions	(6	)
Redemption of redeemable preferred units (Series Four Preferred Units)	(633	)
Balance at September 30, 2015	\$—	
Balance at December 31, 2013	\$51,312	
Net income	1,014	
Distributions	(1,014	)
Conversion of redeemable preferred units (Series Two Preferred Units) to common units	(33,306	)
Redemption of redeemable preferred units (Series Four Preferred Units)	(15,984	)
Balance at September 30, 2014	\$2,022	

#### Noncontrolling Interest—Redeemable Interest in Property Partnership

On October 4, 2012, the Company completed the formation of a joint venture that owns and operates Fountain Square located in Reston, Virginia. The joint venture partner contributed the property valued at approximately \$385.0 million and related mortgage indebtedness totaling approximately \$211.3 million for a 50% interest in the joint venture. The Company contributed cash totaling approximately \$87.0 million for its 50% interest, which cash was distributed to the joint venture partner. Pursuant to the joint venture agreement (i) the Company had rights to acquire the partner's 50% interest and (ii) the partner had the right to cause the Company to acquire the partner's interest on January 4, 2016, in each case at a fixed price totaling approximately \$102.0 million in cash. The fixed price option rights were to expire on January 31, 2016. The Company was consolidating this joint venture due to the Company's right to acquire the partner's 50% interest. The Company recorded the noncontrolling interest at its acquisition-date fair value as temporary equity, due to the redemption option existing outside the control of the Company. The Company was accreting the changes in the redemption value quarterly over the period from the acquisition date to the earliest redemption date using the effective interest method. The Company was recording the accretion after the allocation of net income and distributions of cash flow to the noncontrolling interest account balance.

On August 6, 2015, the parties amended the joint venture agreement to require the Company to acquire its partner's 50% interest on September 15, 2015 for approximately \$100.9 million in cash. On September 15, 2015, the Company acquired its partner's 50% interest in the consolidated entity that owns Fountain Square located in Reston Town Center in Reston, Virginia for cash of approximately \$100.9 million plus working capital and closing prorations and the partner's share of assumed mortgage indebtedness totaling approximately \$105.6 million.

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The following table reflects the activity of the noncontrolling interest—redeemable interest in property partnership in the Company's Fountain Square consolidated entity for the nine months ended September 30, 2015 and 2014 (in thousands):

Balance at December 31, 2014	\$ 104,692	
Net loss	(7	)
Distributions	(2,900	)
Adjustment to reflect redeemable interest at redemption value	5,128	
Acquisition of interest	(106,913	)
Balance at September 30, 2015	\$—	
Balance at December 31, 2013	\$99,609	
Net loss	(519	)
Distributions	(4,300	)
Adjustment to reflect redeemable interest at redemption value	9,315	(1)
Balance at September 30, 2014	\$ 104,105	

(1) Includes an out-of-period adjustment totaling approximately \$1.9 million (See Note 2).

Noncontrolling Interest—Common Units of the Operating Partnership

During the nine months ended September 30, 2015, 418,870 OP Units were presented by the holders for redemption (including 59,826 OP Units issued upon conversion of LTIP Units and 2012 OPP Units) and were redeemed by the Company in exchange for an equal number of shares of Common Stock.

At September 30, 2015, the Company had outstanding 309,818 2013 MYLTIP Units, 476,320 2014 MYLTIP Units and 368,415 2015 MYLTIP Units. Prior to the applicable measurement date (February 4, 2016 for 2013 MYLTIP Units, February 3, 2017 for 2014 MYLTIP Units and February 4, 2018 for 2015 MYLTIP Units), holders of MYLTIP Units will be entitled to receive per unit distributions equal to one-tenth (10%) of the regular quarterly distributions payable on an OP Unit, but will not be entitled to receive any special distributions. After the measurement date, the number of MYLTIP Units, both vested and unvested, that MYLTIP award recipients have earned, if any, based on the establishment of a performance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit.

On February 6, 2015, the measurement period for the Company's 2012 OPP Unit awards ended and the Company's TRS performance was sufficient for employees to earn and therefore become eligible to vest in a portion of the 2012 OPP Unit awards. The final outperformance pool was determined to be approximately \$32.1 million, or approximately 80% of the total maximum outperformance pool of \$40.0 million. As a result, 174,549 2012 OPP Units were automatically forfeited.

On January 28, 2015, the Operating Partnership paid a special cash distribution on the OP Units and LTIP Units in the amount of \$4.50 per unit, a regular quarterly cash distribution on the OP Units and LTIP Units in the amount of \$0.65 per unit, and a regular quarterly distribution on the 2012 OPP Units, 2013 MYLTIP Units and 2014 MYLTIP Units in the amount of \$0.065 per unit, to holders of record as of the close of business on December 31, 2014. The special cash distribution was in addition to the regular quarterly distribution on the OP Units and LTIP Units. Unless and until they are earned, holders of OPP Units and MYLTIP Units are not entitled to receive any special distributions. On April 30, 2015, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.65 per unit, a distribution on the 2012 OPP Units in the amount of \$0.416 per unit (representing a blended rate for periods prior to and after February 6, 2015, which was the valuation date for the 2012 Outperformance Plan), and a distribution on the 2013 MYLTIP Units, 2014 MYLTIP Units and 2015 MYLTIP Units in the amount of \$0.065 per unit, to holders of record as of the close of business on March 31, 2015. On July 31, 2015, the Operating Partnership paid a distribution on the OP Units and LTIP Units (including the 2012 OPP Units) in the amount of \$0.65 per unit and a distribution on the 2013 MYLTIP Units, 2014 MYLTIP Units and 2015 MYLTIP Units in the amount of \$0.065 per unit, to holders of record as of the close of business on June 30, 2015. On September 16, 2015, Boston Properties, Inc., as general partner of the Operating Partnership, declared a distribution on the OP Units and LTIP Units (including the 2012 OPP

Units) in the amount of \$0.65 per unit and a distribution on the 2013 MYLTIP Units, 2014 MYLTIP Units and 2015 MYLTIP Units in the amount of \$0.065 per unit, in each case payable on October 30, 2015 to holders of record as of the close of business on September 30, 2015.

A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a

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period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company. The Company may, in its sole discretion, elect to assume and satisfy the redemption obligation by paying either cash or issuing one share of Common Stock. The value of the OP Units not owned by the Company and LTIP Units (including the 2012 OPP Units) assuming that all conditions had been met for the conversion thereof had all of such units been redeemed at September 30, 2015 was approximately \$2.1 billion based on the closing price of the Company's common stock of \$118.40 per share on September 30, 2015. The Company's calculation of Noncontrolling Interest - Common Units of the Operating Partnership in the Company's Consolidated Statements of Operations includes OP Units and vested LTIP Units (including vested 2012 OPP Units).

**Noncontrolling Interests—Property Partnerships**

The noncontrolling interests in property partnerships consist of the outside equity interests in ventures that are consolidated with the financial results of the Company because the Company exercises control over the entities that own the properties. The equity interests in these ventures that are not owned by the Company, totaling approximately \$1.6 billion at September 30, 2015 and December 31, 2014, are included in Noncontrolling Interests—Property Partnerships on the accompanying Consolidated Balance Sheets.

On September 18, 2015, a consolidated entity in which the Company has a 50% interest completed the sale of its 505 9th Street, N.W. property located in Washington, DC for approximately \$318.0 million, including the assumption by the buyer of approximately \$117.0 million of mortgage indebtedness (See Note 5). 505 9th Street, N.W. is an approximately 322,000 net rentable square foot Class A office building. Net cash proceeds totaled approximately \$194.6 million, of which the partners' share was approximately \$97.3 million. The Company recognized a gain on sale of real estate totaling approximately \$199.5 million, of which approximately \$101.1 million was allocated to the outside partners and is included within Noncontrolling Interests in Property Partnerships in the Company's Consolidated Statements of Operations (See Note 3).

The following table reflects the activity of the noncontrolling interests in property partnerships for the nine months ended September 30, 2015 and 2014 (in thousands):

Balance at December 31, 2014	\$ 1,602,467	
Capital contributions	1,758	
Net income	134,591	
Accumulated other comprehensive loss	(3,540	)
Distributions	(144,468	)
Balance at September 30, 2015	\$ 1,590,808	
Balance at December 31, 2013	\$ 726,132	
Capital contributions	2,980	
Net income	8,677	
Distributions	(21,224	)
Balance at September 30, 2014	\$ 716,565	

**9. Stockholders' Equity**

As of September 30, 2015, the Company had 153,574,600 shares of Common Stock outstanding.

On June 3, 2014, the Company established an "at the market" ("ATM") stock offering program through which it may sell from time to time up to an aggregate of \$600.0 million of its common stock through sales agents over a three-year period. The Company intends to use the net proceeds from any offering for general business purposes, which may include investment opportunities and debt reduction. No shares of common stock have been issued under this ATM stock offering program since its inception.

During the nine months ended September 30, 2015, the Company issued 418,870 shares of Common Stock in connection with the redemption of an equal number of redeemable OP Units from third parties.

During the nine months ended September 30, 2015, the Company issued 11,447 shares of Common Stock in connection with the exercise of options to purchase Common Stock by certain employees.



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On January 28, 2015, the Company paid a special cash dividend and regular quarterly dividend aggregating \$5.15 per share of Common Stock to shareholders of record as of the close of business on December 31, 2014. On April 30, 2015, the Company paid a dividend of \$0.65 per share of Common Stock to shareholders of record as of the close of business on March 31, 2015. On July 31, 2015, the Company paid a dividend of \$0.65 per share of Common Stock to shareholders of record as of the close of business on June 30, 2015. On September 16, 2015, the Company's Board of Directors declared a dividend of \$0.65 per share of Common Stock payable on October 30, 2015 to shareholders of record as of the close of business on September 30, 2015.

**Preferred Stock**

As of September 30, 2015, the Company had 80,000 shares (8,000,000 depositary shares each representing 1/100th of a share) outstanding of its 5.25% Series B Cumulative Redeemable Preferred Stock with a liquidation preference of \$2,500.00 per share (\$25.00 per depositary share). The Company pays cumulative cash dividends on the Series B Preferred Stock at a rate of 5.25% per annum of the \$2,500.00 liquidation preference per share. The Company may not redeem the Series B Preferred Stock prior to March 27, 2018, except in certain circumstances relating to the preservation of the Company's REIT status. On or after March 27, 2018, the Company, at its option, may redeem the Series B Preferred Stock for a cash redemption price of \$2,500.00 per share (\$25.00 per depositary share), plus all accrued and unpaid dividends. The Series B Preferred Stock is not redeemable by the holders, has no maturity date and is not convertible into any other security of the Company or its affiliates.

On February 17, 2015, the Company paid a dividend on its outstanding Series B Preferred Stock of \$32.8125 per share. On May 15, 2015, the Company paid a dividend on its outstanding Series B Preferred Stock of \$32.8125 per share. On August 17, 2015, the Company paid a dividend on its outstanding Series B Preferred Stock of \$32.8125 per share. On September 16, 2015, the Company's Board of Directors declared a dividend of \$32.8125 per share of Series B Preferred Stock payable on November 16, 2015 to shareholders of record as of the close of business on November 5, 2015.

**10. Earnings Per Share**

The following table provides a reconciliation of both the net income attributable to Boston Properties, Inc. common shareholders and the number of common shares used in the computation of basic earnings per share ("EPS"), which is calculated by dividing net income attributable to Boston Properties, Inc. common shareholders by the weighted-average number of common shares outstanding during the period. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are also participating securities. As such, unvested restricted common stock of the Company, LTIP Units, 2012 OPP Units and MYLTIP Units are considered participating securities. Participating securities are included in the computation of basic EPS of the Company using the two-class method. Participating securities are included in the computation of diluted EPS of the Company using the if-converted method if the impact is dilutive. Because the 2012 OPP Units required and the MYLTIP Units require the Company to outperform absolute and relative return thresholds, unless such thresholds have been met by the end of the applicable reporting period, the Company excludes such units from the diluted EPS calculation. Other potentially dilutive common shares, including stock options, restricted stock and other securities of the Operating Partnership that are exchangeable for the Company's Common Stock, and the related impact on earnings, are considered when calculating diluted EPS.

