BOSTON PROPERTIES INC
Form 10-Q
November 07, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2014

¨ **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

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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 x 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 x	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 x

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	**153,099,786**
(Class)	**(Outstanding on November 3, 2014)**

Table of Contents

BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended September 30, 2014

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1 Financial Statements.

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except for share and par value amounts)

	September 30, 2014	December 31, 2013
ASSETS		
Real estate, at cost	$ 18,362,993	$ 17,158,210
Construction in progress	715,609	1,523,179
Land held for future development	276,804	297,376
Less: accumulated depreciation	(3,469,130)	(3,161,571)
Total real estate	15,886,276	15,817,194
Cash and cash equivalents	846,664	2,365,137
Cash held in escrows	153,161	57,201
Investments in securities	18,834	16,641
Tenant and other receivables (net of allowance for doubtful accounts of $1,080 and $1,636, respectively)	43,210	59,464
Accrued rental income (net of allowance of $7,397 and $3,636, respectively)	689,885	651,603
Deferred charges, net	837,907	884,450
Prepaid expenses and other assets	219,074	184,477
Investments in unconsolidated joint ventures	180,149	126,084
Total assets	$ 18,875,160	$ 20,162,251
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	$ 4,328,464	$ 4,449,734
Unsecured senior notes (net of discount of $12,828 and $14,146, respectively)	5,837,172	5,835,854
Unsecured exchangeable senior notes (net of discount of $0 and $182, respectively)		744,880
Unsecured line of credit		
Mezzanine notes payable	310,114	311,040
Outside members notes payable	180,000	180,000
Accounts payable and accrued expenses	253,600	202,470
Dividends and distributions payable	112,708	497,242
Accrued interest payable	181,954	167,523
Other liabilities	517,428	578,969
Total liabilities	11,721,440	12,967,712
Commitments and contingencies		
Noncontrolling interests:		
Redeemable preferred units of the Operating Partnership	2,022	51,312
Redeemable interest in property partnership	104,105	99,609
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;		
	200,000	200,000

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 outstanding at September 30, 2014 and December 31, 2013		
Common stock, $.01 par value, 250,000,000 shares authorized, 153,178,686 and 153,062,001 issued and 153,099,786 and 152,983,101 outstanding at September 30, 2014 and December 31, 2013, respectively	1,531	1,530
Additional paid-in capital	5,684,649	5,662,453
Dividends in excess of earnings	(148,566)	(108,552)
Treasury common stock at cost, 78,900 shares at September 30, 2014 and December 31, 2013	(2,722)	(2,722)
Accumulated other comprehensive loss	(9,866)	(11,556)
Total stockholders equity attributable to Boston Properties, Inc.	5,725,026	5,741,153
Noncontrolling interests:		
Common units of the Operating Partnership	606,002	576,333
Property partnerships	716,565	726,132
Total equity	7,047,593	7,043,618
Total liabilities and equity	$ 18,875,160	$ 20,162,251

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

1

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	$ 484,071	$ 449,636	$ 1,402,328	$ 1,221,874
Recoveries from tenants	90,103	80,718	253,419	213,358
Parking and other	26,236	25,000	76,869	71,984
Total rental revenue	600,410	555,354	1,732,616	1,507,216
Hotel revenue	11,918	10,652	32,478	30,061
Development and management services	6,475	5,475	18,197	22,063
Total revenue	618,803	571,481	1,783,291	1,559,340
Expenses				
Operating				
Rental	215,179	199,288	624,213	544,368
Hotel	7,585	6,580	21,697	20,959
General and administrative	22,589	24,841	75,765	94,673
Transaction costs	1,402	766	2,500	1,744
Impairment loss				8,306
Depreciation and amortization	157,245	153,253	466,143	406,162
Total expenses	404,000	384,728	1,190,318	1,076,212
Operating income	214,803	186,753	592,973	483,128
Other income (expense)				
Income from unconsolidated joint ventures	4,419	14,736	10,069	72,240
Gains on consolidation of joint ventures		(1,810)		385,991
Interest and other income	3,421	3,879	6,841	6,646
Gains (losses) from investments in securities	(297)	956	651	1,872
Gains (losses) from early extinguishments of debt		(30)		122
Interest expense	(113,308)	(122,173)	(337,839)	(325,746)
Income from continuing operations	109,038	82,311	272,695	624,253
Discontinued operations				
Income from discontinued operations		1,677		7,486
Gain on sale of real estate from discontinued operations		86,448		86,448
Gain on forgiveness of debt from discontinued operations				20,182
Impairment loss from discontinued operations				(3,241)
Income before gains on sales of real estate	109,038	170,436	272,695	735,128
Gains on sales of real estate	41,937		41,937	
Net income	150,975	170,436	314,632	735,128
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(5,566)	3,279	(17,473)	924
Noncontrolling interest redeemable preferred units of the Operating Partnership	(75)	(1,082)	(1,014)	(3,385)
Noncontrolling interest common units of the Operating Partnership	(14,963)	(8,339)	(29,819)	(62,945)
Noncontrolling interest in discontinued operations common units of the Operating Partnership		(8,970)		(11,450)

