BOSTON PROPERTIES INC
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017
¨ 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.)
Commission File Number: 0-50209 (Boston Properties Limited Partnership)

BOSTON PROPERTIES, INC.
BOSTON PROPERTIES LIMITED PARTNERSHIP
(Exact name of Registrants as specified in its charter)

Boston Properties, Inc.	Delaware (State or other jurisdiction of incorporation or organization)	04-2473675 (I.R.S. Employer Identification Number)
Boston Properties Limited Partnership	Delaware (State or other jurisdiction of incorporation or organization)	04-3372948 (I.R.S. Employer Identification Number)

Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103
(Address of principal executive offices) (Zip Code)
(617) 236-3300
(Registrants’ 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.
Boston Properties, Inc.: Yes x No ¨ Boston Properties Limited Partnership: 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).
Boston Properties, Inc.: Yes x No ¨ Boston Properties Limited Partnership: Yes x No ¨

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Boston Properties, Inc.:
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
Boston Properties Limited Partnership:
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x
Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Boston Properties, Inc. ¨ Boston Properties Limited Partnership ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Boston Properties, Inc.: Yes ¨ No x Boston Properties Limited Partnership: 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.

Boston Properties, Inc.	Common Stock, par value $0.01 per share	154,317,716
(Registrant)	(Class)	(Outstanding on August 3, 2017)

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2017 of Boston Properties, Inc. and Boston Properties Limited Partnership. Unless stated otherwise or the context otherwise requires, references to "BXP" mean Boston Properties, Inc., a Delaware corporation and real estate investment trust ("REIT"), and references to "BPLP" and the "Operating Partnership" mean Boston Properties Limited Partnership, a Delaware limited partnership. Unless stated otherwise or the context requires, references to the "Company," "we," "us" and "our" mean collectively BXP, BPLP and those entities/subsidiaries consolidated by BXP.

BPLP is the entity through which BXP conducts substantially all of its business and owns, either directly or through subsidiaries, substantially all of its assets. BXP is the sole general partner and also a limited partner of BPLP. As the sole general partner of BPLP, BXP has exclusive control of BPLP's day-to-day management.

As of June 30, 2017, BXP owned an approximate 89.7% ownership interest in BPLP. The remaining approximate 10.3% interest is owned by limited partners. The other limited partners of BPLP are (1) persons who contributed their direct or indirect interests in properties to BPLP in exchange for common units or preferred units of limited partnership interest in BPLP or (2) recipients of long term incentive plan units of BPLP pursuant to BXP's Stock Option and Incentive Plans. Under the limited partnership agreement of BPLP, unitholders may present their common units of BPLP for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time, generally one year from issuance). Upon presentation of a common unit for redemption, BPLP must redeem the unit for cash equal to the then value of a share of BXP's common stock. In lieu of cash redemption by BPLP, however, BXP may elect to acquire any common units so tendered by issuing shares of BXP common stock in exchange for the common units. If BXP so elects, its common stock will be exchanged for common units on a one-for-one basis. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. BXP generally expects that it will elect to issue its common stock in connection with each such presentation for redemption rather than having BPLP pay cash. With each such exchange or redemption, BXP's percentage ownership in BPLP will increase. In addition, whenever BXP issues shares of its common stock other than to acquire common units of BPLP, BXP must contribute any net proceeds it receives to BPLP and BPLP must issue to BXP an equivalent number of common units of BPLP. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

The Company believes that combining the quarterly reports on Form 10-Q of BXP and BPLP into this single report provides the following benefits:

- enhances investors' understanding of BXP and BPLP by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more concise and readable presentation because a substantial portion of the disclosure applies to both BXP and BPLP; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

The Company believes it is important to understand the few differences between BXP and BPLP in the context of how BXP and BPLP operate as a consolidated company. The financial results of BPLP are consolidated into the financial statements of BXP. BXP does not have any other significant assets, liabilities or operations, other than its investment in BPLP, nor does it have employees of its own. BPLP, not BXP, generally executes all significant business relationships other than transactions involving the securities of BXP. BPLP holds substantially all of the assets of BXP, including ownership interests in joint ventures. BPLP conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by BXP, which are contributed to the capital of BPLP in exchange for common or preferred units of partnership in BPLP, as applicable, BPLP generates all remaining capital required by the Company's business. These sources include working capital, net cash provided by operating activities, borrowings under its credit facilities, the issuance of secured and unsecured debt and equity securities and proceeds received from the disposition of certain properties and joint ventures.

Shareholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of BXP and BPLP. The limited partners of BPLP are accounted for as partners' capital in BPLP's financial statements and as noncontrolling interests in BXP's financial statements. The noncontrolling interests in BPLP's financial statements include the interests of unaffiliated partners in various consolidated

partnerships. The noncontrolling interests in BXP's financial statements include the same noncontrolling interests at BPLP's level and limited partners of BPLP. The differences between shareholders' equity and partners' capital result from differences in the equity issued at BXP and BPLP levels.

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In addition, the consolidated financial statements of BXP and BPLP differ in total real estate assets resulting from previously applied acquisition accounting by BXP for the issuance of common stock in connection with non-sponsor redemptions of common units of BPLP. This accounting resulted in a step-up of the real estate assets at BXP. This resulted in a difference between the net real estate of BXP as compared to BPLP of approximately $322.7 million, or 2.0% at June 30, 2017 and a corresponding difference in depreciation expense and gains on sales of real estate upon the sale of certain properties having an allocation of the real estate step-up. The acquisition accounting was nullified on a prospective basis beginning in 2009 as a result of the Company’s adoption of a new accounting standard requiring any future redemptions to be accounted for solely as an equity transaction.

To help investors better understand the key differences between BXP and BPLP, certain information for BXP and BPLP in this report has been separated, as set forth below:

- Item 1. Financial Statements (unaudited), which includes the following specific disclosures for BXP and BPLP:
  - Note 3. Real Estate;
  - Note 6. Derivative Instruments and Hedging Activities;
  - Note 8. Noncontrolling Interests;
  - Note 9. Stockholders’ Equity / Partners’ Capital; and
  - Note 10. Earnings Per Share / Common Unit;
- Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations includes information specific to each entity, where applicable; and
- Item 2. Liquidity and Capital Resources includes separate reconciliations of amounts to each entity’s financial statements, where applicable.

This report also includes separate Part I - Item 4. Controls and Procedures and Part II - Item 2. Unregistered Sales of Equity Securities and Use of Proceeds sections for each of BXP and BPLP, as well as separate Exhibits 12, 31 and 32 calculation of ratios of earnings to fixed charges and certifications for each of BXP and BPLP.

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BOSTON PROPERTIES, INC. AND BOSTON PROPERTIES LIMITED PARTNERSHIP
FORM 10-Q
for the quarter ended June 30, 2017
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PART I. FINANCIAL INFORMATION

ITEM 1—Financial Statements.

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BOSTON PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2017	December 31, 2016
	(in thousands, except for share and par value amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities (“VIEs”) of $7,000,820 and $6,760,078 at June 30, 2017 and December 31, 2016, respectively)	$20,614,366	$20,147,263
Less: accumulated depreciation (amounts related to VIEs of $(799,299) and $(758,640) at June 30, 2017 and December 31, 2016, respectively)	(4,379,446)	(4,222,235)
Total real estate	16,234,920	15,925,028
Cash and cash equivalents (amounts related to VIEs of $322,574 and $253,999 at June 30, 2017 and December 31, 2016, respectively)	492,435	356,914
Cash held in escrows (amounts related to VIEs of $4,360 and $4,955 at June 30, 2017 and December 31, 2016, respectively)	47,345	63,174
Investments in securities	26,781	23,814
Tenant and other receivables (amounts related to VIEs of $17,950 and $23,525 at June 30, 2017 and December 31, 2016, respectively)	88,687	92,548
Accrued rental income (amounts related to VIEs of $227,199 and $224,185 at June 30, 2017 and December 31, 2016, respectively)	820,022	799,138
Deferred charges, net (amounts related to VIEs of $267,240 and $290,436 at June 30, 2017 and December 31, 2016, respectively)	658,219	686,163
Prepaid expenses and other assets (amounts related to VIEs of $41,819 and $42,718 at June 30, 2017 and December 31, 2016, respectively)	93,985	129,666
Investments in unconsolidated joint ventures	819,368	775,198
Total assets	$19,281,762	$18,851,643
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of $2,943,890 and $2,018,483 at June 30, 2017 and December 31, 2016, respectively)	$2,986,283	$2,063,087
Unsecured senior notes, net	7,250,356	7,245,953
Unsecured line of credit	—	—
Unsecured term loan	—	—
Mezzanine notes payable (amounts related to VIEs of $0 and $307,093 at June 30, 2017 and December 31, 2016, respectively)	—	307,093
Outside members’ notes payable (amounts related to VIEs of $0 and $180,000 at June 30, 2017 and December 31, 2016, respectively)	—	180,000
Accounts payable and accrued expenses (amounts related to VIEs of $116,413 and $110,457 at June 30, 2017 and December 31, 2016, respectively)	303,559	298,524
Dividends and distributions payable	130,432	130,308
Accrued interest payable (amounts related to VIEs of $6,706 and $162,226 at June 30, 2017 and December 31, 2016, respectively)	85,172	243,933
Other liabilities (amounts related to VIEs of $159,529 and $175,146 at June 30, 2017 and December 31, 2016, respectively)	452,608	450,821
Total liabilities	11,208,410	10,919,719
Commitments and contingencies	—	—