	For the three months ended September 30, 2015		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except for per share amounts)		
<b>Basic Earnings:</b>			
Net income attributable to Boston Properties, Inc. common shareholders	\$ 184,082	153,595	\$ 1.20
Allocation of undistributed earnings to participating securities (221 )	—	—	—
Net income attributable to Boston Properties, Inc. common shareholders	\$ 183,861	153,595	\$ 1.20
<b>Effect of Dilutive Securities:</b>			

Stock Based Compensation	—	191	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$183,861	153,786	\$1.20

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	For the three months ended September 30, 2014		
	Income (Numerator) (in thousands, except for per share amounts)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$127,724	153,120	\$0.83
Allocation of undistributed earnings to participating securities (63 )	—	—	—
Net income attributable to Boston Properties, Inc. common shareholders	\$127,661	153,120	\$0.83
Effect of Dilutive Securities:			
Stock Based Compensation	—	153	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$127,661	153,273	\$0.83
	For the nine months ended September 30, 2015		
	Income (Numerator) (in thousands, except for per share amounts)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$434,702	153,426	\$2.83
Allocation of undistributed earnings to participating securities (361 )	—	—	—
Net income attributable to Boston Properties, Inc. common shareholders	\$434,341	153,426	\$2.83
Effect of Dilutive Securities:			
Stock Based Compensation	—	399	(0.01 )
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$434,341	153,825	\$2.82
	For the nine months ended September 30, 2014		
	Income (Numerator) (in thousands, except for per share amounts)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$258,472	153,077	\$1.69
Effect of Dilutive Securities:			
Stock Based Compensation	—	151	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$258,472	153,228	\$1.69

## 11. Stock Option and Incentive Plan

On January 21, 2015, the Company's Compensation Committee approved the 2015 MYLTIP awards under the Company's 2012 Stock Option and Incentive Plan (the "2012 Plan") to certain officers and employees of the Company. The



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2015 MYLTIP awards utilize TRS over a three-year measurement period, on an annualized, compounded basis, as the performance metric. Earned awards will be based on the Company's TRS relative to (i) the Cohen & Steers Realty Majors Portfolio Index (50% weight) and (ii) the NAREIT Office Index adjusted to exclude the Company (50% weight). Earned awards will range from \$0 to a maximum of approximately \$40.8 million depending on the Company's TRS relative to the two indices, with three tiers (threshold: approximately \$8.2 million; target: approximately \$16.3 million; high: approximately \$40.8 million) and linear interpolation between tiers. Earned awards measured on the basis of relative TRS performance are subject to an absolute TRS component in the form of relatively simple modifiers that (A) reduce the level of earned awards in the event the Company's annualized TRS is less than 0% and (B) cause some awards to be earned in the event the Company's annualized TRS is more than 12% even though on a relative basis alone the Company's TRS would not result in any earned awards.

Earned awards (if any) will vest 50% on February 4, 2018 and 50% on February 4, 2019, based on continued employment. Vesting will be accelerated in the event of a change in control, termination of employment by the Company without cause, or termination of employment by the award recipient for good reason, death, disability or retirement. If there is a change of control prior to February 4, 2018, earned awards will be calculated based on TRS performance up to the date of the change of control. The 2015 MYLTIP awards are in the form of LTIP Units issued on the grant date which (i) are subject to forfeiture to the extent awards are not earned and (ii) prior to the performance measurement date are only entitled to one-tenth (10%) of the regular quarterly distributions payable on OP Units. Under the FASB's Accounting Standards Codification ("ASC") 718 "Compensation-Stock Compensation," the 2015 MYLTIP awards have an aggregate value of approximately \$15.7 million, which amount will generally be amortized into earnings over the four-year plan period under the graded vesting method.

On February 6, 2015, the measurement period for the Company's 2012 OPP Unit awards ended and the Company's TRS performance was sufficient for employees to earn and therefore become eligible to vest in a portion of the 2012 OPP Unit awards. The final outperformance pool was determined to be approximately \$32.1 million, or approximately 80% of the total maximum outperformance pool of \$40.0 million. As a result, 174,549 2012 OPP Units were automatically forfeited.

During the nine months ended September 30, 2015, the Company issued 34,150 shares of restricted common stock, 190,563 LTIP Units (including 85,962 LTIP Units issued on January 1, 2015 to Mortimer B. Zuckerman, non-executive Chairman of the Board, pursuant to the Transition Benefits Agreement dated March 10, 2013) and 375,000 2015 MYLTIP Units to employees and non-employee directors under the 2012 Plan. Employees and non-employee directors paid \$0.01 per share of restricted common stock and \$0.25 per LTIP Unit and 2015 MYLTIP Unit. When issued, LTIP Units are not economically equivalent in value to a share of Common Stock, but over time can increase in value to one-for-one parity with Common Stock if there is sufficient appreciation in the value of the Company's assets. The aggregate value of the LTIP Units is included in noncontrolling interests in the Consolidated Balance Sheets. Grants of restricted stock and LTIP Units to employees vest in four equal annual installments. Restricted stock is measured at fair value on the date of grant based on the number of shares granted, as adjusted for forfeitures, and the closing price of the Company's Common Stock on the date of grant as quoted on the New York Stock Exchange. Such value is recognized as an expense ratably over the corresponding employee service period. The shares of restricted stock granted during the nine months ended September 30, 2015 were valued at approximately \$4.8 million (\$140.88 per share weighted-average). The LTIP Units granted (excluding the number issued to Mr. Zuckerman, as discussed above) were valued at approximately \$13.5 million (\$128.94 per unit weighted-average fair value) using a Monte Carlo simulation method model. The per unit fair values of the LTIP Units granted were estimated on the dates of grant and for a substantial majority of such units were valued using the following assumptions: an expected life of 5.7 years, a risk-free interest rate of 1.47% and an expected price volatility of 26%. The value of the LTIP Units issued to Mr. Zuckerman was expensed between March 2013 and July 2014 in accordance with the vesting schedule set forth in the Transition Benefits Agreement. As the 2012 OPP Units, 2013 MYLTIP Units, 2014 MYLTIP Units and 2015 MYLTIP Units are subject to both a service condition and a market condition, the Company recognizes the compensation expense related to the 2012 OPP Units, 2013 MYLTIP Units, 2014 MYLTIP Units and 2015 MYLTIP Units under the graded vesting attribution method. Under the graded vesting attribution method, each portion of the award that vests at a different date is accounted for as a separate award and

recognized over the period appropriate to that portion so that the compensation cost for each portion should be recognized in full by the time that portion vests. Dividends paid on both vested and unvested shares of restricted stock are charged directly to Dividends in Excess of Earnings in the Consolidated Balance Sheets. Aggregate stock-based compensation expense associated with restricted stock, non-qualified stock options, LTIP Units, 2012 OPP Units, 2013 MYLTIP Units, 2014 MYLTIP Units and 2015 MYLTIP Units was approximately \$5.9 million and \$5.0 million for the three months ended September 30, 2015 and 2014, respectively, and approximately \$21.0 million and \$21.0 million for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, there was \$21.3 million of unrecognized compensation expense related to unvested restricted stock, LTIP Units and 2012 OPP Units and \$20.5 million of unrecognized compensation expense related to unvested 2013 MYLTIP Units, 2014 MYLTIP Units and 2015 MYLTIP Units that is expected to be recognized over a weighted-average period of approximately 2.5 years.

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## 12. Segment Information

The Company's segments are based on the Company's method of internal reporting which classifies its operations by both geographic area and property type. The Company's segments by geographic area are Boston, New York, San Francisco and Washington, DC. Segments by property type include: Class A Office, Office/Technical, Residential and Hotel.

Asset information by segment is not reported because the Company does not use this measure to assess performance. Therefore, depreciation and amortization expense is not allocated among segments. Interest and other income, development and management services income, general and administrative expenses, transaction costs, interest expense, depreciation and amortization expense, gains (losses) from investments in securities, income from unconsolidated joint ventures, gains on sales of real estate, noncontrolling interests and preferred dividends are not included in Net Operating Income as internal reporting addresses these items on a corporate level.

Net Operating Income is not a measure of operating results or cash flows from operating activities as measured by accounting principles generally accepted in the United States of America, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. All companies may not calculate Net Operating Income in the same manner. The Company considers Net Operating Income to be an appropriate supplemental measure to net income because it helps both investors and management to understand the core operations of the Company's properties. The Company's management also uses Net Operating Income to evaluate regional property level performance and to make decisions about resource allocations. Further, the Company believes Net Operating Income is useful to investors as a performance measure because, when compared across periods, Net Operating Income reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspectives not immediately apparent from net income attributable to Boston Properties, Inc. common shareholders.

Information by geographic area and property type (dollars in thousands):

For the three months ended September 30, 2015:

	Boston	New York	San Francisco	Washington, DC	Total	
<b>Rental Revenue:</b>						
Class A Office	\$ 173,412	\$ 253,612	\$ 71,720	\$ 94,086	\$ 592,830	
Office/Technical	5,866	—	5,595	2,951	14,412	
Residential	1,275	—	—	2,836	4,111	
Hotel	12,619	—	—	—	12,619	
Total	193,172	253,612	77,315	99,873	623,972	
% of Grand Totals	30.96	% 40.64	% 12.39	% 16.01	% 100.00	%
<b>Rental Expenses:</b>						
Class A Office	70,178	88,496	24,864	30,943	214,481	
Office/Technical	1,720	—	1,019	1,042	3,781	
Residential	485	—	—	1,049	1,534	
Hotel	8,125	—	—	—	8,125	
Total	80,508	88,496	25,883	33,034	227,921	
% of Grand Totals	35.32	% 38.83	% 11.36	% 14.49	% 100.00	%
Net operating income	\$ 112,664	\$ 165,116	\$ 51,432	\$ 66,839	\$ 396,051	
% of Grand Totals	28.45	% 41.69	% 12.98	% 16.88	% 100.00	%

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For the three months ended September 30, 2014:

	Boston	New York	San Francisco	Washington, DC	Total	
<b>Rental Revenue:</b>						
Class A Office	\$176,788	\$243,033	\$61,691	\$96,219	\$577,731	
Office/Technical	6,056	—	5,892	3,713	15,661	
Residential	1,137	—	—	5,881	7,018	
Hotel	11,918	—	—	—	11,918	
Total	195,899	243,033	67,583	105,813	612,328	
% of Grand Totals	31.99	% 39.69	% 11.04	% 17.28	% 100.00	%
<b>Rental Expenses:</b>						
Class A Office	69,026	82,335	22,484	32,898	206,743	
Office/Technical	1,901	—	1,363	1,009	4,273	
Residential	509	—	—	3,654	4,163	
Hotel	7,585	—	—	—	7,585	
Total	79,021	82,335	23,847	37,561	222,764	
% of Grand Totals	35.47	% 36.96	% 10.71	% 16.86	% 100.00	%
Net operating income	\$116,878	\$160,698	\$43,736	\$68,252	\$389,564	
% of Grand Totals	30.00	% 41.25	% 11.23	% 17.52	% 100.00	%

For the nine months ended September 30, 2015:

	Boston	New York	San Francisco	Washington, DC	Total	
<b>Rental Revenue:</b>						
Class A Office	\$518,213	\$753,142	\$206,753	\$278,706	\$1,756,814	
Office/Technical	18,028	—	16,808	8,946	43,782	
Residential	3,584	—	—	11,192	14,776	
Hotel	35,107	—	—	—	35,107	
Total	574,932	753,142	223,561	298,844	1,850,479	
% of Grand Totals	31.07	% 40.70	% 12.08	% 16.15	% 100.00	%
<b>Rental Expenses:</b>						
Class A Office	212,517	259,218	70,189	95,403	637,327	
Office/Technical	5,485	—	2,930	3,257	11,672	
Residential	1,505	—	—	5,106	6,611	
Hotel	24,196	—	—	—	24,196	
Total	243,703	259,218	73,119	103,766	679,806	
% of Grand Totals	35.85	% 38.13	% 10.76	% 15.26	% 100.00	%
Net operating income	\$331,229	\$493,924	\$150,442	\$195,078	\$1,170,673	
% of Grand Totals	28.29	% 42.19	% 12.85	% 16.67	% 100.00	%



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For the nine months ended September 30, 2014:

	Boston	New York	San Francisco	Washington, DC	Total	
<b>Rental Revenue:</b>						
Class A Office	\$520,857	\$684,240	\$173,749	\$287,489	\$1,666,335	
Office/Technical	17,788	—	18,451	11,044	47,283	
Residential	3,389	—	—	15,609	18,998	
Hotel	32,478	—	—	—	32,478	
Total	574,512	684,240	192,200	314,142	1,765,094	
% of Grand Totals	32.55	% 38.76	% 10.89	% 17.80	% 100.00	%
<b>Rental Expenses:</b>						
Class A Office	206,242	231,668	63,078	98,818	599,806	
Office/Technical	5,326	—	3,885	3,335	12,546	
Residential	1,501	—	—	10,360	11,861	
Hotel	21,697	—	—	—	21,697	
Total	234,766	231,668	66,963	112,513	645,910	
% of Grand Totals	36.35	% 35.86	% 10.37	% 17.42	% 100.00	%
Net operating income	\$339,746	\$452,572	\$125,237	\$201,629	\$1,119,184	
% of Grand Totals	30.36	% 40.43	% 11.19	% 18.02	% 100.00	%

The following is a reconciliation of Net Operating Income to net income attributable to Boston Properties, Inc. common shareholders:

	Three months ended September 30, 2015		2014		Nine months ended September 30, 2015		2014	
	(in thousands)							
Net Operating Income	\$396,051	\$389,564	\$1,170,673	\$1,119,184				
Add:								
Development and management services income	5,912	6,475	16,102	18,197				
Income from unconsolidated joint ventures	2,647	4,419	20,559	10,069				
Interest and other income	3,637	3,421	6,337	6,841				
Gains on sales of real estate	199,479	41,937	294,563	41,937				
Less:								
General and administrative expense	20,944	22,589	72,019	75,765				
Transaction costs	254	1,402	789	2,500				
Depreciation and amortization expense	153,015	157,245	475,082	466,143				
Losses (gains) from investments in securities	1,515	297	1,146	(651)				)
Interest expense	108,727	113,308	326,018	337,839				
Noncontrolling interests in property partnerships	115,240	5,566	139,712	17,473				
Noncontrolling interest—redeemable preferred units of the Operating Partnership	—	75	6	1,014				
Noncontrolling interest—common units of the Operating Partnership	21,302	14,963	50,906	29,819				
Preferred dividends	2,647	2,647	7,854	7,854				
Net income attributable to Boston Properties, Inc. common shareholders	\$184,082	\$127,724	\$434,702	\$258,472				



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## 13. Subsequent Events

From October 1, 2015 through November 6, 2015, the Company entered into one forward-starting interest rate swap contract which fixes the 10-year swap rate at a rate of 2.129% per annum on a notional amount of \$25.0 million. The interest rate swap contract was entered into in advance of a financing with a target commencement date in September 2016 and maturity in September 2026 (See Note 6). In addition, 767 Fifth Partners LLC, the consolidated entity in which the Company has a 60% interest and owns 767 Fifth Avenue (the General Motors Building) in New York City, entered into one forward-starting interest rate swap contract which fixes the 10-year swap rate at a rate of 2.379% per annum on a notional amount of \$25.0 million. The interest rate swap contract was entered into in advance of a financing with a target commencement date in June 2017 and maturity in June 2027 (See Note 6).