Net income attributable to Boston Properties, Inc.	130,371	155,324	266,326	658,272
Preferred dividends	(2,647)	(2,647)	(7,854)	(5,411)
Net income attributable to Boston Properties, Inc. common shareholders	$ 127,724	$ 152,677	$ 258,472	$ 652,861
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Income from continuing operations	$ 0.83	$ 0.48	$ 1.69	$ 3.62
Discontinued operations		0.52		0.65
Net income	$ 0.83	$ 1.00	$ 1.69	$ 4.27
Weighted average number of common shares outstanding	153,120	152,407	153,077	152,000
Diluted earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Income from continuing operations	$ 0.83	$ 0.48	$ 1.69	$ 3.61
Discontinued operations		0.52		0.65
Net income	$ 0.83	$ 1.00	$ 1.69	$ 4.26
Weighted average number of common and common equivalent shares outstanding	153,273	152,692	153,228	152,381

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

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income	$ 150,975	$ 170,436	$ 314,632	$ 735,128
Other comprehensive income:				
Amortization of interest rate contracts(1)	628	629	1,881	1,884
Other comprehensive income	628	629	1,881	1,884
Comprehensive income	151,603	171,065	316,513	737,012
Net income attributable to noncontrolling interests	(20,604)	(15,112)	(48,306)	(76,856)
Other comprehensive income attributable to noncontrolling interests	(65)	(62)	(191)	(189)
Comprehensive income attributable to Boston Properties, Inc.	$ 130,934	$ 155,891	$ 268,016	$ 659,967

(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.

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited and in thousands)

	Common Stock								
	Shares	Amount	Preferred Stock	Additional Paid-in Capital	Dividends in Excess of Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
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 units to common units								33,306	33,306
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
Equity, December 31, 2012	151,601	$ 1,516	$	$ 5,222,073	$ (109,985)	$ (2,722)	$ (13,817)	$ 537,789	$ 5,634,854
Redemption of operating partnership units to common stock	337	4		10,402				(10,406)	
Allocated net income for the year					658,272			68,445	726,717
Dividends/distributions declared					(302,081)			(33,956)	(336,037)
Issuance of 5.25% Series B cumulative redeemable preferred stock			200,000	(6,377)					193,623
Shares issued in connection with exchange of Exchangeable Senior Notes	419	4		43,830					43,834
Equity component of exchange of Exchangeable Senior Notes				(43,869)					(43,869)
Shares issued pursuant to stock purchase plan	6			681					681
Net activity from stock option and incentive plan	28			6,510				24,122	30,632
Noncontrolling interests in property partnerships recorded upon consolidation								480,861	480,861
Contributions from noncontrolling interests in property partnerships								10,932	10,932
Distributions to noncontrolling interests in property partnerships								(2,250)	(2,250)

Amortization of interest rate contracts							1,695	189	1,884
Reallocation of noncontrolling interest				16,924				(16,924)	
Equity, September 30, 2013	152,391	$ 1,524	$ 200,000	$ 5,250,174	$ 246,206	$ (2,722)	$ (12,122)	$ 1,058,802	$ 6,741,862