Equity:		
Stockholders’ equity attributable to Boston Properties, Inc.:		
Excess stock, $0.01 par value, 150,000,000 shares authorized, none issued or outstanding	—	—
Preferred stock, $0.01 par value, 50,000,000 shares authorized;		
5.25% Series B cumulative redeemable preferred stock, $0.01 par value, liquidation preference $2,500 per share, 92,000 shares authorized, 80,000 shares issued and outstanding at June 30, 2017 and December 31, 2016	200,000	200,000
Common stock, $0.01 par value, 250,000,000 shares authorized, 154,386,429 and 153,869,075 issued and 154,307,529 and 153,790,175 outstanding at June 30, 2017 and December 31, 2016, respectively	1,543	1,538
Additional paid-in capital	6,363,034	6,333,424
Dividends in excess of earnings	(694,320)	(693,694)
Treasury common stock at cost, 78,900 shares at June 30, 2017 and December 31, 2016	(2,722)	(2,722)
Accumulated other comprehensive loss	(53,161)	(52,251)
Total stockholders’ equity attributable to Boston Properties, Inc.	5,814,374	5,786,295
Noncontrolling interests:		
Common units of Boston Properties Limited Partnership	604,997	614,982
Property partnerships	1,653,981	1,530,647
Total equity	8,073,352	7,931,924
Total liabilities and equity	$19,281,762	$18,851,643

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	$520,542	$493,386	$1,024,104	$1,029,514
Recoveries from tenants	89,163	85,706	178,327	175,292
Parking and other	26,462	26,113	52,072	50,938
Total rental revenue	636,167	605,205	1,254,503	1,255,744
Hotel revenue	13,375	12,808	20,795	21,565
Development and management services	7,365	5,533	13,837	12,222
Total revenue	656,907	623,546	1,289,135	1,289,531
Expenses				
Operating				
Rental	230,454	217,938	458,741	437,110
Hotel	8,404	7,978	15,495	15,612
General and administrative	27,141	25,418	58,527	54,771
Transaction costs	299	913	333	938
Depreciation and amortization	151,919	153,175	311,124	312,623
Total expenses	418,217	405,422	844,220	821,054
Operating income	238,690	218,124	444,915	468,477
Other income (expense)				
Income from unconsolidated joint ventures	3,108	2,234	6,192	4,025
Interest and other income	1,504	1,524	2,118	3,029
Gains from investments in securities	730	478	1,772	737
Gains from early extinguishments of debt	14,354	—	14,354	—
Interest expense	(95,143)	(105,003)	(190,677)	(210,312)
Income before gains on sales of real estate	163,243	117,357	278,674	265,956
Gains on sales of real estate	3,767	—	3,900	67,623
Net income	167,010	117,357	282,574	333,579
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(15,203)	(6,814)	(19,627)	(17,278)
Noncontrolling interest—common units of Boston Properties Limited Partnership	(15,473)	(11,357)	(26,933)	(32,771)
Net income attributable to Boston Properties, Inc.	136,334	99,186	236,014	283,530
Preferred dividends	(2,625)	(2,589)	(5,250)	(5,207)
Net income attributable to Boston Properties, Inc. common shareholders	$133,709	$96,597	$230,764	$278,323
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	$0.87	$0.63	$1.50	$1.81
Weighted average number of common shares outstanding	154,177	153,662	154,019	153,644
Diluted earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	$0.87	$0.63	$1.50	$1.81

Weighted average number of common and common equivalent shares outstanding	154,331	153,860	154,273	153,889
Dividends per common share	$0.75	$0.65	$1.50	$1.30

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income	$167,010	$117,357	$282,574	$333,579
Other comprehensive loss:				
Effective portion of interest rate contracts	(6,313)	(32,351)	(6,133)	(90,997)
Amortization of interest rate contracts (1)	1,397	628	2,703	1,255
Other comprehensive loss	(4,916)	(31,723)	(3,430)	(89,742)
Comprehensive income	162,094	85,634	279,144	243,837
Net income attributable to noncontrolling interests	(30,676)	(18,171)	(46,560)	(50,049)
Other comprehensive loss attributable to noncontrolling interests	2,738	8,681	2,520	24,108
Comprehensive income attributable to Boston Properties, Inc.	$134,156	$76,144	$235,104	$217,896

(1) Amounts reclassified from comprehensive income primarily to interest expense within the Boston Properties, Inc.'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 Stock	Additional Paid-in Capital	Dividends in Excess of Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount							
Equity, December 31, 2016	153,790	$1,538	$200,000	$6,333,424	$(693,694)	$(2,722)	$(52,251)	$2,145,629	$7,931,924
Redemption of operating partnership units to common stock	481	5	—	16,417	—	—	—	(16,422)	—
Allocated net income for the year	—	—	—	—	236,014	—	—	46,560	282,574
Dividends/distributions declared	—	—	—	—	(236,368)	—	—	(26,977)	(263,345)
Shares issued pursuant to stock purchase plan	3	—	—	373	—	—	—	—	373
Net activity from stock option and incentive plan	34	—	—	1,980	—	—	—	19,188	21,168
Cumulative effect of a change in accounting principle	—	—	—	—	(272)	—	—	(1,763)	(2,035)
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	133,072	133,072
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(26,949)	(26,949)
Effective portion of interest rate contracts	—	—	—	—	—	—	(3,301)	(2,832)	(6,133)
Amortization of interest rate contracts	—	—	—	—	—	—	2,391	312	2,703
Reallocation of noncontrolling interest	—	—	—	10,840	—	—	—	(10,840)	—
Equity, June 30, 2017	154,308	$1,543	$200,000	$6,363,034	$(694,320)	$(2,722)	$(53,161)	$2,258,978	$8,073,352
Equity, December 31, 2015	153,580	$1,536	$200,000	$6,305,687	$(780,952)	$(2,722)	$(14,114)	$2,177,492	$7,886,927
Redemption of operating partnership units to common stock	78	1	—	2,663	—	—	—	(2,664)	—
Allocated net income for the year	—	—	—	—	283,530	—	—	50,049	333,579
Dividends/distributions declared	—	—	—	—	(204,939)	—	—	(23,713)	(228,652)

Shares issued pursuant to stock purchase plan	3	—	—	332	—	—	—	—	332
Net activity from stock option and incentive plan	14	—	—	1,772	—	—	—	14,877	16,649
Sale of interests in property partnerships	—	—	—	1,320	—	—	—	(1,320)	—
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	5,040	5,040
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(25,914)	(25,914)
Effective portion of interest rate contracts	—	—	—	—	—	—	(66,759)	(24,238)	(90,997)
Amortization of interest rate contracts	—	—	—	—	—	—	1,125	130	1,255
Reallocation of noncontrolling interest	—	—	—	4,417	—	—	—	(4,417)	—
Equity, June 30, 2016	153,675	$1,537	$200,000	$6,316,191	$(702,361)	$(2,722)	$(79,748)	$2,165,322	$7,898,219

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 six months ended June 30,	
	2017	2016
	(in thousands)	
Cash flows from operating activities:		
Net income	$282,574	$333,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	311,124	312,623
Non-cash compensation expense	19,237	17,647
Income from unconsolidated joint ventures	(6,192)	(4,025)
Distributions of net cash flow from operations of unconsolidated joint ventures	2,905	11,399
Gains from investments in securities	(1,772)	(737)
Gains from early extinguishments of debt	(14,444)	—
Non-cash portion of interest expense	(11,979)	(19,330)
Gains on sales of real estate	(3,900)	(67,623)
Change in assets and liabilities:		
Cash held in escrows	7,531	632
Tenant and other receivables, net	2,033	13,963
Accrued rental income, net	(19,348)	(5,294)
Prepaid expenses and other assets	36,223	62,752
Accounts payable and accrued expenses	(2,608)	9,236
Accrued interest payable	(158,761)	31,789
Other liabilities	(33,093)	(71,805)
Tenant leasing costs	(37,252)	(40,655)
Total adjustments	89,704	250,572
Net cash provided by operating activities	372,278	584,151
Cash flows from investing activities:		
Acquisitions of real estate	(15,953)	(78,000)
Construction in progress	(297,747)	(242,944)
Building and other capital improvements	(100,808)	(48,306)
Tenant improvements	(107,533)	(116,935)
Proceeds from sales of real estate	17,049	104,816
Proceeds from sales of real estate placed in escrow	(16,640)	(104,696)
Proceeds from sales of real estate released from escrow	15,844	104,696
Cash released from escrow for investing activities	9,004	6,694
Cash released from escrow for land sale contracts	—	781
Deposit on real estate	—	(25,000)
Capital contributions to unconsolidated joint ventures	(41,491)	(26,040)
Investments in securities, net	(1,195)	(658)
Net cash used in investing activities	(539,470)	(425,592)