On October 1, 2015, the Company completed the sale of a parcel of land within its Washingtonian North property located in Gaithersburg, Maryland for a gross sale price of approximately \$13.3 million, which exceeds its carrying value. The parcel contains approximately 5.8 acres of the Company's approximately 19.3 acre property.

On October 1, 2015, the Company used available cash to repay the mortgage loan collateralized by its Kingstowne Two and Kingstowne Retail properties located in Alexandria, Virginia totaling approximately \$29.8 million. The mortgage loan bore interest at a fixed rate of 5.99% per annum and was scheduled to mature on January 1, 2016.

There was no prepayment penalty.

On October 7, 2015, the Company entered into an agreement to sell its Innovation Place property for a gross sale price of \$207.0 million, which exceeds its carrying value. Innovation Place, located in San Jose, California, is a 26-acre site with one occupied and three vacant existing office buildings and a total of approximately 574,000 square feet (approximately 463,000 square feet of which are vacant) located at 3100-3130 Zanker Road. Currently, the remainder of the site is used for 1,699 surface parking spaces but the land supports an additional 537,000 square feet of office/R&D development and two parking structures with a total of approximately 3,000 parking spaces. However, the sale is subject to the satisfaction of closing conditions and there can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

## ITEM 2—Management's Discussion and Analysis of Financial Condition and Results of Operations

As used herein, the terms "we," "us," "our" and the "Company" refer to Boston Properties, Inc., a Delaware corporation organized in 1997, individually or together with its subsidiaries, including Boston Properties Limited Partnership, a Delaware limited partnership, and our predecessors.

This Quarterly Report on Form 10-Q, including the documents incorporated by reference, contains forward-looking statements within the meaning of the federal securities laws, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. Such statements are contained principally, but not only, under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." We caution investors that any such forward-looking statements are based on beliefs and on assumptions made by, and information currently available to, our management. When used, the words "anticipate," "believe," "estimate," "expect," "intend," "may," "might," "plan," "project," "result," "show" or similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected by the forward-looking statements. We caution you that, while forward-looking statements reflect our good-faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. Accordingly, investors should use caution in relying on forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

If there is a negative change in the economy including but not limited to a reversal of current job growth trends and an increase in unemployment, it could have a negative effect on the following, among other things:

the fundamentals of our business, including overall market occupancy, tenant space utilization, and rental rates;

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the financial condition of our tenants, many of which are financial, legal, media/telecommunication, technology and other professional firms, our lenders, counterparties to our derivative financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties; and the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis;

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, tenant space utilization, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

failure to manage effectively our growth and expansion into new markets and sub-markets or to integrate acquisitions and developments successfully;

the ability of our joint venture partners to satisfy their obligations;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, increased construction costs, cost overruns, inability to obtain necessary permits, tenant accounting considerations that may result in negotiated lease provisions that limit a tenant's liability during construction, and public opposition to such activities);

risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments or refinance existing indebtedness, including the impact of higher interest rates on the cost and/or availability of financing;

risks associated with forward interest rate contracts and the effectiveness of such arrangements;

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

risks associated with actual or threatened terrorist attacks;

costs of compliance with the Americans with Disabilities Act and other similar laws;

potential liability for uninsured losses and environmental contamination;

risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems, which support our operations and our buildings;

risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended;

possible adverse changes in tax and environmental laws;

the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results;

risks associated with possible state and local tax audits;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in our most recently filed Annual Report on Form 10-K, including those described under the caption "Risk Factors."

The risks set forth above are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can it assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q for future periods and Current Reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements. We expressly disclaim any responsibility to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or otherwise, and you should not rely upon these forward-looking statements after the date of this report.



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### Overview

We are a fully integrated self-administered and self-managed REIT and one of the largest owners and developers of Class A office properties in the United States. Our properties are concentrated in four markets-Boston, New York, San Francisco and Washington, DC. We generate revenue and cash primarily by leasing Class A office space to our tenants. Factors we consider when we lease space include the creditworthiness of the tenant, the length of the lease, the rental rate to be paid at inception and throughout the lease term, the costs of tenant improvements and other landlord concessions, current and anticipated operating costs and real estate taxes, our current and anticipated vacancy, current and anticipated future demand for office space and general economic factors. From time to time, we also generate cash through the sale of assets.

Our core strategy has always been to own, operate and develop properties in supply-constrained markets with high barriers-to-entry and to focus on executing long-term leases with financially strong tenants. Historically, this combination has tended to reduce our exposure in down cycles and enhance revenues as market conditions improve. To be successful in any leasing environment, we believe all aspects of the tenant-landlord relationship must be considered. In this regard, we believe that our understanding of tenants' short- and long-term space utilization and amenity needs in the local markets in which we operate, our relationships with local brokers, our reputation as a premier developer, owner and operator of Class A office properties, our financial strength and our ability to maintain high building standards provide us with a competitive advantage.

Consistent with our core strategy, we make decisions with a long-term view to maximizing the value of individual assets and the portfolio. We own and manage many significant buildings with large tenants, and several of these tenants' leases expire in 2015 and 2016 and we expect it will take time to re-lease this space. We are also planning proactive repositionings of several of our properties, including the retail and low-rise portions of 601 Lexington Avenue in New York City and 100 Federal Street in Boston, which will require significant investments and necessitate that space is vacated. For these reasons, despite the overall roll-up in rents on newly signed leases, we expect our projected 2016 growth in net operating income from our same property portfolio to be relatively flat compared to 2015. However, we believe we are well positioned to deliver significant growth in 2017 given our lease-up opportunities and expected contributions from our development deliveries.

During the third quarter, we signed leases for an aggregate of approximately 1.3 million square feet across our regions, which is consistent with our 10-year average, and our overall occupancy improved slightly from 91.1% to 91.3%. In addition, we saw roll-up in rents on second generation leases driven in particular by roll-ups in Boston and San Francisco, but we had a few transactions in New York and Washington, DC that muted the increase in rents for our overall leasing statistics.

We continue to see heavy activity across our entire New York portfolio, but we have limited current vacancy and limited rollover exposure through the end of 2015. With the exception of 250 West 55<sup>th</sup> Street, where we have leases out for our remaining pre-built suites and half-floor deals on two of the remaining three available floors, most of our current negotiations relate to future availability. At 601 Lexington Avenue, a property in which we have a 55% interest, we are in the planning stages of a major repositioning of the retail and low-rise portions of the building that would require tenants to vacate the entire 140,000 square feet of the low-rise portion. In addition, in order to move forward with these plans, we took back a floor at the top of the building and received a termination payment from the existing tenant so that we are now able to relocate a tenant from the low-rise portion. We expect this repositioning will result in a diminution of 2016 and 2017 occupancy and revenue, but we are making this decision with a long-term view of enhancing the value of the asset and the portfolio. At 767 Fifth Avenue (the General Motors Building), we are getting back approximately 80,000 square feet in July 2016 and, based on current market rents and demand for space of this quality, we expect that when we release the space, the new rents will be in excess of \$80 per square foot greater than the expiring rents. We also have active interest from tenants ranging in size from 14,000 to 65,000 square feet for the space formerly occupied by FAO Schwartz at 767 Fifth Avenue (the General Motors Building), which we expect will be available in early 2017.

In our Washington, DC region, the overall leasing activity continues to be slow, though we were able to complete approximately 469,000 square feet of leasing in the third quarter. The Washington, DC Central Business District ("CBD") continues to be very competitive because there has not been any significant increase in demand. We were able

to complete a major renewal at 1330 Connecticut Avenue, where the existing tenant renewed for 15 years, commencing in 2017, on approximately 212,000 square feet of its current approximately 240,000 square feet with a roll-up in net rent of approximately 25%. As part of this transaction, we will be using approximately 52,000 square feet at 1333 New Hampshire Avenue as “swing space” which will be non-revenue producing. Also, our development at 601 Massachusetts Avenue opened in September 2015 and was delivered at an initial cash return in excess of 8%. The income contribution will ramp up in 2016 and fully contribute in 2017. Activity in Reston Town Center continues to be very strong, though we have limited availability because our vacancy rate is less than 3% while the overall vacancy rate in the Reston market is at 14%. We continue to see expansion by our existing tenants and strong tenant demand due to the combination of walkable retail, high-quality new multifamily, community programming and improving access to the Metro. Much of our current activity involves extending and expanding tenants by accommodating take-overs and sublets. The weakest subset of our Washington, DC portfolio is the GSA-related properties in



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Springfield, Virginia and Annapolis, Maryland. While the user groups want and need space, GSA-mandated densification and lack of new defense appropriations have severely limited current demand.

In the Boston region, the expansion of the life sciences and technology industries continues to positively impact each of the submarkets in which we operate. Our Cambridge portfolio is essentially 100% leased and we have no short-term availability or near-term expirations. In spite of the significant volatility in the life science industry, as well as some job reductions by specific companies, there continues to be a flow of new tenants looking for space in Cambridge. The lack of available supply in Cambridge continues and is a challenge given the continued organic growth of the companies looking to grow within their existing market and new tenants in the marketplace. The Cambridge Redevelopment Authority made its submission to the City of Cambridge for the increased zoning of our Kendall Square project which, if approved, could provide us the ability to develop an additional 600,000 square feet of office and 400,000 square feet of residential space. In the Back Bay, we are now 71% pre-leased in the office space at our development at 888 Boylston Street. We also completed our first retail lease totaling approximately 18,000 square feet and are having extensive conversations with retailers on the remainder of the retail space, which we expect to open in the fall of 2016, a few months after the office building opens. Our repositioning and rebranding at 120 St. James Street, where we have an approximately 170,000 square foot block of availability, is complete and activity is positive. We have responded to three full block proposals in the last 90 days and each anticipates full utilization of the space in late 2017. At 200 Clarendon Street (formerly the John Hancock Tower), we completed approximately 88,000 square feet of leasing during the third quarter and are experiencing strong roll ups in rents. While we have seen interest from a few multi-floor users, the high-end demand in Boston has typically been for users seeking less than 30,000 square feet and, as a result, we expect to lease the vacant space at 200 Clarendon Street in smaller units with rent commencing at the end of 2016 or early 2017. At 100 Federal Street, a property in which we have a 55% interest, we are in active discussions with an existing tenant to relocate and extend its lease and another tenant to contract its space in order to accommodate a major lease with a new tenant who would lease the contraction space and much of the available space in the building. However, we do not expect revenue recognition to occur until late 2016 or 2017. These transactions will have a negative impact on our short-term financial performance, but we believe they will enhance the value of the assets over the longer term. Our Waltham submarket also continues to get stronger, driven by organic growth. This quarter, we completed 16 leases in our suburban portfolio for approximately 150,000 square feet and we have a similar amount under lease negotiations. All of our space at 10 CityPoint is committed and rents have increased 25% over the last 18 months.

Leasing activity in the San Francisco CBD and Silicon Valley submarkets remains healthy. Other than new developments, there are extremely limited large blocks of space available in the city. At Embarcadero Center, we completed leases for approximately 118,000 square feet of office space during the quarter. The largest deal was for approximately 41,000 square feet with a substantial increase in the rental rate from the prior lease for the space. We are also actively engaged with prospective full floor tenants on more than 350,000 square feet, including five currently vacant floors totaling approximately 117,000 square feet. The anticipated increase in the rental rate from in place leases is expected to be in excess of 50% on a gross basis and 75% on a net basis. In total, we have more than 1.0 million square feet of lease expirations at Embarcadero Center, through the end of 2017, where we believe the current market rents are well in excess of the expiring rents. At 535 Mission Street, we are now 89% leased and are negotiating leases on all but approximately 4,000 square feet. This building should be fully contributing by the third quarter of 2016 at a cash return that is greater than our original pro forma. At Salesforce Tower, we have approximately 700,000 square feet available. We are negotiating leases on 100,000 square feet and have active discussions with asset managers, hedge funds, venture capital firms, law firms, consulting firms, real estate brokerages and other non-tech service firms totaling more than 475,000 square feet. At Gateway, we expect our largest tenant to vacate approximately 187,000 square feet at the end of 2015. We believe the upgrade to the Caltrain station and its proximity to our Gateway properties will enhance our leasing prospects, but we expect it will take time to re-lease this space which will negatively impact our 2016 same property net operating income.