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

4

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30, 2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 314,632	$ 735,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	466,143	409,988
Non-cash compensation expense	22,708	39,001
Impairment loss		8,306
Income from unconsolidated joint ventures	(10,069)	(72,240)
Gains on consolidation of joint ventures		(385,991)
Distributions of net cash flow from operations of unconsolidated joint ventures	3,130	29,607
Gains from investments in securities	(651)	(1,872)
Non-cash portion of interest expense	(28,753)	29,149
Settlement of accreted debt discount on repurchases of unsecured exchangeable senior notes	(92,979)	(56,532)
Gains from early extinguishments of debt		(264)
Gains on sales of real estate	(41,937)	
Gain on sale of real estate from discontinued operations		(86,448)
Gain on forgiveness of debt from discontinued operations		(20,182)
Impairment loss from discontinued operations		3,241
Change in assets and liabilities:		
Cash held in escrows	3,957	4,017
Tenant and other receivables, net	16,254	3,628
Accrued rental income, net	(42,180)	(44,636)
Prepaid expenses and other assets	(34,804)	(41,245)
Accounts payable and accrued expenses	4,237	9,179
Accrued interest payable	14,431	35,089
Other liabilities	(60,795)	(9,352)
Tenant leasing costs	(63,647)	(37,150)
Total adjustments	155,045	(184,707)
Net cash provided by operating activities	469,677	550,421
Cash flows from investing activities:		
Acquisitions of real estate		(522,900)
Construction in progress	(305,192)	(279,786)
Building and other capital improvements	(57,329)	(46,805)
Tenant improvements	(80,692)	(78,462)
Proceeds from the sales of real estate	103,542	160,815
Proceeds from sales of real estate placed in escrow	(99,917)	
Cash recorded upon consolidation		79,468
Repayments of notes receivable, net		12,491
Capital contributions to unconsolidated joint ventures	(47,767)	
Capital distributions from unconsolidated joint ventures	641	223,067
Investments in securities, net	(1,542)	(1,333)
Net cash used in investing activities	(488,256)	(453,445)

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30, 2014	2013
	(in thousands)	
Cash flows from financing activities:		
Repayments of mortgage notes payable	(82,030)	(96,750)
Proceeds from unsecured senior notes		1,194,753
Repayment/redemption of unsecured exchangeable senior notes	(654,521)	(393,468)
Deferred financing costs	(31)	(15,180)
Net proceeds from preferred stock issuance		193,623
Net proceeds from equity transactions	1,530	(348)
Redemption of preferred units	(15,984)	(43,070)
Dividends and distributions	(726,314)	(337,440)
Contributions from noncontrolling interests in property partnerships	2,980	6,386
Distributions to noncontrolling interests in property partnerships	(25,524)	(6,185)
Net cash provided by (used in) financing activities	(1,499,894)	502,321
Net increase (decrease) in cash and cash equivalents	(1,518,473)	599,297
Cash and cash equivalents, beginning of period	2,365,137	1,041,978
Cash and cash equivalents, end of period	$ 846,664	$ 1,641,275
Supplemental disclosures:		
Cash paid for interest	$ 489,949	$ 368,652
Interest capitalized	$ 44,809	$ 50,252
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable and accrued expenses	$ 20,016	$ 6,397
Real estate and related intangibles recorded upon consolidation	$	$ 3,356,000
Debt recorded upon consolidation	$	$ 2,056,000
Working capital recorded upon consolidation	$	$ 170,748
Noncontrolling interests recorded upon consolidation	$	$ 480,861
Investment in unconsolidated joint venture eliminated upon consolidation	$	$ 361,808
Mortgage note payable extinguished through foreclosure	$	$ 25,000
Real estate transferred upon foreclosure	$	$ 7,508
Land improvements contributed by noncontrolling interest in property partnership	$	$ 4,546

Dividends and distributions declared but not paid	$	112,708	$	112,470
Issuance of common stock in connection with the exchange of exchangeable senior notes	$		$	43,834
Conversions of noncontrolling interests to stockholders equity	$	2,368	$	10,406
Conversions of redeemable preferred units to common units	$	33,306	$	
Issuance of restricted securities to employees	$	27,445	$	30,077

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

Table of Contents

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, 2014 owned an approximate 89.5% (89.2% at September 30, 2013) 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 2011 and February 2012, the Company issued LTIP Units in connection with the granting to employees of outperformance awards (also referred to as 2011 OPP Units and 2012 OPP Units, respectively, and collectively as OPP Units). On January 31, 2014, the measurement period for the Company s 2011 OPP Unit awards expired and the Company s total return to shareholders (TRS) was not sufficient for employees to earn and therefore become eligible to vest in any of the 2011 OPP Unit awards. Accordingly, all 2011 OPP Unit awards were automatically forfeited (See Notes 8 and 11). In February 2013 and February 2014, 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 and 2014 MYLTIP Units, respectively, and collectively as MYLTIP Units). Because the rights, preferences and privileges of OPP Units and MYLTIP Units differ from other LTIP Units granted to employees as part of the annual compensation process, unless specifically noted otherwise, all references to LTIP Units exclude OPP Units and 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. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. 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, 2014, there were two series of Preferred Units outstanding (i.e., Series Four Preferred Units and Series B Preferred Units).