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

	For the six months ended June 30,	
	2017	2016
	(in thousands)	
Cash flows from financing activities:		
Proceeds from mortgage notes payable	2,300,000	—
Repayments of mortgage notes payable	(1,308,708)	(222,535)
Proceeds from unsecured senior notes	—	997,080
Borrowings on unsecured line of credit	430,000	—
Repayments of unsecured line of credit	(430,000)	—
Repayments of mezzanine notes payable	(306,000)	—
Repayments of outside members' notes payable	(70,424)	—
Payments on capital lease obligations	(486)	—
Payments on real estate financing transactions	(1,013)	(4,290)
Deposit on mortgage note payable interest rate lock	(23,200)	—
Return of deposit on mortgage note payable interest rate lock	23,200	—
Deferred financing costs	(43,635)	(8,047)
Net proceeds from equity transactions	(181)	(666)
Dividends and distributions	(263,221)	(442,901)
Contributions from noncontrolling interests in property partnerships	23,496	5,040
Distributions to noncontrolling interests in property partnerships	(27,115)	(25,914)
Net cash provided by financing activities	302,713	297,767
Net increase in cash and cash equivalents	135,521	456,326
Cash and cash equivalents, beginning of period	356,914	723,718
Cash and cash equivalents, end of period	$492,435	$1,180,044
Supplemental disclosures:		
Cash paid for interest	$388,045	$217,021
Interest capitalized	$26,628	$19,168
Non-cash investing and financing activities:		
Write-off of fully depreciated real estate	$(86,135)	$(52,708)
Additions to real estate included in accounts payable and accrued expenses	$22,994	$(14,471)
Real estate acquired through capital lease	$28,962	$—
Outside members' notes payable contributed to noncontrolling interests in property partnerships	$109,576	$—
Dividends and distributions declared but not paid	$130,432	$113,071
Conversions of noncontrolling interests to stockholders' equity	$16,422	$2,664
Issuance of restricted securities to employees	$35,945	$33,711

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2017	December 31, 2016
	(in thousands, except for unit amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities ("VIEs") of $7,000,820 and $6,760,078 at June 30, 2017 and December 31, 2016, respectively)	$20,202,321	$19,733,872
Less: accumulated depreciation (amounts related to VIEs of $(799,299) and $(758,640) at June 30, 2017 and December 31, 2016, respectively)	(4,290,112)	(4,136,364)
Total real estate	15,912,209	15,597,508
Cash and cash equivalents (amounts related to VIEs of $322,574 and $253,999 at June 30, 2017 and December 31, 2016, respectively)	492,435	356,914
Cash held in escrows (amounts related to VIEs of $4,360 and $4,955 at June 30, 2017 and December 31, 2016, respectively)	47,345	63,174
Investments in securities	26,781	23,814
Tenant and other receivables (amounts related to VIEs of $17,950 and $23,525 at June 30, 2017 and December 31, 2016, respectively)	88,687	92,548
Accrued rental income (amounts related to VIEs of $227,199 and $224,185 at June 30, 2017 and December 31, 2016, respectively)	820,022	799,138
Deferred charges, net (amounts related to VIEs of $267,240 and $290,436 at June 30, 2017 and December 31, 2016, respectively)	658,219	686,163
Prepaid expenses and other assets (amounts related to VIEs of $41,819 and $42,718 at June 30, 2017 and December 31, 2016, respectively)	93,985	129,666
Investments in unconsolidated joint ventures	819,368	775,198
Total assets	$18,959,051	$18,524,123
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of $2,943,890 and $2,018,483 at June 30, 2017 and December 31, 2016, respectively)	$2,986,283	$2,063,087
Unsecured senior notes, net	7,250,356	7,245,953
Unsecured line of credit	—	—
Unsecured term loan	—	—
Mezzanine notes payable (amounts related to VIEs of $0 and $307,093 at June 30, 2017 and December 31, 2016, respectively)	—	307,093
Outside members' notes payable (amounts related to VIEs of $0 and $180,000 at June 30, 2017 and December 31, 2016, respectively)	—	180,000
Accounts payable and accrued expenses (amounts related to VIEs of $116,413 and $110,457 at June 30, 2017 and December 31, 2016, respectively)	303,559	298,524
Distributions payable	130,432	130,308
Accrued interest payable (amounts related to VIEs of $6,706 and $162,226 at June 30, 2017 and December 31, 2016, respectively)	85,172	243,933
Other liabilities (amounts related to VIEs of $159,529 and $175,146 at June 30, 2017 and December 31, 2016, respectively)	452,608	450,821
Total liabilities	11,208,410	10,919,719
Commitments and contingencies	—	—

Noncontrolling interests:		
Redeemable partnership units—16,823,685 and 17,079,511 common units and 816,982 and 904,588 long term incentive units outstanding at redemption value at June 30, 2017 and December 31, 2016, respectively	2,170,155	2,262,040
Capital:		
5.25% Series B cumulative redeemable preferred units, liquidation preference $2,500 per unit, 80,000 units issued and outstanding at June 30, 2017 and December 31, 2016	193,623	193,623
Boston Properties Limited Partnership partners' capital—1,719,482 and 1,717,743 general partner units and 152,588,047 and 152,072,432 limited partner units outstanding at June 30, 2017 and December 31, 2016, respectively	3,732,882	3,618,094
Noncontrolling interests in property partnerships	1,653,981	1,530,647
Total capital	5,580,486	5,342,364
Total liabilities and capital	$18,959,051	$18,524,123

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands, except for per unit amounts)			
Revenue				
Rental				
Base rent	$520,542	$493,386	$1,024,104	$1,029,514
Recoveries from tenants	89,163	85,706	178,327	175,292
Parking and other	26,462	26,113	52,072	50,938
Total rental revenue	636,167	605,205	1,254,503	1,255,744
Hotel revenue	13,375	12,808	20,795	21,565
Development and management services	7,365	5,533	13,837	12,222
Total revenue	656,907	623,546	1,289,135	1,289,531
Expenses				
Operating				
Rental	230,454	217,938	458,741	437,110
Hotel	8,404	7,978	15,495	15,612
General and administrative	27,141	25,418	58,527	54,771
Transaction costs	299	913	333	938
Depreciation and amortization	149,834	151,191	306,892	308,652
Total expenses	416,132	403,438	839,988	817,083
Operating income	240,775	220,108	449,147	472,448
Other income (expense)				
Income from unconsolidated joint ventures	3,108	2,234	6,192	4,025
Interest and other income	1,504	1,524	2,118	3,029
Gains from investments in securities	730	478	1,772	737
Gains from early extinguishments of debt	14,354	—	14,354	—
Interest expense	(95,143)	(105,003)	(190,677)	(210,312)
Income before gains on sales of real estate	165,328	119,341	282,906	269,927
Gains on sales of real estate	4,344	—	4,477	69,792
Net income	169,672	119,341	287,383	339,719
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(15,203)	(6,814)	(19,627)	(17,278)
Net income attributable to Boston Properties Limited Partnership	154,469	112,527	267,756	322,441
Preferred distributions	(2,625)	(2,589)	(5,250)	(5,207)
Net income attributable to Boston Properties Limited Partnership common unitholders	$151,844	$109,938	$262,506	$317,234
Basic earnings per common unit attributable to Boston Properties Limited Partnership common unitholders:				
Net income	$0.88	$0.64	$1.53	$1.85
Weighted average number of common units outstanding	171,675	171,370	171,628	171,339
Diluted earnings per common unit attributable to Boston Properties Limited Partnership common unitholders:				
Net income	$0.88	$0.64	$1.53	$1.85
Weighted average number of common and common equivalent units outstanding	171,829	171,568	171,882	171,584

Distributions per common unit	$0.75	$0.65	$1.50	$1.30

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income	$169,672	$119,341	$287,383	$339,719
Other comprehensive loss:				
Effective portion of interest rate contracts	(6,313)	(32,351)	(6,133)	(90,997)
Amortization of interest rate contracts (1)	1,397	628	2,703	1,255
Other comprehensive loss	(4,916)	(31,723)	(3,430)	(89,742)
Comprehensive income	164,756	87,618	283,953	249,977
Comprehensive income attributable to noncontrolling interests	(12,715)	(793)	(17,211)	(731)
Comprehensive income attributable to Boston Properties Limited Partnership	$152,041	$86,825	$266,742	$249,246