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The table below details the leasing activity during the three and nine months ended September 30, 2015:

	Three Months Ended September 30, 2015 Square Feet	Nine Months Ended September 30, 2015	
Vacant space available at the beginning of the period	3,674,612	3,442,468	
Property dispositions/properties taken out of service	—	(73,258	)
Properties placed in-service	611,603	669,823	
Leases expiring or terminated during the period	1,567,419	4,785,653	
Total space available for lease	5,853,634	8,824,686	
1 <sup>st</sup> generation leases	723,391	1,017,912	
2 <sup>nd</sup> generation leases with new tenants	885,637	2,365,279	
2 <sup>nd</sup> generation lease renewals	649,816	1,846,705	
Total space leased (1)	2,258,844	5,229,896	
Vacant space available for lease at the end of the period	3,594,790	3,594,790	
Leases executed during the period, in square feet (2)	1,329,648	3,893,538	
Second generation leasing information: (3)			
Leases commencing during the period, in square feet	1,535,453	4,211,984	
Weighted Average Lease Term	110 Months	101 Months	
Weighted Average Free Rent Period	55 Days	46 Days	
Total Transaction Costs Per Square Foot (4)	\$59.78	\$47.78	
Increase in Gross Rents (5)	5.58	% 5.36	%
Increase in Net Rents (6)	7.97	% 7.49	%

(1) Represents leases for which rental revenue recognition has commenced in accordance with GAAP during the three and nine months ended September 30, 2015.

(2) Represents leases executed during the three and nine months ended September 30, 2015 for which the Company either (1) commenced rental revenue recognition in such period or (2) will commence rental revenue recognition in subsequent periods, in accordance with GAAP, and includes leases at properties currently under development. The total square feet of leases executed and recognized in the three and nine months ended September 30, 2015 is 211,796 and 842,900, respectively.

(3) Second generation leases are defined as leases for space that had previously been leased by the Company. Of the 1,535,453 and 4,211,984 square feet of second generation leases that commenced during the three and nine months ended September 30, 2015, respectively, leases for 1,323,657 and 3,409,233 square feet were signed in prior periods for the three and nine months ended September 30, 2015, respectively.

(4) Total transaction costs include tenant improvements and leasing commissions and exclude free rent concessions and other inducements in accordance with GAAP.

(5) Represents the increase in gross rent (base rent plus expense reimbursements) on the new versus expired leases on the 1,249,105 and 3,264,746 square feet of second generation leases that had been occupied within the prior 12 months for the three and nine months ended September 30, 2015, respectively; excludes leases that management considers temporary because the tenant is not expected to occupy the space on a long-term basis.

(6) Represents the increase in net rent (gross rent less operating expenses) on the new versus expired leases on the 1,249,105 and 3,264,746 square feet of second generation leases that had been occupied within the prior 12 months for the three and nine months ended September 30, 2015, respectively; excludes leases that management considers temporary because the tenant is not expected to occupy the space on a long-term basis.

Investor demand and pricing for real estate assets remains robust as positive rent growth, a significant yield gap and the potential for an appreciating U.S. dollar attracts both domestic and foreign investors to high-quality office assets in our core markets. However, going forward, pricing could be tested by the significant pipeline of real estate currently

in the market, higher volatility in the public capital markets and the potential for increasing interest rates. We continue to actively underwrite acquisitions, but acquiring high-quality assets at acceptable returns is challenging in the current environment. Our fundamental

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capital strategy has not changed. We are continuing to sell selected assets and expect that a portion of the proceeds will be distributed and a portion will be reinvested in our development pipeline. We continue to deliver development properties at lower prices per square foot and materially higher yields than where existing assets are trading. We intend to remain disciplined in our underwriting and may seek to acquire existing buildings in ventures with private capital sources and enhance our returns through fees earned for providing our real estate management expertise. As of September 30, 2015, our current development pipeline consists of 14 projects totaling approximately 4.7 million square feet. Our share of the total projected investment is approximately \$2.7 billion, of which approximately \$1.5 billion remains to be funded. During the third quarter, we commenced construction on two projects: a 164,000 square foot residential development located in Kendall Center (formerly Cambridge Center) in Cambridge, Massachusetts and a 514,000 square foot residential development located in Reston Town Center. In the aggregate, the commercial space in our developments is approximately 59% pre-leased. These projects will be delivered in the fourth quarter 2015 through 2018. In addition, we are working on several new developments for which construction has not commenced, including land parcels, options on sites or existing asset redevelopment opportunities. These include the first phase of North Station consisting of 360,000 square feet of retail and loft office space in Boston and significant improvement projects at 601 Lexington Avenue in New York City and 100 Federal Street in Boston, which will enhance and add high-value retail amenities to the buildings. The actual amount and timing of new development activities will depend on the completion of the entitlement and planning processes and in many cases some level of pre-leasing.

Transactions during the three months ended September 30, 2015 included the following:

Between July 1, 2015 and November 6, 2015, we entered into forward-starting interest rate swap contracts, including one contract entered into subsequent to September 30, 2015, which fix the 10-year swap rate on notional amounts aggregating \$225.0 million. We have now entered into forward-starting interest rate swap contracts which fix the 10-year swap rate at a weighted-average rate of approximately 2.423% per annum on notional amounts aggregating \$550.0 million. The interest rate swap contracts were entered into in advance of a financing with a target commencement date in September 2016 and maturity in September 2026.

In addition, between July 1, 2015 and November 6, 2015, our 767 Fifth Partners LLC consolidated entity (the entity in which we have a 60% interest and that owns 767 Fifth Avenue (the General Motors Building) in New York City) entered into forward-starting interest rate swap contracts, including one contract entered into subsequent to September 30, 2015, which fix the 10-year swap rate on notional amounts aggregating \$125.0 million. 767 Fifth Partners LLC has now entered into forward-starting interest rate swap contracts which fix the 10-year swap rate at a weighted-average rate of approximately 2.762% per annum on notional amounts aggregating \$275.0 million. These interest rate swap contracts were entered into in advance of a financing with a target commencement date in June 2017 and maturity in June 2027.

On July 23, 2015, we commenced construction of our Cambridge Residential project, a residential project aggregating approximately 164,000 square feet comprised of 274 apartment units and approximately 9,000 square feet of retail space located in Cambridge, Massachusetts. On August 13, 2015, we acquired an approximately 8,700 square foot parcel of land necessary for the development for a purchase price of approximately \$2.0 million.

On July 23, 2015, we commenced construction of our Reston Signature Site project, a residential project aggregating approximately 514,000 square feet comprised of 508 apartment units and approximately 24,000 square feet of retail space located in Reston Town Center in Reston, Virginia.

On July 31, 2015, we entered into a 99-year ground and air rights lease (the "Lease") with the Massachusetts Department of Transportation ("MDOT") with respect to the parking garage located at 100 Clarendon Street (the "Clarendon Garage") and the concourse level of the Massachusetts Bay Transportation Authority's Back Bay Station (the "Station"). The Lease amends and restates the air rights lease which we had assumed in 2010 at the time it acquired its interests in both the Clarendon Garage and the office tower located at 200 Clarendon Street (formerly known as the John Hancock Tower). The Lease requires us to pay a total of approximately \$37.0 million and provides us with options to acquire certain air rights above both the Clarendon Garage and the Station with the amount of developable square footage associated with the air rights to be determined at a later date. The previous lease had 45 years

remaining in its term. Upon execution of the Lease, we made a \$5.0 million payment and the Lease requires our remaining obligation to be used to fund improvements to the Station.

On August 14, 2015, we partially placed in-service 601 Massachusetts Avenue, a Class A office project with approximately 478,000 net rentable square feet located in Washington, DC. The property is 87% leased.

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On September 9, 2015, we received a third interim distribution from our unsecured creditor claim against Lehman Brothers, Inc. totaling approximately \$3.6 million, leaving a remaining claim of approximately \$29.4 million that we believe has a market value of approximately \$2.5 million. There can be no assurance as to the timing or amount of additional proceeds, if any, that we may ultimately realize on the claim.

On September 10, 2015, we partially placed in-service The Point (formerly 99 Third Avenue Retail), a retail project with approximately 17,000 net rentable square feet of retail space located in Waltham, Massachusetts. The property is 84% leased.

On September 15, 2015, we acquired our partner's 50% interest in the consolidated entity that owns Fountain Square located in Reston Town Center in Reston, Virginia for cash of approximately \$100.9 million plus working capital and closing prorations and the partner's share of assumed mortgage indebtedness totaling approximately \$105.6 million. Fountain Square is an office and retail complex aggregating approximately 759,000 net rentable square feet, comprised of approximately 522,000 net rentable square feet of Class A office space and approximately 237,000 net rentable square feet of retail space.

On September 18, 2015, a consolidated entity in which we have a 50% interest completed the sale of its 505 9th Street, N.W. property located in Washington, DC for approximately \$318.0 million, including the assumption by the buyer of approximately \$117.0 million of mortgage indebtedness. Net cash proceeds totaled approximately \$194.6 million, of which our share was approximately \$97.3 million. We recognized a gain on sale of real estate totaling approximately \$199.5 million, of which approximately \$101.1 million was allocated to the outside partners and is included within Noncontrolling Interests in Property Partnerships in our Consolidated Statements of Operations. 505 9th Street, N.W. is an approximately 322,000 net rentable square foot Class A office building.

On September 22, 2015, a joint venture in which we have a 50% interest completed and fully placed in-service Annapolis Junction Building Seven, a Class A office project with approximately 127,000 net rentable square feet located in Annapolis, Maryland. The property is 100% leased.

On September 30, 2015, a joint venture in which we have a 50% interest extended the loan collateralized by its Annapolis Junction Building Six property. At the time of the extension, the outstanding balance of the construction loan totaled approximately \$13.4 million and was scheduled to mature on November 17, 2015. The extended loan has a total commitment amount of \$15.9 million, bears interest at a variable rate equal to LIBOR plus 2.25% per annum and matures on November 17, 2016. Annapolis Junction Building Six is a Class A office property with approximately 119,000 net rentable square feet located in Annapolis, Maryland.

Transactions completed subsequent to September 30, 2015 included the following:

On October 1, 2015, we completed the sale of a parcel of land within its Washingtonian North property located in Gaithersburg, Maryland for a gross sale price of approximately \$13.3 million, which exceeds its carrying value. The parcel contains approximately 5.8 acres of our approximately 19.3 acre property.

On October 1, 2015, we used available cash to repay the mortgage loan collateralized by our Kingstowne Two and Kingstowne Retail properties located in Alexandria, Virginia totaling approximately \$29.8 million. The mortgage loan bore interest at a fixed rate of 5.99% per annum and was scheduled to mature on January 1, 2016. There was no prepayment penalty.

On October 7, 2015, we entered into an agreement to sell our Innovation Place property for a gross sale price of \$207.0 million, which exceeds its carrying value. Innovation Place, located in San Jose, California, is a 26-acre site with one occupied and three vacant existing office buildings and a total of approximately 574,000 square feet (approximately 463,000 square feet of which are vacant) located at 3100-3130 Zanker Road. Currently, the remainder of the site is used for 1,699 surface parking spaces but the land supports an additional 537,000 square feet of office/R&D development and two parking structures with a total of approximately 3,000 parking spaces. We expect that the sale will close in the fourth quarter of 2015. However, the sale is subject to the satisfaction of closing conditions and there can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of

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contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

**Real Estate**

Upon acquisitions of real estate that constitutes a business, which includes the consolidation of previously unconsolidated joint ventures, we assess the fair value of acquired tangible and intangible assets, (including land, buildings, tenant improvements, “above-” and “below-market” leases, leasing and assumed financing origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities) and allocate the purchase price to the acquired assets and assumed liabilities, including land and buildings as if vacant. We assess and consider fair value based on estimated cash flow projections that utilize discount and/or capitalization rates that we deem appropriate, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions.

The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired “above-” and “below-market” leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. Acquired “above-” and “below-market” lease values have been reflected within Prepaid Expenses and Other Assets and Other Liabilities, respectively, in our Consolidated Balance Sheets. Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Management reviews its long-lived assets for impairment every quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such criteria are present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding anticipated hold periods, future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be “long-lived assets to be held and used” are considered on an undiscounted basis to determine whether an asset has been impaired, our established strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If our hold strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that an impairment has occurred, the affected assets must be reduced to their fair value, less cost to sell.

Guidance in Accounting Standards Codification (“ASC”) 360 “Property Plant and Equipment” (“ASC 360”) requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as “held for sale,” be presented as discontinued operations in all periods presented if the property operations are expected to be



eliminated and we will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be "held for sale" when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that a sale of the property within one year is considered probable. Following the classification of a property as "held for sale," no further depreciation is recorded on the assets, and the asset is written down to the lower of carrying value or fair market value, less cost to sell. On April 10, 2014, the Financial Accounting Standards

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Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”). ASU 2014-08 clarifies that discontinued operations presentation applies only to disposals representing a strategic shift that has (or will have) a major effect on an entity’s operations and financial results (e.g., a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity). ASU 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted, and we early adopted ASU 2014-08 during the first quarter of 2014. Our adoption of ASU 2014-08 resulted in the operating results and gain on sale of real estate from the operating property sold during the nine months ended September 30, 2015 not being reflected as Discontinued Operations in our Consolidated Statements of Operations (See Note 3 to the Consolidated Financial Statements).

Real estate is stated at depreciated cost. A variety of costs are incurred in the acquisition, development and leasing of properties. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. We expense costs that we incur to effect a business combination such as legal, due diligence and other closing related costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development. After the determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease, involves a degree of judgment. Our capitalization policy on development properties is guided by guidance in ASC 835-20 “Capitalization of Interest” and ASC 970 “Real Estate-General.” The costs of land and buildings under development include specifically identifiable costs.

The capitalized costs include pre-construction costs necessary to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary to the development of the property. We consider a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed, (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction or (3) if activities necessary for the development of the property have been suspended.