The Series Four Preferred Units are not convertible into or exchangeable for any security of the Operating Partnership or the Company, have a per unit liquidation preference of $50.00 and are entitled to receive quarterly distributions of $0.25 per unit (or an annual rate of 2.00%) (See Notes 8 and 13).

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.

Table of Contents

Properties

At September 30, 2014, the Company owned or had interests in a portfolio of 172 commercial real estate properties (the Properties) aggregating approximately 46.4 million net rentable square feet, including ten properties under construction totaling approximately 3.3 million net rentable square feet. In addition, the Company has structured parking for approximately 45,835 vehicles containing approximately 15.7 million square feet. At September 30, 2014, the Properties consist of:

- 163 office properties, including 132 Class A office properties (including nine properties under construction) and 31 Office/Technical properties;
- one hotel;
- five retail properties (including one property under construction); and
- three residential properties.

The Company owns or controls undeveloped land parcels totaling approximately 492.1 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 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 (VIE s) 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, 2013. Certain prior year amounts have been reclassified to conform to the current year presentation. Beginning on January 1, 2014, the properties that were historically part of the Company s Princeton region are reflected as the suburban component of the Company s New York region (See Note 12).

The Company follows the authoritative guidance for fair value measurements when valuing its financial instruments for disclosure purposes. The Company determines the fair value of its unsecured senior notes and

unsecured exchangeable senior notes using market prices. The inputs used in determining the fair value of the Company s unsecured senior notes and unsecured exchangeable 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, 2014 and December 31, 2013 (in thousands):

	September 30, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Mortgage notes payable	$ 4,328,464	$ 4,460,353	$ 4,449,734	$ 4,545,283
Mezzanine notes payable	310,114	310,141	311,040	311,064
Unsecured senior notes	5,837,172	6,173,499	5,835,854	6,050,517
Unsecured exchangeable senior notes			744,880(1)	750,266
Total	$ 10,475,750	$ 10,943,993	$ 11,341,508	$ 11,657,130

(1) Includes the net adjustment for the equity component allocation totaling approximately $2.4 million at December 31, 2013.

Out-of-Period Adjustment

During the nine months ended September 30, 2014, the Company recorded an 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 an 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) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU No. 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 No. 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted, and the Company early adopted ASU No. 2014-08 during the first quarter of 2014. The Company s adoption of ASU No. 2014-08 did not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contract with Customers (Topic 606) (ASU 2014-09). The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying ASU 2014-09, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB s Accounting Standards Codification (ASC). ASU 2014-09 is effective for annual reporting periods (including interim periods within that reporting period) beginning after December 15, 2016 and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is not permitted. The Company is currently assessing the potential impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC Topic No. 718, Compensation Stock Compensation (ASC 718), as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company does not expect the adoption of ASU 2014-12 to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern: Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 requires an entity to evaluate whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the financial statements are available to be issued when applicable) and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter with early adoption permitted. The Company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

3. Real Estate Activity During the Nine Months Ended September 30, 2014

Developments

On February 10, 2014, the Company completed and fully placed in-service The Avant at Reston Town Center development project comprised of 359 apartment units and retail space aggregating approximately 355,000 square feet located in Reston, Virginia.

On April 1, 2014, the Company commenced construction of its 99 Third Avenue development project totaling approximately 17,000 net rentable square feet of retail space located in Waltham, Massachusetts.

On April 3, 2014, the Company commenced construction of its 690 Folsom Street development project totaling approximately 26,000 net rentable square feet of office and retail space located in San Francisco, California.

On April 10, 2014, a consolidated joint venture in which the Company has a 95% interest signed a lease with salesforce.com for 714,000 square feet at the new Salesforce Tower (formerly Transbay Tower), the 1.4 million square foot, 61-story Class A office development project currently under construction at 415 Mission Street in the South Financial District of San Francisco, California. In conjunction with the lease signing, the Company has commenced construction of the building.