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

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(Unaudited and in thousands)

	Total Partners' Capital
Balance at December 31, 2016	$3,811,717
Contributions	4,682
Net income allocable to general and limited partner units	240,823
Distributions	(236,368)
Accumulated other comprehensive loss	(910)
Cumulative effect of a change in accounting principle	(272)
Unearned compensation	(2,329)
Conversion of redeemable partnership units	16,422
Adjustment to reflect redeemable partnership units at redemption value	92,740
Balance at June 30, 2017	$3,926,505
Balance at December 31, 2015	$3,684,522
Contributions	2,871
Net income allocable to general and limited partner units	289,670
Distributions	(204,939)
Accumulated other comprehensive loss	(65,634)
Unearned compensation	553
Conversion of redeemable partnership units	2,664
Adjustment to reflect redeemable partnership units at redemption value	(86,626)
Balance at June 30, 2016	$3,623,081

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	2017	2016
	(in thousands)	
Cash flows from operating activities:		
Net income	$287,383	$339,719
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	306,892	308,652
Non-cash compensation expense	19,237	17,647
Income from unconsolidated joint ventures	(6,192)	(4,025)
Distributions of net cash flow from operations of unconsolidated joint ventures	2,905	11,399
Gains from investments in securities	(1,772)	(737)
Gains from early extinguishments of debt	(14,444)	—
Non-cash portion of interest expense	(11,979)	(19,330)
Gains on sales of real estate	(4,477)	(69,792)
Change in assets and liabilities:		
Cash held in escrows	7,531	632
Tenant and other receivables, net	2,033	13,963
Accrued rental income, net	(19,348)	(5,294)
Prepaid expenses and other assets	36,223	62,752
Accounts payable and accrued expenses	(2,608)	9,236
Accrued interest payable	(158,761)	31,789
Other liabilities	(33,093)	(71,805)
Tenant leasing costs	(37,252)	(40,655)
Total adjustments	84,895	244,432
Net cash provided by operating activities	372,278	584,151
Cash flows from investing activities:		
Acquisitions of real estate	(15,953)	(78,000)
Construction in progress	(297,747)	(242,944)
Building and other capital improvements	(100,808)	(48,306)
Tenant improvements	(107,533)	(116,935)
Proceeds from sales of real estate	17,049	104,816
Proceeds from sales of real estate placed in escrow	(16,640)	(104,696)
Proceeds from sales of real estate released from escrow	15,844	104,696
Cash released from escrow for investing activities	9,004	6,694
Cash released from escrow for land sale contracts	—	781
Deposit on real estate	—	(25,000)
Capital contributions to unconsolidated joint ventures	(41,491)	(26,040)
Investments in securities, net	(1,195)	(658)
Net cash used in investing activities	(539,470)	(425,592)

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
	2017	2016
	(in thousands)	
Cash flows from financing activities:		
Proceeds from mortgage notes payable	2,300,000	—
Repayments of mortgage notes payable	(1,308,708)	(222,535)
Proceeds from unsecured senior notes	—	997,080
Borrowings on unsecured line of credit	430,000	—
Repayments of unsecured line of credit	(430,000)	—
Repayments of mezzanine notes payable	(306,000)	—
Repayments of outside members' notes payable	(70,424)	—
Payments on capital lease obligations	(486)	—
Payments on real estate financing transaction	(1,013)	(4,290)
Deposit on mortgage note payable interest rate lock	(23,200)	—
Return of deposit on mortgage note payable interest rate lock	23,200	—
Deferred financing costs	(43,635)	(8,047)
Net proceeds from equity transactions	(181)	(666)
Distributions	(263,221)	(442,901)
Contributions from noncontrolling interests in property partnerships	23,496	5,040
Distributions to noncontrolling interests in property partnerships	(27,115)	(25,914)
Net cash provided by financing activities	302,713	297,767
Net increase in cash and cash equivalents	135,521	456,326
Cash and cash equivalents, beginning of period	356,914	723,718
Cash and cash equivalents, end of period	$492,435	$1,180,044
Supplemental disclosures:		
Cash paid for interest	$388,045	$217,021
Interest capitalized	$26,628	$19,168
Non-cash investing and financing activities:		
Write-off of fully depreciated real estate	$(85,525)	$(52,708)
Additions to real estate included in accounts payable and accrued expenses	$22,994	$(14,471)
Real estate acquired through capital lease	$28,962	$—
Outside members' notes payable contributed to noncontrolling interests in property partnerships	$109,576	$—
Distributions declared but not paid	$130,432	$113,071
Conversions of redeemable partnership units to partners' capital	$16,422	$2,664
Issuance of restricted securities to employees	$35,945	$33,711

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

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BOSTON PROPERTIES, INC. AND BOSTON PROPERTIES LIMITED PARTNERSHIP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
1. Organization
Boston Properties, Inc., a Delaware corporation, is a fully integrated, self-administered and self-managed real estate investment trust (“REIT”). Boston Properties, Inc. is the sole general partner of Boston Properties Limited Partnership, its operating partnership, and at June 30, 2017 owned an approximate 89.7% (89.5% at December 31, 2016) general and limited partnership interest in Boston Properties Limited Partnership. Unless stated otherwise or the context requires, the “Company” refers to Boston Properties, Inc. and its subsidiaries, including Boston Properties Limited Partnership, and its consolidated subsidiaries. Partnership interests in Boston Properties Limited Partnership include:

- common units of partnership interest (also referred to as “OP Units”),
- long term incentive units of partnership interest (also referred to as “LTIP Units”), and
- preferred units of partnership interest (also referred to as “Preferred Units”).

Unless specifically noted otherwise, all references to OP Units exclude units held by Boston Properties, Inc. A holder of an OP Unit may present such OP Unit to Boston Properties Limited 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, Boston Properties Limited Partnership is obligated to redeem such OP Unit for cash equal to the value of a share of common stock of Boston Properties, Inc. (“Common Stock”) at such time. In lieu of a cash redemption, Boston Properties, Inc. 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 Boston Properties, Inc. 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.
The Company uses LTIP Units as a form of equity-based award for annual long-term incentive equity compensation. The Company has also issued LTIP Units to employees in the form of (1) 2012 outperformance plan awards (“2012 OPP Units”) and (2) 2013, 2014, 2015, 2016 and 2017 multi-year, long-term incentive program awards (also referred to as “MYLTIP Units”), each of which, upon the satisfaction of certain performance and vesting conditions, is convertible into one OP Unit. The three-year measurement periods for the 2012 OPP Units, 2013 MYLTIP Units and 2014 MYLTIP Units expired on February 6, 2015, February 4, 2016 and February 3, 2017, respectively, and Boston Properties, Inc.’s total stockholder return (“TSR”) was sufficient for employees to earn and therefore become eligible to vest in a portion of the awards. Unless and until they are earned, the rights, preferences and privileges of the 2015, 2016 and 2017 MYLTIP Units differ from other LTIP Units granted to employees (including the 2012 OPP Units, the 2013 MYLTIP Units and the 2014 MYLTIP Units, which have been earned). Therefore, unless specifically noted otherwise, all references to LTIP Units exclude the 2015, 2016 and 2017 MYLTIP Units. LTIP Units (including the 2012 OPP Units, the 2013 MYLTIP Units and the 2014 MYLTIP 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 Notes 8, 9 and 11).
At June 30, 2017, there was one series of Preferred Units outstanding (i.e., Series B Preferred Units). The Series B Preferred Units were issued to Boston Properties, Inc. on March 27, 2013 in connection with the 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”). Boston Properties, Inc. contributed the net proceeds from the offering to Boston Properties Limited 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).
Properties
At June 30, 2017, the Company owned or had interests in a portfolio of 175 commercial real estate properties (the “Properties”) aggregating approximately 48.4 million net rentable square feet of primarily Class A office properties, including nine properties under construction/redevelopment totaling approximately 4.7 million net rentable square feet. At June 30, 2017, the Properties consisted of:

- 164 Office properties (including six properties under construction/redevelopment);

- one hotel;
- five retail properties; and
- five residential properties (including three properties under construction).

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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.

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 Boston Properties Limited Partnership, nor does it have employees of its own. Boston Properties Limited 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 generally accepted accounting principles ("GAAP") 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 GAAP 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 GAAP. 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, 2016.

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 analysis 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. To the extent that there are outstanding borrowings under the unsecured line of credit, the Company utilizes a discounted cash flow methodology in order to estimate the fair value. To the extent that credit spreads have changed since the origination, the net present value of the difference between future contractual interest payments and future interest payments based on the Company's estimate of a current market rate would represent the difference between the book value and the fair value. The Company's estimate of a current market rate is based upon the rate, considering current market conditions and the Company's specific credit profile, at which it estimates it could obtain similar borrowings. To the extent there are outstanding borrowings, this current market rate is internally estimated and therefore would be primarily based upon a level 3 input.