#### Investments in Unconsolidated Joint Ventures

We consolidate variable interest entities (“VIEs”) in which we are considered to be the primary beneficiary. VIEs are entities in which the equity investors do not have sufficient equity at risk to finance their endeavors without additional financial support or that the holders of the equity investment at risk do not have a controlling financial interest. The primary beneficiary is defined by the entity having both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the variable interest entity's performance, and (2) the obligation to absorb losses and right to receive the returns from the variable interest entity that would be significant to the variable interest entity. For ventures that are not VIEs we consolidate entities for which we have significant decision making control over the ventures' operations. Our judgment with respect to our level of influence or control of an entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity's governance, the size of our investment (including loans), estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our assessment of our influence or control over an entity affects the presentation of these investments in our consolidated financial statements. In addition to evaluating control rights, we consolidate entities in which the outside partner has no substantive kick-out rights to remove us as the managing member.

Accounts of the consolidated entity are included in our accounts and the non-controlling interest is reflected on the Consolidated Balance Sheets as a component of equity or in temporary equity between liabilities and equity.

Investments in unconsolidated joint ventures are recorded initially at cost, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments

on the balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over the life of the related asset. Under the equity method of accounting, our net equity investment is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. We may account for cash distributions in excess of our investment in an unconsolidated joint venture as income when we are not the general partner in a limited partnership and when we have neither the requirement nor the intent to provide financial support to the joint venture. Our investments in unconsolidated joint ventures are reviewed for impairment periodically and we record impairment charges when events or

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circumstances change indicating that a decline in the fair values below the carrying values has occurred and such decline is other-than-temporary. The ultimate realization of the investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value below the carrying value of an investment in an unconsolidated joint venture is other-than-temporary.

To the extent that we contribute assets to a joint venture, our investment in the joint venture is recorded at our cost basis in the assets that were contributed to the joint venture. To the extent that our cost basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in our share of equity in net income of the joint venture. In accordance with the provisions of ASC 970-323 “Investments-Equity Method and Joint Ventures” (“ASC 970-323”), we will recognize gains on the contribution of real estate to joint ventures, relating solely to the outside partner's interest, to the extent the economic substance of the transaction is a sale.

The combined summarized financial information of the unconsolidated joint ventures is disclosed in Note 4 to the Consolidated Financial Statements.

Revenue Recognition

In general, we commence rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. Contractual rental revenue is reported on a straight-line basis over the terms of our respective leases. We recognize rental revenue of acquired in-place “above-” and “below-market” leases at their fair values over the original term of the respective leases. Accrued rental income as reported on the Consolidated Balance Sheets represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements.

For the three and nine months ended September 30, 2015, the impact of the net adjustments of rents from “above-” and “below-market” leases increased rental revenue by approximately \$8.8 million and \$28.4 million, respectively. For the three and nine months ended September 30, 2015, the impact of the straight-line rent adjustment increased rental revenue by approximately \$16.0 million and \$60.4 million, respectively. Those amounts exclude the adjustment of rents from “above-” and “below-market” leases and straight-line income from unconsolidated joint ventures, which are disclosed in Note 4 to the Consolidated Financial Statements.

Our leasing strategy is generally to secure creditworthy tenants that meet our underwriting guidelines. Furthermore, following the initiation of a lease, we continue to actively monitor the tenant’s creditworthiness to ensure that all tenant related assets are recorded at their realizable value. When assessing tenant credit quality, we:

- review relevant financial information, including:
  - financial ratios;
  - net worth;
  - revenue;
  - cash flows;
  - leverage; and
  - liquidity;
- evaluate the depth and experience of the tenant’s management team; and
- assess the strength/growth of the tenant’s industry.

As a result of the underwriting process, tenants are then categorized into one of three categories:

- (1) acceptable-risk tenants;
- (2) the tenant’s credit is such that we may require collateral, in which case we:
  - may require a security deposit; and/or
  - may reduce upfront tenant improvement investments; or
- (3) the tenant’s credit is below our acceptable parameters.

We consistently monitor the credit quality of our tenant base. We provide an allowance for doubtful accounts arising from estimated losses that could result from the tenant's inability to make required current rent payments and an allowance against accrued rental income for future potential losses that we deem to be unrecoverable over the term of the lease.

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Tenant receivables are assigned a credit rating of 1 through 4. A rating of 1 represents the highest possible rating and no allowance is recorded. A rating of 4 represents the lowest credit rating, in which case we record a full reserve against the receivable balance. Among the factors considered in determining the credit rating include:

• payment history;

• credit status and change in status (credit ratings for public companies are used as a primary metric);

• change in tenant space needs (i.e., expansion/downsize);

• tenant financial performance;

• economic conditions in a specific geographic region; and

• industry specific credit considerations.

If our estimates of collectability differ from the cash received, the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases, including unconsolidated joint ventures, was approximately 6.9 years as of September 30, 2015. The credit risk is mitigated by the high quality of our existing tenant base, reviews of prospective tenants' risk profiles prior to lease execution and consistent monitoring of our portfolio to identify potential problem tenants.

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period during which the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with guidance in ASC 605-45 "Principal Agent Considerations" ("ASC 605-45"). ASC 605-45 requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have credit risk. We also receive reimbursement of payroll and payroll related costs from third parties which we reflect on a net basis.

Our parking revenues are derived from leases, monthly parking and transient parking. We recognize parking revenue as earned.

Our hotel revenues are derived from room rentals and other sources such as charges to guests for telephone service, movie and vending commissions, meeting and banquet room revenue and laundry services. Hotel revenues are recognized as earned.

We receive management and development fees from third parties. Property management fees are recorded and earned based on a percentage of collected rents at the properties under management, and not on a straight-line basis, because such fees are contingent upon the collection of rents. We review each development agreement and record development fees as earned. Profit on development fees earned from joint venture projects is recognized as revenue to the extent of the third-party partners' ownership interest.

Gains on sales of real estate are recognized pursuant to the provisions included in ASC 360-20 "Real Estate Sales" ("ASC 360-20"). The specific timing of the sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

### Depreciation and Amortization

We compute depreciation and amortization on our properties using the straight-line method based on estimated useful asset lives. We allocate the acquisition cost of real estate to its components and depreciate or amortize these assets over their useful lives. The amortization of acquired "above-" and "below-market" leases and acquired in-place leases is recorded as an adjustment to revenue and depreciation and amortization, respectively, in the Consolidated Statements of Operations.

### Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, marketable securities, escrows, receivables, accounts payable, accrued expenses and other assets and liabilities are reasonable estimates of their fair values because of the short maturities of these instruments.

We follow the authoritative guidance for fair value measurements when valuing our financial instruments for disclosure purposes. We determine the fair value of our unsecured senior notes and unsecured exchangeable senior

notes using market prices. The inputs used in determining the fair value of our unsecured senior notes and unsecured exchangeable senior notes is categorized at a level 1 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the

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fact that we use quoted market rates to value these instruments. However, the inputs used in determining the fair value could be categorized at a level 2 basis if trading volumes are low. We determine the fair value of our mortgage notes payable using discounted cash flow analyses by discounting the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on current market rates for similar securities. In determining the current market rates, we add our estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to our debt. The inputs used in determining the fair value of our mortgage notes payable and mezzanine notes payable are categorized at a level 3 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that we consider the rates used in the valuation techniques to be unobservable inputs.

**Derivative Instruments and Hedging Activities**

Derivative instruments and hedging activities require management to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the derivative instruments are reported in the Consolidated Statements of Operations as a component of net income or as a component of comprehensive income (loss) and as a component of equity on the Consolidated Balance Sheets. While management believes its judgments are reasonable, a change in a derivative's effectiveness as a hedge could materially affect expenses, net income and equity. We account for the effective portion of changes in the fair value of a derivative in other comprehensive income (loss) and subsequently reclassify the effective portion to earnings over the term that the hedged transaction affects earnings. We account for the ineffective portion of changes in the fair value of a derivative directly in earnings.

**Recent Accounting Pronouncements**

On April 10, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). ASU No. 2014-08 clarifies that discontinued operations presentation applies only to disposals representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results (e.g., a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity). ASU 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted, and we early adopted ASU 2014-08 during the first quarter of 2014. Our adoption of ASU 2014-08 resulted in the operating results and gain on sale of real estate from the operating property sold during the nine months ended September 30, 2015 not being reflected as Discontinued Operations in our Consolidated Statements of Operations (See Note 3 to the Consolidated Financial Statements).

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. A reporting entity may apply the amendments in ASU 2015-02 using: (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption; or (b) by applying the amendments retrospectively. We do not expect the adoption of ASU 2015-02 to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected. ASU 2015-03 is effective for financial statements issued fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and shall be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Early adoption is permitted for financial statements that have not been previously issued. We do not expect the adoption of ASU 2015-03 to have a material impact on our consolidated



financial statements.

Results of Operations

The following discussion is based on our Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014.

At September 30, 2015 and September 30, 2014, we owned or had interests in a portfolio of 171 and 172 properties, respectively (in each case, the "Total Property Portfolio"). As a result of changes within our Total Property Portfolio, the financial data presented below shows significant changes in revenue and expenses from period-to-period.

Accordingly, we do not believe that our period-to-period financial data with respect to the Total Property Portfolio is necessarily meaningful.

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Therefore, the comparison of operating results for the three and nine months ended September 30, 2015 and 2014 show separately the changes attributable to the properties that were owned by us and in-service throughout each period compared (the “Same Property Portfolio”) and the changes attributable to the properties included in the Placed In-Service, Acquired, Development or Redevelopment or Sold Portfolios.

In our analysis of operating results, particularly to make comparisons of net operating income between periods meaningful, it is important to provide information for properties that were in-service and owned by us throughout each period presented. We refer to properties acquired or placed in-service prior to the beginning of the earliest period presented and owned by us and in-service through the end of the latest period presented as our Same Property Portfolio. The Same Property Portfolio therefore excludes properties placed in-service, acquired or in development or redevelopment after the beginning of the earliest period presented or disposed of prior to the end of the latest period presented.

Net operating income, or “NOI,” is a non-GAAP financial measure equal to net income attributable to Boston Properties, Inc. common shareholders, the most directly comparable GAAP financial measure, plus preferred dividends, income attributable to noncontrolling interests, depreciation and amortization, interest expense, transaction costs, general and administrative expense, less gains on sales of real estate, gains (losses) from investments in securities, income from unconsolidated joint ventures, interest and other income and development and management services revenue. We use NOI internally as a performance measure and believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets.

Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspectives not immediately apparent from net income attributable to Boston Properties, Inc. common shareholders. NOI excludes certain components from net income attributable to Boston Properties, Inc. common shareholders in order to provide results that are more closely related to a property’s results of operations. For example, interest expense is not necessarily linked to the operating performance of a real estate asset and is often incurred at the corporate level as opposed to the property level. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. NOI presented by us may not be comparable to NOI reported by other REITs that define NOI differently. We believe that in order to facilitate a clear understanding of our operating results, NOI should be examined in conjunction with net income attributable to Boston Properties, Inc. common shareholders as presented in our Consolidated Financial Statements. NOI should not be considered as an alternative to net income attributable to Boston Properties, Inc. common shareholders as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions. For a reconciliation of NOI to net income attributable to Boston Properties, Inc. common shareholders, see Note 12 to the Consolidated Financial Statements.

Comparison of the nine months ended September 30, 2015 to the nine months ended September 30, 2014.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 145 properties totaling approximately 37.6 million net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or prior to January 1, 2014 and owned and in-service through September 30, 2015. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or in development or redevelopment after January 1, 2014 or disposed of on or prior to September 30, 2015. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the nine months ended September 30, 2015 and 2014 with respect to the properties that were placed in-service, in development or redevelopment or sold. For the nine months ended September 30, 2015 and 2014 we did not acquire any properties.