On May 20, 2014, the Company commenced construction of its 888 Boylston Street development project totaling approximately 425,000 net rentable square feet of Class A office space located in Boston, Massachusetts.

On May 20, 2014, the Company commenced construction of its 10 CityPoint development project totaling approximately 245,000 net rentable square feet of Class A office space located in Waltham, Massachusetts.

On August 31, 2014, the Company completed and fully placed in-service 250 West 55th Street, a Class A office project with approximately 988,000 net rentable square feet located in New York City.

On September 17, 2014, the Company completed and fully placed in-service 680 Folsom Street, a Class A office project with approximately 525,000 net rentable square feet located in San Francisco, California.

Dispositions

On June 11, 2014, the Company entered into a contract for the sale of its Patriots Park properties located in Reston, Virginia for a sale price of $321.0 million, which exceeds the carrying value at September 30, 2014. Patriots Park consists of three Class A office properties aggregating approximately 706,000 net rentable square feet (See Note 13).

On July 29, 2014, the Company completed the sale of its 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 the Company s 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, the Company completed the sale of a parcel of land within its 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.

On September 16, 2014, the Company entered into a binding purchase and sale agreement to sell a 45% interest in each of 601 Lexington Avenue in New York City and Atlantic Wharf Office Building and 100 Federal Street in Boston for an aggregate gross sales price of approximately $1.827 billion in cash, less the partner s pro rata share of the indebtedness secured by 601 Lexington Avenue, subject to certain prorations and adjustments. In connection with the sale, the Company will form a joint venture for each property with the buyer and provide

Table of Contents

customary property management and leasing services to the joint ventures. 601 Lexington Avenue is a 1,669,000 square foot Class A office complex located in Midtown Manhattan. The property consists of a 59-story tower as well as a six-story low-rise office and retail building. The property is subject to existing mortgage indebtedness of approximately $712.9 million. The Atlantic Wharf Office Building is a 791,000 square foot Class A office tower located on Boston s Waterfront. 100 Federal Street is a 1,323,000 square foot Class A office tower located in Boston s Financial District. The transaction will not qualify as a sale of real estate for financial reporting purposes as the Company will continue to control the joint ventures and will therefore continue to account for the properties on a consolidated basis in its financial statements (See Note 13).

The Company did not have any dispositions during the three and nine months ended September 30, 2014 that qualified for discontinued operations presentation. The following table summarizes the income from discontinued operations for the three and nine months ended September 30, 2013 related to One Preserve Parkway, 10 & 20 Burlington Mall Road, 1301 New York Avenue, Montvale Center and 303 Almaden Boulevard and the related gain on sale of real estate, gain on forgiveness of debt and impairment loss:

	For the three months ended September 30, 2013	For the nine months ended September 30, 2013
	(in thousands)	
Total revenue	$ 4,112	$ 17,962
Expenses		
Operating	1,495	6,290
Depreciation and amortization	940	3,826
Total expenses	2,435	10,116
Operating income	1,677	7,846
Other expense		
Interest expense		360
Income from discontinued operations	$ 1,677	$ 7,486
Noncontrolling interest in income from discontinued operations common units of the Operating Partnership	(167)	(752)
Income from discontinued operations attributable to Boston Properties, Inc.	$ 1,510	$ 6,734
Gain on sale of real estate from discontinued operations	$ 86,448	$ 86,448
Gain on forgiveness of debt from discontinued operations		20,182
Impairment loss from discontinued operations		(3,241)
Noncontrolling interest in gain on forgiveness of debt and impairment loss from discontinued operations common units of the Operating Partnership	(8,803)	(10,698)
Gain on forgiveness of debt and impairment loss from discontinued operations attributable to Boston Properties, Inc.	$ 77,645	$ 92,691

12

Table of Contents

4. Investments in Unconsolidated Joint Ventures

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

Entity	Properties	Nominal % Ownership	Carrying Value of Investment (in thousands)
Square 407 Limited Partnership	Market Square North	50.0%	$ (8,540)
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%	8,343
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(1)	(1,436)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3%(2)	46,011
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(3)	24,484
2 GCT Venture LLC	N/A	60.0%(4)	424
540 Madison Venture LLC	540 Madison Avenue	60.0%	70,418
500 North Capitol LLC	500 North Capitol Street, NW	30.0%	(1,467)
501 K Street LLC	501 K Street	50.0%(5)	41,912
			$ 180,149

(1) The Company s economic ownership has increased based on the achievement of certain return thresholds.
(2) 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.
(3) The joint venture owns two in-service buildings, two buildings under construction and two undeveloped land parcels.
(4) Two Grand Central Tower was sold on October 25, 2011.
(5) Under the joint venture agreement, the partner will be entitled to up to two additional payments from the venture 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.