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, and the Company's estimated fair values for these instruments as of the end of the applicable reporting period are not necessarily indicative of estimated or actual fair values in future reporting periods. The following table presents the

aggregate carrying value of the Company's mortgage notes payable, net, mezzanine notes payable and unsecured senior notes, net and the Company's corresponding estimate of fair value as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017		December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Mortgage notes payable, net	$2,986,283	$3,056,829	$2,063,087	$2,092,237
Mezzanine notes payable	—	—	307,093	308,344
Unsecured senior notes, net	7,250,356	7,516,131	7,245,953	7,428,077
Total	$10,236,639	$10,572,960	$9,616,133	$9,828,658

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 Accounting Standards Codification ("ASC") 820, the Company 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. 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.

Variable Interest Entities (VIEs)

Consolidated VIEs are those where the Company is considered to be the primary beneficiary of a VIE. The primary beneficiary is the entity that has a controlling financial interest in the VIE, which 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 VIE's performance and (2) the obligation to absorb losses or the right to receive the returns from the VIE that could potentially be significant to the VIE. The Company has determined that it is the primary beneficiary for seven of the eight entities that are VIEs.

Consolidated Variable Interest Entities

As of June 30, 2017, Boston Properties, Inc. has identified seven consolidated VIEs, including Boston Properties Limited Partnership. The VIEs own (1) the following five in-service properties: 767 Fifth Avenue (the General Motors Building), Times Square Tower, 601 Lexington Avenue, Atlantic Wharf Office Building and 100 Federal Street and (2) the entity that owns Salesforce Tower, which is currently under development.

The Company consolidates these VIEs because it is the primary beneficiary. The third parties' interests in these consolidated entities, with the exception of Boston Properties Limited Partnership, are reflected as noncontrolling interest in property partnerships in the accompanying Consolidated Financial Statements (See Note 8).

In addition, Boston Properties, Inc.'s significant asset is its investment in Boston Properties Limited Partnership and, consequently, substantially all of Boston Properties, Inc.'s assets and liabilities are the assets and liabilities of Boston Properties Limited Partnership. All of Boston Properties, Inc.'s debt is an obligation of Boston Properties Limited Partnership.

Variable Interest Entities Not Consolidated

The Company has determined that its BNY Tower Holdings LLC joint venture, which owns Dock 72 at the Brooklyn Navy Yard, is a VIE. The Company does not consolidate this entity because the Company does not have the power to direct the activities that, when taken together, most significantly impact the VIE's performance and, therefore, the Company is not considered to be the primary beneficiary.

Recent Accounting Pronouncements

In May 2014, the Financial Standards Accounting Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts 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

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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 ASC. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" ("ASU 2015-14"), which delayed the effective date of ASU 2014-09 by one year making it effective for the first interim period within annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"). ASU 2016-12 is intended to clarify and provide practical expedients for certain aspects of ASU 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and notes that lease contracts with customers are a scope exception. The Company may elect to adopt ASU 2016-12 as of the original effective date; however, adoption is required for annual reporting periods beginning after December 15, 2017. The Company will adopt ASU 2014-09 effective January 1, 2018 using the modified retrospective approach. The Company's project team has completed the compilation of the inventory of the sources of revenue that will be impacted by the adoption of ASU 2014-09. The Company expects that executory costs and certain non-lease components of revenue from leases (upon the adoption of ASU 2016-02), tenant service revenue, development and management services revenue, parking revenue and gains on sales of real estate may be impacted by the adoption of ASU 2014-09, although the Company anticipates that the impact will be to the pattern of revenue recognition and not the total revenue recognized over time. The Company is making progress in evaluating the significance of the impact on the changes in the recognition pattern of its revenue and is still completing its assessment of the overall impact of adopting ASU 2014-09.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes previous leasing standards. ASU 2016-02 is effective for the Company for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company has commenced the process of adopting ASU 2016-02 by forming a project team and beginning to compile an inventory of its leases that will be impacted by the adoption of ASU 2016-02. The Company is still assessing the impact of adopting ASU 2016-02. However, the Company expects that its operating leases where it is the lessor will be accounted for on its balance sheet similar to its current accounting with the underlying leased asset recognized as real estate. The Company expects that executory costs and certain other non-lease components will need to be accounted for separately from the lease component of the lease with the lease component continuing to be recognized on a straight-line basis over the lease term and the executory costs and certain other non-lease components being accounted for under the new revenue recognition guidance in ASU 2014-09. For leases in which the Company is the lessee, primarily consisting of ground leases, the Company expects to recognize a right-of-use asset and a lease liability equal to the present value of the minimum lease payments with rental payments being applied to the lease liability and to interest expense and the right-of-use asset being amortized to expense on a straight-line basis over the term of the lease. In addition, under ASU 2016-02, lessors may only capitalize incremental direct leasing costs. As a result, the Company expects that it will no longer be able to capitalize its internal leasing wages and instead will expense these costs as incurred.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 is intended to improve the accounting for share-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment awards are simplified with ASU 2016-09, including income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash

flows. ASU 2016-09 is effective for the Company for reporting periods beginning after December 15, 2016, with early adoption permitted. On January 1, 2017, the Company adopted ASU 2016-09 and elected to make an accounting policy change to its method of accounting for forfeitures on its awards of stock-based compensation including the issuance of shares of restricted common stock, LTIP Units and MYLTIP Units. The Company now accounts for forfeitures as they occur instead of estimating the number of forfeitures upon the issuance of such awards of stock-based compensation. The adoption resulted in the Company recognizing cumulative effect of a change in accounting principle adjustments to its consolidated balance sheets totaling approximately $0.3 million to Dividends in Excess of Earnings and Partners’ Capital for Boston Properties, Inc. and Boston Properties Limited Partnership, respectively, and approximately $1.8 million to noncontrolling interests - common units of Boston Properties Limited Partnership and noncontrolling interests - redeemable partnership units for Boston Properties, Inc. and Boston Properties Limited Partnership, respectively.

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In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). ASU 2017-01 clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. This update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions that have not been reported in previously issued (or available to be issued) financial statements and shall be applied on a prospective basis. The Company early adopted ASU 2017-01 during the first quarter of 2017. The Company expects that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e. land, buildings, and related intangible assets) or because the acquisition does not include a substantive process in the form of an acquired workforce or an acquired contract that cannot be replaced without significant cost, effort or delay.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets" ("ASU 2017-05"). ASU 2017-05 updates the definition of an "in substance nonfinancial asset" and clarifies the derecognition guidance for nonfinancial assets to conform with the new revenue recognition standard. The effective date and transition methods of ASU 2017-05 are aligned with ASU 2014-09 described above and are effective for the first interim period within annual reporting periods beginning after December 15, 2017. The Company is currently assessing the potential impact that the adoption of ASU 2017-05 will have on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 is intended to provide clarity and reduce (1) diversity in practice, (2) cost and (3) complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. ASU 2017-09 is effective for public entities for fiscal years and interim periods beginning after December 15, 2017. The Company is currently assessing the potential impact that the adoption of ASU 2017-09 will have on its consolidated financial statements.

3. Real Estate

Boston Properties, Inc.

Real estate consisted of the following at June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Land	$4,880,337	$4,879,020
Land held for future development (1)	250,451	246,656
Buildings and improvements	11,960,865	11,890,626
Tenant improvements	2,136,739	2,060,315
Furniture, fixtures and equipment	37,136	32,687
Construction in progress	1,348,838	1,037,959
Total	20,614,366	20,147,263
Less: Accumulated depreciation	(4,379,446)	(4,222,235)
	$16,234,920	$15,925,028

(1) Includes pre-development costs.

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Boston Properties Limited Partnership

Real estate consisted of the following at June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Land	$4,775,961	$4,774,460
Land held for future development (1)	250,451	246,656
Buildings and improvements	11,653,196	11,581,795
Tenant improvements	2,136,739	2,060,315
Furniture, fixtures and equipment	37,136	32,687
Construction in progress	1,348,838	1,037,959
Total	20,202,321	19,733,872
Less: Accumulated depreciation	(4,290,112)	(4,136,364)
	$15,912,209	$15,597,508

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(1) Includes pre-development costs.

Development

On April 6, 2017, the Company commenced the development of 145 Broadway, a build-to-suit Class A office project with approximately 485,000 net rentable square feet located in Cambridge, Massachusetts.

On May 27, 2017, the Company completed and fully placed in-service Reservoir Place North, a Class A office redevelopment project with approximately 73,000 net rentable square feet located in Waltham, Massachusetts.