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	Same Property Portfolio				Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio		Properties Sold Portfolio		Total
	(dollars in thousands) 2015	2014	Increase/ (Decrease)	% Change	2015	2014	2015	2014	2015	2014	2015
<b>Rental Revenue:</b>											
Rental Revenue	\$1,672,544	\$1,636,438	\$36,106	2.21 %	\$78,128	\$22,819	\$661	\$1,648	\$18,072	\$42,453	\$1,760,000
Termination Income	31,193	10,260	20,933	204.03 %	—	—	—	—	—	—	31,193
Total Rental Revenue	1,703,737	1,646,698	57,039	3.46 %	78,128	22,819	661	1,648	18,072	42,453	1,800,000
<b>Real Estate Operating Expenses</b>											
Net Operating Income, excluding residential and hotel	1,087,974	1,058,999	28,975	2.74 %	51,478	13,323	407	865	11,738	28,079	1,151,000
Residential Net Operating Income (1)	1,996	1,887	109	5.78 %	4,959	96	—	—	1,210	5,154	8,165
Hotel Net Operating Income (1)	10,911	10,781	130	1.21 %	—	—	—	—	—	—	10,911
Consolidated Net Operating Income (1)	1,100,881	1,071,667	29,214	2.73 %	56,437	13,419	407	865	12,948	33,233	1,170,000
<b>Other Revenue:</b>											
Development and management services	—	—	—	—	—	—	—	—	—	—	16,100
<b>Other Expenses:</b>											
General and administrative expense	—	—	—	—	—	—	—	—	—	—	72,000
Transaction costs	—	—	—	—	—	—	—	—	—	—	789
Depreciation and amortization	442,997	443,800	(803 )	(0.18 )%	29,084	10,051	806	427	2,195	11,865	475,000
Total Other Expenses	442,997	443,800	(803 )	(0.18 )%	29,084	10,051	806	427	2,195	11,865	547,800
Operating Income	657,884	627,867	30,017	4.78 %	27,353	3,368	(399 )	438	10,753	21,368	638,800
<b>Other Income:</b>											
Income from unconsolidated joint ventures	—	—	—	—	—	—	—	—	—	—	20,550
Interest and other income	—	—	—	—	—	—	—	—	—	—	6,337
Gains (losses) from investments in securities	—	—	—	—	—	—	—	—	—	—	(1,140)
<b>Other Expenses:</b>											
Interest expense	—	—	—	—	—	—	—	—	—	—	326,000
Income Before Gains On Sales Of Real Estate	—	—	—	—	—	—	—	—	—	—	338,600
											294,500

Gains on sales of real estate	
Net Income	633,1
Net Income	
Attributable to Noncontrolling Interests:	
Noncontrolling interests in property partnerships	(139,
Noncontrolling interest—redeemable preferred units of the Operating Partnership	(6
Noncontrolling interest—common units of the Operating Partnership	(50,9
Net Income	
Attributable to Boston Properties, Inc.	442,5
Preferred dividends	(7,85
Net Income	
Attributable to Boston Properties, Inc. Common Shareholders	\$434

For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 39. Residential Net Operating Income for the nine months ended September 30, 2015 and 2014 are comprised of Residential Revenue of \$14,776 and \$18,998 less Residential Expenses of \$6,611 and \$11,861, respectively. Hotel (1) Net Operating Income for the nine months ended September 30, 2015 and 2014 are comprised of Hotel Revenue of \$35,107 and \$32,478 less Hotel Expenses of \$24,196 and \$21,697, respectively, per the Consolidated Statements of Operations.

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## Same Property Portfolio

## Rental Revenue

Rental revenue from the Same Property Portfolio increased approximately \$36.1 million for the nine months ended September 30, 2015 compared to 2014. The increase was primarily the result of increases in revenue from our leases, other tenant recoveries and parking and other income of approximately \$31.6 million, \$3.2 million and \$1.3 million, respectively. Rental revenue from our leases increased approximately \$31.6 million as a result of our average revenue per square foot increasing by approximately \$1.91, contributing approximately \$48.8 million, partially offset by a decrease of approximately \$17.2 million due to a decrease in average occupancy from 92.9% to 91.8%.

For fiscal 2016, we project our occupancy will remain relatively stable and average between 90%-92%. We expect our Same Property Portfolio NOI for 2016 to also be relatively flat compared to 2015, primarily due to the expected down-time following some large lease expirations in 2015 and 2016 and the repositioning of certain assets discussed in “-Overview” above.

## Termination Income

Termination income increased by approximately \$20.9 million for the nine months ended September 30, 2015 compared to 2014.

Termination income for the nine months ended September 30, 2015 related to thirty-two tenants across the Same Property Portfolio and totaled approximately \$31.2 million, of which approximately \$17.6 million, \$3.9 million, \$1.2 million and \$0.4 million related to early terminations in our New York, San Francisco, Boston and Washington, DC regions, respectively. The termination income from the New York region was primarily due to our negotiated early terminations of a tenant at 767 Fifth Avenue (the General Motors Building), a tenant at 601 Lexington Avenue and a tenant in Princeton, New Jersey each in order to accommodate leasing the space to other tenants. Approximately \$7.6 million of our termination income for the nine months ended September 30, 2015 was non-cash and resulted from the acceleration of “above-” and “below-market” lease revenue and straight-line rent adjustments.

In addition, on March 11, 2015 and September 9, 2015 we received the second and third interim distributions from our unsecured creditor claim against Lehman Brothers, Inc. totaling approximately \$8.1 million, leaving a remaining claim of approximately \$29.4 million (See Note 7 to the Consolidated Financial Statements). Recently, claims of similar priority to that of our remaining claim were quoted privately reflecting a value for our remaining claim of approximately \$2.5 million; however, there can be no assurance as to the timing or amount of additional proceeds, if any, that we may receive.

Termination income for the nine months ended September 30, 2014 related to twenty-one tenants across the Same Property Portfolio and totaled approximately \$10.3 million, of which approximately \$7.1 million represented the initial interim distribution from our unsecured creditor claim against Lehman Brothers, Inc. (See Note 7 to the Consolidated Financial Statements).

## Real Estate Operating Expenses

Real estate operating expenses from the Same Property Portfolio increased approximately \$28.1 million for the nine months ended September 30, 2015 compared to 2014 due primarily to (1) an increase of approximately \$14.1 million, or 5.1%, in real estate taxes, which we primarily experienced in our New York CBD properties, (2) an increase of approximately \$3.7 million, or 4.1%, in repairs and maintenance expense, which we primarily experienced in our Boston and New York CBD buildings and the Washington, DC region, (3) an increase of approximately \$4.8 million, or 5.3%, in utilities expense in the Boston region and New York CBD buildings, (4) an increase of approximately \$2.9 million, or 9.4%, in roads and grounds expense, which we primarily experienced in the Boston region and (5) an increase of approximately \$2.6 million, or 2.5%, in other real estate operating expenses across the portfolio.

## Depreciation and Amortization Expense

Depreciation and amortization expense for the Same Property Portfolio decreased approximately \$0.8 million, or 0.2%, for the nine months ended September 30, 2015 compared to 2014.

## Properties Placed In-Service Portfolio

We placed in-service or partially placed in-service seven properties between January 1, 2014 and September 30, 2015. Rental revenue, real estate operating expenses and depreciation and amortization expense from our Properties Placed In-Service Portfolio increased approximately \$60.7 million, \$17.7 million and \$19.0 million, respectively, for the nine

months ended September 30, 2015 compared to 2014 as detailed below.

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Name	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Square Feet	Rental Revenue			Real Estate Operating Expenses			Depreciation and Amortization		
				2015	2014	Change	2015	2014	Change	2015	2014	
(dollars in thousands)												
Office												
250 West 55th Street	Third Quarter, 2013	Third Quarter, 2014	986,823	\$45,639	\$14,052	\$31,587	\$17,432	\$6,965	\$10,467	\$15,337	\$4,000	
680 Folsom Street (1)	Fourth Quarter, 2013	Third Quarter, 2014	524,793	22,314	8,767	13,547	6,231	2,531	3,700	8,793	3,000	
535 Mission Street	Fourth Quarter, 2014	N/A	307,000	7,234	—	7,234	2,523	—	2,523	2,017	—	
690 Folsom Street	Fourth Quarter, 2014	N/A	26,080	700	—	700	164	—	164	264	—	
601 Massachusetts Avenue	Third Quarter, 2015	N/A	478,000	2,224	—	2,224	299	—	299	476	—	
The Point (formerly 99 Third Avenue Retail)	Third Quarter, 2015	N/A	16,500	17	—	17	1	—	1	6	—	
				2,339,196	\$78,128	\$22,819	\$55,309	\$26,650	\$9,496	\$17,154	\$26,893	\$8,000
Residential												
The Avant at Reston Town Center(2)	Fourth Quarter, 2013	First Quarter, 2014	355,347	\$8,012	\$2,612	\$5,400	\$3,053	\$2,516	\$537	\$2,191	\$1,000	
				2,694,543	\$86,140	\$25,431	\$60,709	\$29,703	\$12,012	\$17,691	\$29,084	\$1,000

(1) This property is a two-building complex.

(2) This property has 359 apartment units and 26,179 net rentable square feet of retail space.

#### Properties in Development or Redevelopment Portfolio

During the nine months ended September 30, 2015 and 2014, the Properties in Development or Redevelopment Portfolio consisted of our Reservoir Place North property located in Waltham, Massachusetts. We commenced redevelopment of this approximately 73,000 net rentable square foot Class A Office property on May 1, 2015 and it has an expected stabilization date in the first quarter of 2017. Prior to the commencement of redevelopment, this building was operational, and during the nine months ended September 30, 2015 and 2014, had revenue of approximately \$0.7 million and \$1.6 million, respectively, and approximately \$0.3 million and \$0.8 million of real estate operating expenses, respectively. In addition, during the nine months ended September 30, 2015 and 2014, the building had approximately \$0.8 million and \$0.4 million, respectively, of depreciation and amortization expense.

#### Properties Sold Portfolio

The table below lists the properties we sold between January 1, 2014 and September 30, 2015. Rental revenue, real estate and operating expenses and depreciation and amortization expense from our Properties Sold Portfolio decreased approximately \$34.1 million, \$13.9 million and \$9.7 million, respectively, for the nine months ended September 30, 2015 compared to 2014 as detailed below.





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Name	Date sold	Property Type	Square Feet (sf) / Acres	Rental Revenue			Real Estate Operating Expenses			Depreciation and Amortization Expense	
				2015	2014	Change	2015	2014	Change	2015	2014
(dollars in thousands)											
Class A Office, Office/Technical and Land											
Mountain View Technology Park (1)	July 29, 2014	Office /Technical	135,000 sf	\$—	\$2,603	\$(2,603)	\$—	\$456	\$(456)	\$—	\$1,782
Mountain View Research Park Building Sixteen	July 29, 2014	Office /Technical	63,000 sf	—	1,510	\$(1,510)	—	235	\$(235)	—	1,012
Broad Run Business Park	August 22, 2014	Land Parcel	15.5 acres	—	909	\$(909)	—	240	\$(240)	—	8
Patriots Park (2)	October 2, 2014	Class A Office	706,000 sf	—	18,342	\$(18,342)	—	5,905	\$(5,905)	—	4,126
130 Third Avenue	October 24, 2014	Land Parcel	N/A	—	162	\$(162)	—	224	\$(224)	—	—
75 Ames Street	December 30, 2014	Land Parcel	N/A	—	344	\$(344)	—	—	—	—	—
505 9th Street, N.W. (3)	September 18, 2015	Class A Office	322,000 sf	18,072	18,583	\$(511)	6,334	7,314	\$(980)	2,074	2,523
				\$18,072	\$42,453	\$(24,381)	\$6,334	\$14,374	\$(8,040)	\$2,074	\$9,451
Residential Residences on The Avenue	March 17, 2015	Residential	323,050 sf (4)	\$3,230	\$12,998	\$(9,768)	\$2,020	\$7,844	\$(5,824)	\$121	\$2,414
				\$21,302	\$55,451	\$(34,149)	\$8,354	\$22,218	\$(13,864)	\$2,195	\$11,865

(1) This property is a seven-building complex.

(2) This property is a three-building complex.

(3) This property was owned by a consolidated entity in which we had a 50% interest.

(4) This property has 335 apartment units and approximately 50,000 net rentable square feet of retail space.

#### Other Operating Income and Expense Items

##### Residential Net Operating Income

Net operating income for our residential properties increased by approximately \$1.0 million for the nine months ended September 30, 2015 compared to 2014.

The following reflects our occupancy and rate information for The Lofts at Atlantic Wharf, the Residences on The Avenue and The Avant at Reston Town Center for the nine months ended September 30, 2015 and 2014. On March

17, 2015, we sold the Residences on The Avenue and therefore there is no information shown for the nine months ended September 30, 2015.

	The Lofts at Atlantic Wharf			Residences on The Avenue (1)			The Avant at Reston Town Center (2)			
	2015	2014	Percentage Change	2015	2014	Percentage Change	2015	2014	Percentage Change	
Average Physical Occupancy (3)	96.8	% 96.4	% 0.4	% N/A	91.8	% N/A	89.5	% 29.2	% 206.5	%
Average Economic Occupancy (4)	97.6	% 96.4	% 1.2	% N/A	91.1	% N/A	87.6	% 25.0	% 250.4	%
Average Monthly Rental Rate (5)	\$4,027	\$3,914	2.9	% N/A	\$3,174	N/A	\$2,257	\$2,202	2.5	%
Average Rental Rate Per Occupied Square Foot	\$4.49	\$4.37	2.7	% N/A	\$3.89	N/A	\$2.44	\$2.40	1.7	%

This property was sold during the first quarter of 2015. For the operating results refer to “Results of (1) Operations—Properties Sold Portfolio” within “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 3 to the Consolidated Financial Statements.

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This property was initially placed in-service during the fourth quarter of 2013 and fully placed in-service during (2) the first quarter of 2014. For the operating results refer to “Results of Operations—Properties Placed In-Service Portfolio” within “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

(3) Average Physical Occupancy is defined as the average number of occupied units divided by the total number of units, expressed as a percentage.

Average Economic Occupancy is defined as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing average occupied units at contract rates and average vacant units at Market Rents. Vacancy loss is determined by valuing vacant units at current Market Rents. By measuring vacant units at their Market Rents, Average Economic Occupancy takes into account the fact that (4) units of different sizes and locations within a residential property have different economic impacts on a residential property's total possible gross revenue. Market Rents used by us in calculating Economic Occupancy are based on the current market rates set by the managers of our residential properties based on their experience in renting their residential property's units and publicly available market data. Trends in market rents for a region as reported by others could vary. Market Rents for a period are based on the average Market Rents during that period and do not reflect any impact for cash concessions.

(5) Average Monthly Rental Rates are calculated by us as rental revenue in accordance with GAAP, divided by the weighted monthly average number of occupied units.

**Hotel Net Operating Income**

Net operating income for the Boston Marriott Cambridge hotel property increased by approximately \$130,000 for the nine months ended September 30, 2015 compared to 2014. We expect our hotel net operating income for fiscal 2016 to be generally in line with 2015 and contribute between \$13 million and \$15 million.