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

	September 30, 2014	December 31, 2013
	(in thousands)	
ASSETS		
Real estate and development in process, net	$ 1,014,663	$ 924,297
Other assets	182,905	163,149
Total assets	$ 1,197,568	$ 1,087,446
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	$ 753,692	$ 749,732
Other liabilities	23,180	28,830
Members /Partners equity	420,696	308,884
Total liabilities and members /partners equity	$ 1,197,568	$ 1,087,446
Company s share of equity	$ 208,125	$ 154,726

Basis differentials(1)	(27,976)	(28,642)
Carrying value of the Company s investments in unconsolidated joint ventures	$ 180,149	$ 126,084

(1) 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 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.

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

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013
	(in thousands)			
Total revenue(1)	$ 41,958	$ 37,983	$ 118,429	$ 273,464
Expenses				
Operating	15,516	14,963	46,441	89,826
Depreciation and amortization	9,429	9,784	27,688	76,202
Total expenses	24,945	24,747	74,129	166,028
Operating income	17,013	13,236	44,300	107,436
Other expense				
Interest expense	7,950	8,148	23,946	104,436
Losses from early extinguishment of debt				1,677
Income from continuing operations	9,063	5,088	20,354	1,323
Gains on sales of real estate		12,441		14,207
Net income	$ 9,063	$ 17,529	$ 20,354	$ 15,530
Company s share of net income	$ 4,200	$ 3,149	$ 9,403	$ 1,974
Gains on sales of real estate		11,174		54,501
Basis differential	219	413	666	(1,213)
Elimination of inter-entity interest on partner loan				16,978
Income from unconsolidated joint ventures	$ 4,419	$ 14,736	$ 10,069	$ 72,240
Gains on consolidation of joint ventures	$	$ (1,810)	$	$ 385,991

(1) Includes straight-line rent adjustments of $0.2 million and $0.6 million for the three months ended September 30, 2014 and 2013, respectively, and $1.1 million and $7.6 million for the nine months ended September 30, 2014 and 2013, respectively. Includes net below-market rent adjustments of $(0.1) million and $(0.1) million for the three months ended September 30, 2014 and 2013, respectively, and $(0.1) million and $33.9 million for the nine months ended September 30, 2014 and 2013, respectively.

On April 10, 2014, the Company entered into a joint venture with an unrelated third party to acquire a parcel of land located at 501 K Street in Washington, DC. The Company anticipates the land parcel will accommodate an approximate 520,000 square foot Class A office property to be developed in the future. The joint venture partner contributed the land for a 50% interest in the joint venture and the Company contributed cash of approximately $39.0 million for its 50% interest. Under the joint venture agreement, the partner will be entitled to up to two additional payments from the venture based on increases in total square footage of the project above 520,000 square feet and achieving certain project returns at stabilization.

On April 30, 2014, the Company s partner in its Annapolis Junction joint venture contributed a parcel of land and improvements and the Company contributed cash of approximately $5.4 million to the joint venture. The Company has a 50% interest in this joint venture. The joint venture has commenced construction of Annapolis Junction Building Eight, which when completed will consist of a Class A office property with approximately 125,000 net rentable square feet located in Annapolis, Maryland. In addition, on June 23, 2014, the joint venture obtained construction financing collateralized by the development project totaling $26.0 million. The construction financing bears interest at a variable rate equal to LIBOR plus 1.50% per annum and matures on June 23, 2017, with two, one-year extension options, subject to certain conditions.

5. Mortgage Notes Payable

On July 1, 2014, the Company used available cash to repay the mortgage loan collateralized by its New Dominion Technology Park Building Two property located in Herndon, Virginia totaling $63.0 million. The mortgage loan bore interest at a fixed rate of 5.55% per annum and was scheduled to mature on October 1, 2014. There was no prepayment penalty.

6. Unsecured Exchangeable Senior Notes

On February 18, 2014, the Company s Operating Partnership repaid at maturity the $747.5 million aggregate principal amount of its 3.625% exchangeable senior notes due 2014 plus accrued and unpaid interest thereon.

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 bus