Ground Lease

On June 29, 2017, the Company executed a 99-year ground lease (including extension options), with the right to purchase prior to 10 years after stabilization of the development project as defined in the lease, land adjacent to the MacArthur BART station located in Oakland, California. The Company has commenced development of a 402-unit residential building and supporting retail space on the site. The Company’s option to purchase the land, is considered a bargain purchase option and as a result, the Company has concluded that the lease should be accounted for as a capital lease. At the inception of the ground lease, the Company recorded an approximately $29.0 million capital lease asset and liability, which is reflected within Construction in Progress and Other Liabilities on the Company’s Consolidated Balance Sheets. Capital lease assets and liabilities are accounted for at the lower of fair market value or the present value of future minimum lease payments. This capital lease is for land only, therefore, the Company will not be depreciating the capital lease asset, because land is assumed to have an indefinite life.

As of June 29, 2017, future minimum lease payments related to this capital lease are as follows (in thousands):

Period from June 29, 2017 through December 31, 2017	$5
2018	10
2019	10
2020	10
2021	13
Thereafter	38,778
Total expected minimum obligations	38,826
Interest portion	(9,864)
Present value of net expected minimum payments	$28,962

Acquisitions

On May 15, 2017, the Company acquired 103 Carnegie Center located in Princeton, New Jersey for a purchase price of approximately $15.8 million in cash. 103 Carnegie Center is an approximately 96,000 net rentable square foot Class A office property. The following table summarizes the allocation of the aggregate purchase price, including transaction costs, of 103 Carnegie Center at the date of acquisition (in thousands).

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Land	$2,890
Building and improvements	11,229
Tenant improvements	871
In-place lease intangibles	2,389
Below-market lease intangible	(1,426)
Net assets acquired	$15,953

The following table summarizes the estimated annual amortization of the acquired below-market lease intangibles and the acquired in-place lease intangibles for 103 Carnegie Center for the remainder of 2017 and each of the next four succeeding fiscal years (in thousands).

	Acquired In-Place Lease Intangibles	Acquired Below-Market Lease Intangibles
Period from May 15, 2017 through December 31, 2017	$ 660	$ (248)
2018	590	(363)
2019	367	(337)
2020	243	(308)
2021	96	(105)

103 Carnegie Center contributed approximately $0.4 million of revenue and approximately $0.2 million of earnings to the Company for the period from May 15, 2017 through June 30, 2017.

Dispositions

On April 19, 2017, the Company completed the sale of an approximately 9.5-acre parcel of land at 30 Shattuck Road located in Andover, Massachusetts for a gross sale price of $5.0 million. Net cash proceeds totaled approximately $5.0 million, resulting in a gain on sale of real estate totaling approximately $3.7 million.

On June 13, 2017, the Company completed the sale of 40 Shattuck Road located in Andover, Massachusetts for a gross sale price of $12.0 million. Net cash proceeds totaled approximately $11.9 million, resulting in a gain on sale of real estate totaling approximately $28,000 for Boston Properties, Inc. and approximately $0.6 million for Boston Properties Limited Partnership. 40 Shattuck Road is an approximately 122,000 net rentable square foot Class A office property. 40 Shattuck Road contributed approximately $19,000 and $(28,000) of net income (loss) to the Company for the period from April 1, 2017 through June 13, 2017 and the period from January 1, 2017 through June 13, 2017, respectively, and contributed approximately $(93,000) and $15,000 of net income (loss) to the Company for the three and six months ended June 30, 2016, respectively.

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4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at June 30, 2017 and December 31, 2016:

Entity	Properties	Nominal % Ownership			Carrying Value of Investment (1)	
					June 30, 2017	December 31, 2016
					(in thousands)	
Square 407 Limited Partnership	Market Square North	50.0	%		$(7,490)	$(8,134)
The Metropolitan Square Associates LLC	Metropolitan Square	20.0	%		2,496	2,004
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0	%	(2)	(9,719)	(10,564)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3	%	(3)	40,704	41,605
Annapolis Junction NFM, LLC	Annapolis Junction	50.0	%	(4)	19,392	20,539
540 Madison Venture LLC	540 Madison Avenue	60.0	%		68,325	67,816
500 North Capitol Venture LLC	500 North Capitol Street, NW	30.0	%		(3,396)	(3,389)
501 K Street LLC	1001 6th Street	50.0	%	(5)	42,428	42,528
Podium Developer LLC	The Hub on Causeway	50.0	%		45,616	29,869
Residential Tower Developer LLC	The Hub on Causeway - Residential	50.0	%		23,799	20,803
Hotel Tower Developer LLC	The Hub on Causeway - Hotel	50.0	%		1,561	933
1265 Main Office JV LLC	1265 Main Street	50.0	%		4,654	4,779
BNY Tower Holdings LLC	Dock 72 at the Brooklyn Navy Yard	50.0	%	(6)	55,646	33,699
CA-Colorado Center Limited Partnership	Colorado Center	49.8	%		514,747	510,623
					$798,763	$753,111

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(1) Investments with deficit balances aggregating approximately $20.6 million and $22.1 million at June 30, 2017 and December 31, 2016, respectively, have been reflected within Other Liabilities in 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 four in-service buildings and two undeveloped land parcels.

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

(6) The entity is a VIE (See Note 2).

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. With limited exception, under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners. 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.

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

	June 30, 2017	December 31, 2016
	(in thousands)	
ASSETS		
Real estate and development in process, net	$1,599,268	$1,519,217
Other assets	315,170	297,263
Total assets	$1,914,438	$1,816,480
LIABILITIES AND MEMBERS'/PARTNERS' EQUITY		
Mortgage and notes payable, net	$863,981	$865,665
Other liabilities	81,047	67,167
Members'/Partners' equity	969,410	883,648
Total liabilities and members'/partners' equity	$1,914,438	$1,816,480
Company's share of equity	$498,789	$450,662
Basis differentials (1)	299,974	302,449
Carrying value of the Company's investments in unconsolidated joint ventures (2)	$798,763	$753,111

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(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 result from impairments of investments, acquisitions through joint ventures with no change in control 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. At June 30, 2017 and December 31, 2016, there was an aggregate basis differential of approximately $325.9 million and $328.8 million, respectively, between the carrying value of the Company's investment in the joint venture that owns Colorado Center and the joint venture's basis in the assets and liabilities, which differential (excluding land) shall be amortized over the remaining lives of the related assets and liabilities.

(2) Investments with deficit balances aggregating approximately $20.6 million and $22.1 million at June 30, 2017 and December 31, 2016, respectively, have been reflected within Other Liabilities in the Company's Consolidated Balance Sheets.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Total revenue (1)	$55,862	$38,368	$110,623	$76,037
Expenses				
Operating	22,103	16,359	44,182	33,026
Depreciation and amortization	14,224	9,204	28,533	18,268
Total expenses	36,327	25,563	72,715	51,294
Operating income	19,535	12,805	37,908	24,743
Other expense				
Interest expense	9,427	8,383	18,727	16,772
Net income	$10,108	$4,422	$19,181	$7,971
Company's share of net income	$4,344	$2,052	$8,667	$3,651 (2)
Basis differential (2)	(1,236)	182	(2,475)	374
Income from unconsolidated joint ventures	$3,108	$2,234	$6,192	$4,025

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(1)

Includes straight-line rent adjustments of approximately $4.3 million and $3.6 million for the three months ended June 30, 2017 and 2016, respectively and $11.3 million and $5.8 million for the six months ended June 30, 2017 and 2016, respectively.

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(2) Includes straight-line rent adjustments of approximately $0.8 million and $1.5 million for the three and six months ended June 30, 2017, respectively, and net above-/below-market rent adjustments of approximately $0.4 million and $0.9 million for the three and six months ended June 30, 2017, respectively.

5. Debt

Mortgage Notes Payable, Net, Mezzanine Notes Payable and Outside Members' Notes Payable

On June 7, 2017, the Company's consolidated entity in which it has a 60% ownership interest and that owns 767 Fifth Avenue (the General Motors Building) located in New York City completed the refinancing of the indebtedness that had been secured by direct and indirect interests in the property. The new mortgage financing has a principal amount of $2.3 billion, bears interest at a fixed interest rate of 3.43% per annum and matures on June 9, 2027. The loan requires monthly interest-only payments during the 10-year term of the loan, with the entire principal amount being due at maturity.