The following reflects our occupancy and rate information for the Boston Marriott Cambridge hotel for the nine months ended September 30, 2015 and 2014.

	2015	2014	Percentage Change	
Occupancy	84.1	% 84.1	% —	%
Average daily rate	\$271.88	\$249.98	8.8	%
Revenue per available room, REVPAR	\$294.63	\$210.27	40.1	%

**Development and Management Services**

Development and management services income decreased approximately \$2.1 million for the nine months ended September 30, 2015 compared to 2014. Development income decreased by approximately \$3.6 million partially offset by an increase in management service income of approximately \$1.5 million. The decrease in development income is primarily due to decreases in fees associated with tenant improvement project management and the development fees earned from our Boston and Washington, DC third-party developments and our Washington, DC joint ventures. The increase in management fees is due primarily to an increase in tenant service income from our tenants. We expect our development and management services income for fiscal 2016 to be generally in line with 2015 and contribute between \$20 million and \$24 million.

**General and Administrative**

General and administrative expenses decreased approximately \$3.7 million for the nine months ended September 30, 2015 compared to 2014 due primarily to the timing of the recognition of expenses under the Transition Benefits Agreement that we entered into with Mortimer B. Zuckerman in 2013. Because Mr. Zuckerman remained employed by us through July 1, 2014, he received, on January 1, 2015, a lump sum payment of \$6.7 million and an equity award of LTIP Units with a targeted value of approximately \$11.1 million. The cash payment and equity award vested in three equal installments on each of March 10, 2013, October 1, 2013 and July 1, 2014. As a result, we recognized approximately \$4.0 million of compensation expense during the nine months ended September 30, 2014 related to the Transition Benefits Agreement that did not recur in 2015. We also had an approximately \$1.8 million decrease in the value of our deferred compensation plan. These decreases were partially offset by the following increases: (1)

approximately \$1.1 million related to the net effect of the end of the measurement period for the 2011 OPP Awards, a decrease in the quarterly expense related to the 2012 OPP Awards due to certain members of senior management reached retirement age and therefore became fully vested and the issuance of the 2015 MYLTIP Units (See Note 11 to the Consolidated Financial Statements) and (2) an approximately \$1.0 million increase in health care costs. We expect general and administrative expenses for fiscal 2016 to be slightly higher than 2015 and be between \$102 million and \$107 million. This estimate assumes a cost-of-living adjustment and the issuance in 2016 of a long-term compensation plan that is identical to the plan that we had in 2015. The projected increased expense associated with the long-

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term compensation plan is due to the difference between the unvested expense remaining from the issuance of the 2013 MYLTIP Units compared to the expense that would be recognized during the first year of the new long-term compensation plan.

Wages directly related to the development and leasing of rental properties are capitalized and included in real estate assets or deferred charges on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Capitalized wages for the nine months ended September 30, 2015 and 2014 were approximately \$11.7 million and \$11.0 million, respectively. These costs are not included in the general and administrative expenses discussed above.

Transaction Costs

Transaction costs decreased approximately \$1.7 million for the nine months ended September 30, 2015 compared to 2014. Transaction costs for both periods were primarily related to the formation of several new and pending joint ventures, pending and completed asset sales and the pursuit of other transactions, including acquisitions.

Other Income and Expense Items

Income from Unconsolidated Joint Ventures

For the nine months ended September 30, 2015 compared to 2014, income from unconsolidated joint ventures increased by approximately \$10.5 million due primarily to an approximately \$11.7 million increase in our share of net income from 901 New York Avenue in Washington, DC. During the nine months ended September 30, 2015, we received a distribution of approximately \$24.5 million, which was generated from the excess loan proceeds from the joint venture's refinancing of its mortgage loan to a new 10-year mortgage loan totaling \$225.0 million. Our allocation of income and distributions for the nine months ended September 30, 2015 was not proportionate to our nominal ownership interest as a result of the achievement of specified investment return thresholds, as provided for in the joint venture agreement. This increase was partially offset by approximately \$1.7 million of termination income we received from our Metropolitan Square property in Washington, DC during the nine months ended September 30, 2014 that did not recur in 2015.

Interest and Other Income

Interest and other income decreased approximately \$0.5 million for the nine months ended September 30, 2015 compared to 2014, primarily due to a tax refund we received from the District of Columbia during the nine months ended September 30, 2014 that did not recur during 2015.

Gains (Losses) from Investments in Securities

Gains (losses) from investments in securities for the nine months ended September 30, 2015 and 2014 related to investments that we have made to reduce our market risk relating to a deferred compensation plan that we maintain for our officers. Under this deferred compensation plan, each officer who is eligible to participate is permitted to defer a portion of the officer's current income on a pre-tax basis and receive a tax-deferred return on these deferrals based on the performance of specific investments selected by the officer. In order to reduce our market risk relating to this plan, we typically acquire, in a separate account that is not restricted as to its use, similar or identical investments as those selected by each officer. This enables us to generally match our liabilities to our officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The performance of these investments is recorded as gains (losses) from investments in securities. During the nine months ended September 30, 2015 and 2014, we recognized gains (losses) of approximately \$(1.1) million and \$0.7 million, respectively, on these investments. By comparison, our general and administrative expense increased (decreased) by approximately \$(1.1) million and \$0.7 million during the nine months ended September 30, 2015 and 2014, respectively, as a result of increases (decreases) in our liability under our deferred compensation plan that were associated with the performance of the specific investments selected by our officers participating in the plan.

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## Interest Expense

Interest expense decreased approximately \$11.8 million for the nine months ended September 30, 2015 compared to 2014 as detailed below:

Component	Change in interest expense for the nine months ended September 30, 2015 compared to September 30, 2014 (in thousands)
Increases to interest expense due to:	
Reduction in capitalized interest (1)	\$18,892
Total increases to interest expense	\$18,892
Decreases to interest expense due to:	
Redemption of \$300.0 million in aggregate principal of our Operating Partnership's 5.625% senior notes due 2015 on December 15, 2014	\$(12,705 )
Redemption of \$250.0 million in aggregate principal of our Operating Partnership's 5.000% senior notes due 2015 on December 15, 2014	(9,640 )
Repayment of \$747.5 million in aggregate principal of our Operating Partnership's 3.625% exchangeable senior notes due 2014 on February 18, 2014	(3,343 )
Interest expense associated with the adjustment for the equity component allocation of our Operating Partnership's unsecured exchangeable debt (2)	(2,438 )
Repayment of mortgage financings (3)	(1,769 )
Other interest expense (excluding senior notes)	(437 )
Sale of 505 9th Street, N.W. on September 18, 2015	(381 )
Total decreases to interest expense	\$(30,713 )
Total change in interest expense	\$(11,821 )

The decrease was primarily due to the completion of several development projects. For a list of developments (1) placed in-service refer to "Results of Operations—Properties Placed In-Service Portfolio" within "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations".

(2) All of our Operating Partnership's exchangeable senior notes were repaid as of February 18, 2014.

(3) Represents the repayment of New Dominion Technology Park Building Two mortgage loan.

Interest expense directly related to the development of rental properties is capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. As properties are placed in-service, we cease capitalizing interest and interest is then expensed. Interest capitalized for the nine months ended September 30, 2015 and 2014 was approximately \$25.9 million and \$44.8 million, respectively. These costs are not included in the interest expense referenced above.

We anticipate interest expense for 2016 will be approximately \$400 million to \$420 million. This amount is net of approximately \$38 million to \$48 million of capitalized interest. These estimates assume that we will complete a \$500 million financing during the fourth quarter of 2016. These estimates also assume that, aside from the \$500 million financing, we will not incur any additional indebtedness, make additional prepayments or repurchases of existing indebtedness and that there will not be any fluctuations in interest rates or any changes in our development activity. If we elect to prepay or repurchase existing indebtedness prior to its maturity, we may incur prepayment penalties or realize the acceleration of amortized costs.

At September 30, 2015, our variable rate debt consisted of our Operating Partnership's \$1.0 billion Unsecured Line of Credit, of which no amount was outstanding at September 30, 2015. For a summary of our consolidated debt as of

September 30, 2015 and September 30, 2014 refer to the heading “Liquidity and Capital Resources—Capitalization—Debt Financing” within “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations.”  
Gains on Sales of Real Estate

On February 19, 2015, we completed the sale of a parcel of land within our Washingtonian North property located in Gaithersburg, Maryland for a gross sale price of \$8.7 million. Net cash proceeds totaled approximately \$8.3 million, resulting in

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a gain on sale of real estate totaling approximately \$3.7 million. The parcel contains approximately 8.5 acres of the approximately 27 acre property.

On March 17, 2015, we completed the sale of our Residences on The Avenue property located in Washington, DC for a gross sale price of \$196.0 million. Net cash proceeds totaled approximately \$192.5 million, resulting in a gain on sale of real estate totaling approximately \$91.4 million. We have agreed to provide net operating income support of up to \$6.0 million should the property's net operating income fail to achieve certain thresholds, which has been recorded as a reduction to the gain on sale. The Residences on The Avenue is comprised of 335 apartment units and approximately 50,000 net rentable square feet of retail space, subject to a ground lease that expires on February 1, 2068.

On September 18, 2015, a consolidated entity in which we have a 50% interest completed the sale of its 505 9th Street, N.W. property located in Washington, DC for approximately \$318.0 million, including the assumption by the buyer of approximately \$117.0 million of mortgage indebtedness. Net cash proceeds totaled approximately \$194.6 million, of which our share was approximately \$97.3 million. We recognized a gain on sale of real estate totaling approximately \$199.5 million, of which approximately \$101.1 million was allocated to the outside partners and is included within Noncontrolling Interests in Property Partnerships in our Consolidated Statements of Operations. 505 9th Street, N.W. is an approximately 322,000 net rentable square foot Class A office building.

On July 29, 2014, we completed the sale of our Mountain View Technology Park properties and Mountain View Research Park Building Sixteen property located in Mountain View, California for an aggregate sale price of approximately \$92.1 million. Net cash proceeds totaled approximately \$91.2 million, resulting in a gain on sale of real estate totaling approximately \$36.4 million. Mountain View Technology Park is a seven-building complex of Office/Technical properties aggregating approximately 135,000 net rentable square feet. Mountain View Research Park Building Sixteen is an Office/Technical property with approximately 63,000 net rentable square feet.

On August 20, 2014, a portion of the land parcel at our One Reston Overlook property located in Reston, Virginia was taken by eminent domain. Net cash proceeds totaled approximately \$2.6 million, resulting in a gain on sale of real estate totaling approximately \$1.2 million.

On August 22, 2014, we completed the sale of a parcel of land within our Broad Run Business Park property located in Loudoun County, Virginia for a sale price of approximately \$9.8 million. Net cash proceeds totaled approximately \$9.7 million, resulting in a gain on sale of real estate totaling approximately \$4.3 million. The parcel is an approximately 15.5 acre land parcel subject to a ground lease that was scheduled to expire on October 31, 2048 with a tenant that exercised its purchase option under the ground lease.

Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships increased by approximately \$122.2 million for the nine months ended September 30, 2015 compared to 2014 as detailed below.

Property	Date of Consolidation	Partners' noncontrolling interest for the nine months ended September 30,		
		2015	2014	Change
		(in thousands)		
505 9th Street (1)	October 1, 2007	\$ 103,507	\$ 1,739	\$ 101,768
Fountain Square (2) (3)	October 4, 2012	5,121	8,796	(3,675 )
767 Fifth Avenue (the General Motors Building) (4)	May 31, 2013	(13,946 )	(12,957 )	(989 )
Times Square Tower	October 9, 2013	20,025	19,895	130
601 Lexington Avenue	October 30, 2014	14,985	—	14,985
100 Federal Street	October 30, 2014	3,005	—	3,005
Atlantic Wharf Office	October 30, 2014	7,015	—	7,015
		\$ 139,712	\$ 17,473	\$ 122,239



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On September 18, 2015, we recognized a gain on sale of real estate totaling approximately \$199.5 million, of (1) which approximately \$101.1 million was allocated to the outside partners (See Notes 3, 5 and 8 to the Consolidated Financial Statements).

On August 6, 2015, the parties amended the joint venture agreement to require us to acquire our partner's nominal (2) 50% interest on September 15, 2015 for approximately \$100.9 million in cash. As a result, we stopped accreting the changes in the redemption value through the Consolidated Statement of Operations as of August 6, 2015 (See Note 8 to the Consolidated Financial Statements).

During the nine months ended September 30, 2014, we made an out-of-period adjustment of approximately \$1.9 (3) million related to the cumulative non-cash adjustment to the accretion of the changes in the redemption value of the noncontrolling interest (See Note 2 to the Consolidated Financial Statements).

The net loss allocation is primarily due to the partners' share of the interest expense for the outside members' notes (4) payable which was \$22.8 million and \$21.0 million for the nine months ended September 30, 2015 and 2014, respectively.

Noncontrolling interest - Common Units of the Operating Partnership

Noncontrolling interest-common units of the Operating Partnership increased by approximately \$21.1 million for the nine months ended September 30, 2015 compared to 2014 due primarily to increases in allocable income, which included an approximately \$15.8 million increase in gains related to the sale of real estate and the noncontrolling interest's ownership percentage.