The refinanced indebtedness consisted of (1) mortgage loans payable collateralized by the property aggregating $1.3 billion, (2) mezzanine loans payable aggregating $306.0 million, (3) additional mezzanine loans payable aggregating $294.0 million and (4) member loans aggregating $450.0 million with outstanding accrued interest payable totaling approximately $425.0 million. The mortgage loans required monthly interest-only payments at a weighted-average fixed interest rate of 5.95% per annum and were scheduled to mature on October 7, 2017. The mezzanine loans required interest-only payments at a weighted-average fixed interest rate of 6.02% per annum and were scheduled to mature on October 7, 2017. In addition, a subsidiary of the consolidated entity had acquired a lender's interest in certain other mezzanine loans assumed during the acquisition of the property having an aggregate principal amount of $294.0 million and a stated interest rate of 6.02% per annum for a purchase price of approximately $263.1 million in cash. These mezzanine loans payable had been eliminated in consolidation and were canceled upon the refinancing of the indebtedness. The member loans bore interest at a fixed rate of 11.0% per annum and were scheduled to mature on June 9, 2017. A portion of the original purchase price of the property was financed with loans from the members on a pro rata basis equal to their percentage interest in the consolidated entity. The Company had eliminated in consolidation its member loan totaling $270.0 million and its share of the related accrued interest payable of approximately $255.0 million at the date of the refinancing. The remaining outside members' notes payable and related accrued interest payable totaling $180.0 million and approximately $170.0 million, respectively, at the date of the refinancing had been reflected as Outside Members' Notes Payable and within Accrued Interest Payable, respectively, on the Company's Consolidated Balance Sheets. The net proceeds from the new financing were used to repay all of the outstanding accrued interest payable on the member loans and a portion of the outstanding principal balance of the member loans totaling approximately $176.1 million. In connection with the refinancing, the members of the Company's consolidated entity contributed the remaining balance of the member notes payable totaling approximately $273.9 million (of which the Company's share of approximately $164.4 million had been eliminated in consolidation) to equity in the consolidated entity (See Note 8). There was no prepayment penalty associated with the repayments. The Company recognized a gain from early extinguishment of debt totaling approximately $14.6 million primarily consisting of the acceleration of the remaining balance related to historical fair value debt adjustments.

Credit Facility

On April 24, 2017, Boston Properties Limited Partnership amended and restated its revolving credit agreement (as amended and restated, the "2017 Credit Facility"). Among other things, the 2017 Credit Facility (1) increased the total commitment of the revolving line of credit (the "Revolving Facility") from $1.0 billion to $1.5 billion, (2) extended the maturity date from July 26, 2018 to April 24, 2022, (3) reduced the per annum variable interest rates, and (4) added a $500.0 million delayed draw term loan facility (the "Delayed Draw Facility") that permits Boston Properties Limited Partnership, until the first anniversary of the closing date, to draw upon up to four times a minimum of $50.0 million (or, if less, the unused delayed draw term commitments), provided that amounts drawn under the Delayed Draw Facility and subsequently repaid may not be borrowed again. In addition, Boston Properties Limited Partnership may increase the total commitment under the 2017 Credit Facility by up to $500.0 million through increases in the Revolving Facility or the Delayed Draw Facility, or both, subject to syndication of the increase and other conditions. At Boston Properties Limited Partnership's option, loans under the Revolving Facility and Delayed Draw Facility will bear interest at a rate per annum equal to (1) (a) in the case of loans denominated in Dollars, Euro or Sterling, LIBOR,

and (b) in the case of loans denominated in Canadian Dollars, CDOR, in each case, plus a margin ranging from 77.5 to 155 basis points for the Revolving Commitment and 85 to 175 basis points for the Delayed Draw Facility, based on Boston Properties Limited Partnership's credit rating or (2) an alternate base rate equal to the greatest of (x) the Administrative Agent's prime rate, (y) the Federal Funds rate plus 0.50% or (z) LIBOR for a one-month period plus 1.00%, in each case, plus a margin ranging from 0 to 55 basis points for the Revolving Facility and 0 to 75 basis points for the Delayed Draw Facility, based on Boston Properties Limited Partnership's credit rating. The 2017 Credit Facility also contains a competitive bid option for up to 65% of

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the Revolving Facility that allows banks that are part of the lender consortium to bid to make loan advances to Boston Properties Limited Partnership at a reduced interest rate.

In addition, Boston Properties Limited Partnership is obligated to pay (1) in quarterly installments a facility fee on the total commitment under the Revolving Facility at a rate per annum ranging from 0.10% to 0.30% based on Boston Properties Limited Partnership's credit rating, (2) an annual fee on the undrawn amount of each letter of credit equal to the LIBOR margin on the Revolving Facility and (3) a fee on the unused commitments under the Delayed Draw Facility equal to 0.15% per annum.

Based on Boston Properties Limited Partnership's current credit rating, (1) the applicable Eurocurrency margins for the Revolving Facility and Delayed Draw Facility are 87.5 basis points and 95 basis points, respectively, (2) the alternate base rate margin is 0 basis points for each of the Revolving Facility and Delayed Draw Facility and (3) the facility fee on the Revolving Facility commitment is 0.15% per annum.

The 2017 Credit Facility contains customary representations and warranties, affirmative and negative covenants and events of default provisions, including failure to pay indebtedness, breaches of covenants, and bankruptcy and other insolvency events, which could result in the acceleration of all amounts and cancellation of all commitments outstanding under the Credit Agreement. Among other covenants, the 2017 Credit Facility requires that Boston Properties Limited Partnership maintain on an ongoing basis: (1) a leverage ratio not to exceed 60%, however, the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within one year, (2) a secured debt leverage ratio not to exceed 55%, (3) a fixed charge coverage ratio of at least 1.40, (4) an unsecured debt leverage ratio not to exceed 60%, however, the unsecured debt leverage ratio may increase to no greater than 65% provided that it is reduced to 60% within one year, (5) an unsecured debt interest coverage ratio of at least 1.75 and (6) limitations on permitted investments.

6. Derivative Instruments and Hedging Activities

During the year ended December 31, 2015, Boston Properties Limited Partnership commenced a planned interest rate hedging program and entered into 17 forward-starting interest rate swap contracts that fixed the 10-year swap rate at a weighted-average rate of approximately 2.423% per annum on notional amounts aggregating $550.0 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. On August 17, 2016, in conjunction with Boston Properties Limited Partnership's offering of its 2.750% senior unsecured notes due 2026, the Company terminated the forward-starting interest rate swap contracts and cash-settled the contracts by making cash payments to the counterparties aggregating approximately $49.3 million. The Company recognized approximately $0.1 million of losses on interest rate contracts during the year ended December 31, 2016 related to the partial ineffectiveness of the interest rate contracts. The Company is reclassifying into earnings, as an increase to interest expense, approximately $49.2 million (or approximately $4.9 million per year over the 10-year term of the 2.750% senior unsecured notes due 2026) of the amounts recorded in the consolidated balance sheets within accumulated other comprehensive loss, which represents the effective portion of the applicable interest rate contracts. In addition, 767 Fifth Partners LLC, which is a subsidiary of 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 16 forward-starting interest rate swap contracts (including two contracts entered into during the six months ended June 30, 2016 with notional amounts aggregating $50.0 million) that fix the 10-year swap rate at a weighted-average rate of approximately 2.619% per annum on notional amounts aggregating $450.0 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 April 24, 2017, the consolidated entity that owns 767 Fifth Avenue (the General Motors Building) located in New York City entered into an interest rate lock and commitment agreement with a group of lenders on a ten-year financing totaling $2.3 billion at a fixed interest rate of 3.43% per annum (See Note 5). In conjunction with the interest rate lock and commitment agreement, 767 Fifth Partners LLC terminated the forward-starting interest rate swap contracts and cash-settled the contracts by making cash payments to the counterparties aggregating approximately $14.4 million. 767 Fifth Partners LLC did not record any hedge ineffectiveness. The Company is reclassifying into earnings, as an increase to interest expense, approximately $14.4 million (or approximately $1.4 million per year over the 10-year term of the financing) of the amounts recorded in the Consolidated Balance Sheets within Accumulated Other Comprehensive Loss, which

represents the effective portion of the applicable interest rate contracts.

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767 Fifth Partners LLC's interest rate swap contracts consisted of the following at December 31, 2016 (dollars in thousands):

Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	Strike Rate Range Low	High	Balance Sheet Location	Fair Value
Interest Rate Swaps	$350,000	June 7, 2017	June 7, 2027	2.418%	-2.950%	Other Liabilities	$(8,773)
Interest Rate Swaps	100,000	June 7, 2017	June 7, 2027	2.336%	-2.388%	Prepaid Expenses and Other Assets	509
	$450,000						$(8,264)

Boston Properties Limited Partnership 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. Boston Properties Limited Partnership 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. Boston Properties Limited Partnership 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 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. The Company classifies cash flows related to derivative instruments within its Consolidated Statements of Cash Flows consistent with the nature of the hedged item.

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 six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Amount of loss related to the effective portion recognized in other comprehensive loss	$(6,313)	$(32,351)	$(6,133)	$(90,997)
Amount of loss related to the effective portion subsequently reclassified to earnings	$(1,397)	$(628)	$(2,703)	$(1,255)
Amount of loss related to the ineffective portion and amount excluded from effectiveness testing	$—	$—	$—	$—

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Boston Properties, Inc.