Comparison of the three months ended September 30, 2015 to the three months ended September 30, 2014.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 146 properties totaling approximately 38.0 million net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or prior to July 1, 2014 and owned and in service through September 30, 2015. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or in development or redevelopment after July 1, 2014 or disposed of on or prior to September 30, 2015. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the three months ended September 30, 2015 and 2014 with respect to the properties that were placed in-service, acquired, in development or redevelopment or sold. For the three months ended September 30, 2015 and 2014 we did not acquire any properties.

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	Same Property Portfolio				Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio			Properties Sold Portfolio		Total Property Portfolio	
	(dollars in thousands) 2015	2014	Increase/(Decrease)	% Change	2015	2014	2015	2014	2015	2014	2015	2014	
<b>Rental Revenue:</b>													
Rental Revenue	\$560,990	\$557,251	\$3,739	0.67 %	\$31,524	\$14,233	\$—	\$5,139	\$13,173	\$597,653	\$585,221		
Termination Income	9,589	8,164	1,425	17.45 %	—	—	—	—	—	9,589	8,164		
Total Rental Revenue	570,579	565,415	5,164	0.91 %	31,524	14,233	—571	5,139	13,173	607,242	593,392		
<b>Real Estate Operating Expenses</b>													
Operating Expenses	207,392	200,764	6,628	3.30 %	9,711	5,391	—253	1,159	4,608	218,262	211,016		
Net Operating Income, excluding residential and hotel	363,187	364,651	(1,464 )	(0.40 )%	21,813	8,842	—318	3,980	8,565	388,980	382,376		
Residential Net Operating Income (1)	2,577	1,348	1,229	91.17 %	—	—	—	—	1,507	2,577	2,855		
Hotel Net Operating Income (1)	4,494	4,333	161	3.72 %	—	—	—	—	—	4,494	4,333		
Consolidated Net Operating Income (1)	370,258	370,332	(74 )	(0.02 )%	21,813	8,842	—318	3,980	10,072	396,051	389,564		
<b>Other Revenue:</b>													
Development and management services	—	—	—	—	—	—	—	—	—	5,912	6,475		
<b>Other Expenses:</b>													
General and administrative expense	—	—	—	—	—	—	—	—	—	20,944	22,589		
Transaction costs	—	—	—	—	—	—	—	—	—	254	1,402		
Depreciation and amortization	143,267	148,396	(5,129 )	(3.46 )%	9,422	5,156	—142	326	3,551	153,015	157,245		
Total Other Expenses	143,267	148,396	(5,129 )	(3.46 )%	9,422	5,156	—142	326	3,551	174,213	181,236		
Operating Income	226,991	221,936	5,055	2.28 %	12,391	3,686	—176	3,654	6,521	227,750	214,803		
<b>Other Income:</b>													
Income from unconsolidated joint ventures	—	—	—	—	—	—	—	—	—	2,647	4,419		
Interest and other income	—	—	—	—	—	—	—	—	—	3,637	3,421		
<b>Other Expenses:</b>													
Losses from investments in securities	—	—	—	—	—	—	—	—	—	1,515	297		
Interest expense	—	—	—	—	—	—	—	—	—	108,727	113,308		
Income Before Gains on Sales of Real Estate	—	—	—	—	—	—	—	—	—	123,792	109,038		

Gains on sales of real estate	199,479	41,937
Net Income	323,271	150,975
Net Income Attributable to Noncontrolling Interests:		
Noncontrolling interests in property partnerships	(115,240 )	(5,566 )
Noncontrolling interest—redeemable preferred units of the Operating Partnership	—	(75 )
Noncontrolling interest—common units of the Operating Partnership	(21,302 )	(14,963 )
Net Income Attributable to Boston Properties, Inc.	186,729	130,371
Preferred dividends	(2,647 )	(2,647 )
Net Income Attributable to Boston Properties, Inc. Common Shareholders	\$184,082	\$127,724

For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 39. Residential Net Operating Income for the three months ended September 30, 2015 and 2014 are comprised of Residential Revenue of \$4,111 and \$7,018 less Residential Expenses of \$1,534 and \$4,163, respectively. Hotel Net Operating Income for the three months ended September 30, 2015 and 2014 are comprised of Hotel Revenue of \$12,619 and \$11,918 less Hotel Expenses of \$8,125 and \$7,585, respectively, per the Consolidated Statements of Operations.

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## Same Property Portfolio

## Rental Revenue

Rental revenue from the Same Property Portfolio increased approximately \$3.7 million for the three months ended September 30, 2015 compared to 2014. The increase was primarily the result of an increase of approximately \$3.4 million in revenue from our leases and an increase in other tenant recoveries, parking income and other income of approximately \$0.3 million. Rental revenue from our leases increased approximately \$3.4 million as a result of our average revenue per square foot increasing by approximately \$1.11, contributing approximately \$9.5 million, partially offset by a decrease of approximately \$6.1 million due to a decrease in average occupancy from 92.9% to 91.7%.

## Termination Income

Termination income increased by approximately \$1.4 million for the three months ended September 30, 2015 compared to 2014.

Termination income for the three months ended September 30, 2015 related to fourteen tenants across the Same Property Portfolio and totaled approximately \$9.6 million, of which approximately \$4.6 million and \$1.3 million related to early terminations in our New York and San Francisco regions, respectively, and \$0.1 million related to early terminations in the Boston and Washington, DC regions. The termination income from the New York region was primarily due to our negotiated early terminations of a tenant at 767 Fifth Avenue (the General Motors Building), a tenant at 601 Lexington Avenue and a tenant in Princeton, New Jersey each in order to accommodate leasing the space to other tenants. Approximately \$2.5 million of our termination income for the three months ended September 30, 2015 was non-cash and resulted from the acceleration of “above-” and “below-market” lease revenue and straight-line rent adjustments.

In addition, on September 9, 2015 we received the third interim distribution from our unsecured creditor claim against Lehman Brothers, Inc. totaling approximately \$3.6 million, leaving a remaining claim of approximately \$29.4 million (See Note 7 to the Consolidated Financial Statements). Recently, claims of similar priority to that of our remaining claim were quoted privately reflecting a value for our remaining claim of approximately \$2.5 million; however, there can be no assurance as to the timing or amount of additional proceeds, if any, that we may receive.

Termination income for the three months ended September 30, 2014 related to nine tenants across the Same Property Portfolio and totaled approximately \$8.2 million, of which approximately \$7.7 million related to an initial distribution we received from our unsecured creditor claim against Lehman Brothers, Inc. (See Note 7 to the Consolidated Financial Statements).

## Real Estate Operating Expenses

Real estate operating expenses from the Same Property Portfolio increased approximately \$6.6 million for the three months ended September 30, 2015 compared to 2014 due primarily to (1) an increase of approximately \$3.8 million, or 4.0%, in real estate taxes, which we primarily experienced in our New York region, (2) an increase of approximately \$1.4 million, or 4.4%, in utilities expense primarily due to an increase in electricity expense in the Boston region and (3) an increase of approximately \$1.4 million, or 2.0%, in other real estate operating expenses across the portfolio.

## Depreciation and Amortization Expense

Depreciation and amortization expense for the Same Property Portfolio decreased approximately \$5.1 million, or 3.5%, for the three months ended September 30, 2015 compared to 2014 primarily due to a decrease in depreciation and amortization at 200 Clarendon Street (formerly the John Hancock Tower) in Boston, Massachusetts due to several lease expirations during 2014 and earlier in 2015. Leasehold improvements and leasing commissions are depreciated and amortized over their respective lease terms, as such, when the lease term expires these assets are fully depreciated therefore causing the decrease in depreciation for the three months ended September 30, 2015 compared to 2014.

## Properties Placed In-Service Portfolio

We placed in-service or partially placed in-service six properties between July 1, 2014 and September 30, 2015.

Rental revenue, real estate operating expenses and depreciation and amortization expense from our Properties Placed In-Service Portfolio increased approximately \$17.3 million, \$4.3 million and \$4.3 million, respectively, for the three months ended September 30, 2015 compared to 2014 as detailed below.



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Name	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Square Feet	Rental Revenue			Real Estate Operating Expenses			Depreciation and Amortization Expense	
				2015	2014	Change	2015	2014	Change	2015	2014
(dollars in thousands)											
250 West 55th Street	Third Quarter, 2013	Third Quarter, 2014	986,823	\$17,711	\$8,030	\$9,681	\$6,000	\$3,717	\$2,283	\$5,182	\$2,951
680 Folsom Street (1)	Fourth Quarter, 2013	Third Quarter, 2014	524,793	7,784	6,203	1,581	2,191	1,674	517	2,781	2,205
535 Mission Street	Fourth Quarter, 2014	N/A	307,000	3,526	—	3,526	1,153	—	1,153	890	—
690 Folsom Street	Fourth Quarter, 2014	N/A	26,080	262	—	262	67	—	67	87	—
601 Massachusetts Avenue	Third Quarter, 2015	N/A	478,000	2,224	—	2,224	299	—	299	476	—
The Point (formerly 99 Third Avenue Retail)	Third Quarter, 2015	N/A	16,500	17	—	17	1	—	1	6	—
			2,339,196	\$31,524	\$14,233	\$17,291	\$9,711	\$5,391	\$4,320	\$9,422	\$5,156

(1) This property is a two-building complex.

#### Properties in Development or Redevelopment Portfolio

During the three months ended September 30, 2014, the Properties in Development or Redevelopment Portfolio consisted of our Reservoir Place North property located in Waltham, Massachusetts. We commenced redevelopment of this approximately 73,000 net rentable square foot Class A Office property on May 1, 2015 and it has an expected stabilization date in the first quarter of 2017. Prior to the commencement of redevelopment, this building was operational, and during the three months ended September 30, 2014, had revenue and real estate operating expenses of approximately \$0.6 million and \$0.3 million, respectively. In addition, during the three months ended September 30, 2014, the building had approximately \$0.1 million of depreciation and amortization expense.

#### Properties Sold Portfolio

The table below lists the properties we sold between July 1, 2014 and September 30, 2015. Rental revenue, real estate operating expenses and depreciation and amortization expense from our Properties Sold Portfolio decreased approximately \$12.3 million, \$6.2 million and \$3.2 million, respectively, for the three months ended September 30, 2015 compared to 2014 as detailed below.



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Name	Date sold	Property Type	Square Feet (sf) / Acres	Rental Revenue			Real Estate Operating Expenses			Depreciation and Amortization Expenses		
				2015	2014	Change	2015	2014	Change	2015	2014	Change
(dollars in thousands)												
Class A Office, Office/Technical and Land												
Mountain View Technology Park (1)	July 29, 2014	Office /Technical	135,000 sf	\$—	\$358	\$(358)	\$—	\$96	\$(96)	\$—	\$370	\$(370)
Mountain View Research Park Building Sixteen	July 29, 2014	Office /Technical	63,000 sf	—	226	(226)	—	60	(60)	—	148	(148)
Broad Run Business Park	August 22, 2014	Land Parcel	15.5 acres	—	175	(175)	—	53	(53)	—	1	(1)
Patriots Park (2)	October 2, 2014	Class A Office	706,000 sf	—	6,102	(6,102)	—	1,895	(1,895)	—	1,353	(1,353)
130 Third Avenue	October 24, 2014	Land Parcel	N/A	—	—	—	—	40	(40)	—	—	—
75 Ames Street	December 30, 2014	Land Parcel	N/A	—	115	(115)	—	—	—	—	—	—
505 9th Street, N.W. (3)	September 18, 2015	Class A Office	322,000 sf	5,139	6,197	(1,058)	1,159	2,464	(1,305)	326	874	(548)
				\$5,139	\$13,173	\$(8,034)	\$1,159	\$4,608	\$(3,449)	\$326	\$2,746	\$(2,420)
Residential Residences on The Avenue	March 17, 2015	Residential	323,050 sf (4)	\$—	\$4,265	\$(4,265)	\$—	\$2,758	\$(2,758)	\$—	\$805	\$(805)
				\$5,139	\$17,438	\$(12,299)	\$1,159	\$7,366	\$(6,207)	\$326	\$3,551	\$(3,225)

(1) This property is a seven-building complex.

(2) This property is a three-building complex.

(3) This property was owned by a consolidated entity in which we had a 50% interest.

(4) This property has 335 apartment units and approximately 50,000 net rentable square feet of retail space.

#### Operating Income and Expense Items

##### Residential Net Operating Income

Net operating income for our residential properties decreased by approximately \$0.3 million for the three months ended September 30, 2015 compared to 2014.

The following reflects our occupancy and rate information for The Lofts at Atlantic Wharf and The Avant at Reston Town Center for the three months ended September 30, 2015 and 2014. On March 17, 2015, we sold the Residences

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on The Avenue and therefore there is no information shown for the three months ended September 30, 2015.

	The Lofts at Atlantic Wharf			Residences on The Avenue (1)			The Avant at Reston Town Center (2)			
	2015	2014	Percentage Change	2015	2014	Percentage Change	2015	2014	Percentage Change	
Average Physical Occupancy (3)	95.4	% 96.9	% (1.5 )%	N/A	91.7	% N/A	94.4	% 51.3	% 84.0	%
Average Economic Occupancy (4)	97.1	% 96.1	% 1.0	% N/A	91.0	% N/A	93.9	% 46.8	% 100.6	%
Average Monthly Rental Rate (5)	\$4,054	\$3,903	3.9	% N/A	\$3,163	N/A	\$2,264	\$2,268	(0.2	)%
Average Rental Rate Per Occupied Square Foot	\$4.53	\$4.36	3.9	% N/A	\$3.88	N/A	\$2			