The following table reflects the changes in accumulated other comprehensive loss for the six months ended June 30, 2017 and 2016 (in thousands):

Balance at December 31, 2016	$(52,251)
Effective portion of interest rate contracts	(6,133)
Amortization of interest rate contracts	2,703
Other comprehensive loss attributable to noncontrolling interests	2,520
Balance at June 30, 2017	$(53,161)
Balance at December 31, 2015	$(14,114)
Effective portion of interest rate contracts	(90,997)
Amortization of interest rate contracts	1,255
Other comprehensive loss attributable to noncontrolling interests	24,108
Balance at June 30, 2016	$(79,748)

Boston Properties Limited Partnership

The following table reflects the changes in accumulated other comprehensive loss for the six months ended June 30, 2017 and 2016 (in thousands):

Balance at December 31, 2016	$(60,853)
Effective portion of interest rate contracts	(6,133)
Amortization of interest rate contracts	2,703
Other comprehensive loss attributable to noncontrolling interests	2,416
Balance at June 30, 2017	$(61,867)
Balance at December 31, 2015	$(18,337)
Effective portion of interest rate contracts	(90,997)
Amortization of interest rate contracts	1,255
Other comprehensive loss attributable to noncontrolling interests	16,547
Balance at June 30, 2016	$(91,532)

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 $7.4 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. 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.

From time to time, the Company (or ventures in which the Company has an ownership interest) has agreed, and may in the future agree, to (1) guarantee portions of the principal, interest and other amounts in connection with their borrowings, (2) provide customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) in connection with their borrowings and (3) provide guarantees to lenders and other third parties for the completion of development projects. The Company has agreements with its outside partners whereby the partners agree to reimburse the joint venture for their share of any payments made under the guarantee. In some cases, the Company earns a fee from the applicable joint venture for providing the guarantee.

In connection with the refinancing 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 entity's obligation to fund various reserves for tenant improvement costs and allowances, leasing commissions and free rent obligations in lieu of cash deposits. As of June 30, 2017, the maximum funding obligation under the guarantee was approximately $263.8 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. As of June 30, 2017, no amounts related to the guarantee are recorded as liabilities in the Company's consolidated financial statements.

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 and 2015, the Company received distributions of approximately $7.7 million and $8.1 million, respectively. On July 5, 2016, the Company received a fourth interim distribution totaling approximately $1.4 million. On May 19, 2017, the Company received a fifth interim distribution totaling approximately $0.4 million, leaving a remaining claim of approximately $27.6 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 June 30, 2017.

Insurance

The Company carries insurance coverage on its properties, including those under development, of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. Certain properties owned in joint ventures with third parties are insured by the third party partner with insurance coverage of types and in amounts and with deductibles the Company 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 2017, the program trigger is $140 million and the coinsurance is 17%, 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.

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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 3% of the value of the affected property. Specifically, the Company currently carries earthquake insurance which covers its San Francisco (including Salesforce Tower) and Los Angeles regions with a $240 million (increased from $170 million on March 1, 2017) per occurrence limit, and a $240 million (increased from $170 million on March 1, 2017) annual aggregate limit, $20 million of which is provided by IXP, as a direct insurer. Prior to March 1, 2017, the builders risk policy maintained for the development of Salesforce Tower in San Francisco included 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 and Los Angeles 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, Boston Properties Limited 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 Boston Properties Limited Partnership not owned by Boston Properties, Inc. and interests in consolidated property partnerships not wholly-owned by the Company. As of June 30, 2017, the noncontrolling interests in Boston Properties Limited Partnership consisted of 16,823,685 OP Units,

816,982 LTIP Units (including 118,067 2012 OPP Units, 85,405 2013 MYLTIP Units and 25,107 2014 MYLTIP Units), 366,618 2015 MYLTIP Units, 473,360 2016 MYLTIP Units and 400,000 2017 MYLTIP Units held by parties other than Boston Properties, Inc.

Noncontrolling Interest—Common Units

During the six months ended June 30, 2017, 481,261 OP Units were presented by the holders for redemption (including 22,110 OP Units issued upon conversion of LTIP Units, 2012 OPP Units, 2013 MYLTIP Units and 2014 MYLTIP Units) and were redeemed by Boston Properties, Inc. in exchange for an equal number of shares of Common Stock.

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At June 30, 2017, Boston Properties Limited Partnership had outstanding 366,618 2015 MYLTIP Units, 473,360 2016 MYLTIP Units and 400,000 2017 MYLTIP Units. Prior to the applicable measurement date (February 4, 2018 for 2015 MYLTIP Units, February 9, 2019 for 2016 MYLTIP Units and February 6, 2020 for 2017 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 3, 2017, the measurement period for the Company's 2014 MYLTIP awards ended and, based on Boston Properties, Inc.'s relative TSR performance, the final awards were determined to be 27.7% of target or an aggregate of approximately $3.5 million (after giving effect to voluntary employee separations and the unallocated reserve). As a result, an aggregate of 447,386 2014 MYLTIP Units that had been previously granted were automatically forfeited.
The following table presents Boston Properties Limited Partnership's distributions on the OP Units and LTIP Units (including the 2012 OPP Units and 2013 MYLTIP Units and, after the February 3, 2017 measurement date, the 2014 MYLTIP Units) and its distributions on the 2014 MYLTIP Units (prior to the February 3, 2017 measurement date), 2015 MYLTIP Units, 2016 MYLTIP Units and 2017 MYLTIP Units (after the February 7, 2017 issuance date) paid in 2017:

Record Date	Payment Date	Distributions per OP Unit and LTIP Unit	Distributions per MYLTIP Unit
June 30, 2017	July 31, 2017	$0.75	$0.075
March 31, 2017	April 28, 2017	$0.75	$0.075
December 31, 2016	January 30, 2017	$0.75	$0.075

A holder of an OP Unit may present the OP Unit to Boston Properties Limited 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, Boston Properties Limited Partnership must redeem the OP Unit for cash equal to the then value of a share of common stock of Boston Properties, Inc. Boston Properties, Inc. 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 Boston Properties, Inc. and LTIP Units (including the 2012 OPP Units, 2013 MYLTIP Units and 2014 MYLTIP Units), assuming that all conditions had been met for the conversion thereof, had all of such units been redeemed at June 30, 2017 was approximately $2.2 billion based on the last reported price of a share of Common Stock on the New York Stock Exchange of $123.02 per share on June 30, 2017.

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Boston Properties Limited Partnership

The following table reflects the activity of noncontrolling interests—redeemable partnership units of Boston Properties Limited Partnership for the six months ended June 30, 2017 and 2016 (in thousands):

Balance at December 31, 2016	$2,262,040
Contributions	31,532
Net income	26,933
Distributions	(26,977)
Conversion of redeemable partnership units	(16,422)
Unearned compensation	(12,344)
Cumulative effect of a change in accounting principle	(1,763)
Accumulated other comprehensive loss	(104)
Adjustment to reflect redeemable partnership units at redemption value	(92,740)
Balance at June 30, 2017	$2,170,155

Balance at December 31, 2015	$2,286,689
Contributions	31,494
Net income	32,771
Distributions	(23,713)
Conversion of redeemable partnership units	(2,664)
Unearned compensation	(16,617)
Accumulated other comprehensive loss	(7,561)
Adjustment to reflect redeemable partnership units at redemption value	86,626
Balance at June 30, 2016	$2,387,025

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 $1.7 billion at June 30, 2017 and $1.5 billion at December 31, 2016, are included in Noncontrolling Interests—Property Partnerships in the accompanying Consolidated Balance Sheets.

On May 12, 2016, the partners in the Company’s consolidated entity that owns Salesforce Tower located in San Francisco, California amended the venture agreement. Under the venture agreement, if the Company elects to fund the construction of Salesforce Tower without a construction loan (or a construction loan of less than 50% of project costs) and the venture has commenced vertical construction of the project, then the partner’s capital funding obligation shall be limited, in which event the Company shall fund up to 2.5% of the total project costs (i.e., 50% of the partner’s 5% interest in the venture) in the form of a loan to the partner. This loan would bear interest at the then prevailing market interest rates for construction loans. Under the amended agreement, the partners have agreed to structure this funding by the Company as preferred equity rather than a loan. The preferred equity contributed by the Company shall earn a preferred return equal to LIBOR plus 3.00% per annum and shall be payable to the Company out of any distributions to which the partner would otherwise be entitled until such preferred equity and preferred return have been repaid to the Company. As of June 30, 2017, the Company had contributed an aggregate of approximately $13.5 million of preferred equity to the venture.

On June 6, 2017, in conjunction with the refinancing of the indebtedness of the Company’s consolidated entity in which it has a 60% interest and that owns 767 Fifth Avenue (the General Motors Building) located in New York City, the members of the consolidated entity amended the limited liability company agreement to provide for the contribution of the remaining unpaid principal balance of the members’ notes payable totaling approximately $273.9 million (of which the Company’s share of approximately $164.4 million is eliminated in consolidation) to equity in the consolidated entity, resulting in an increase of approximately $109.6 million to Noncontrolling Interests in Property Partnerships on the Company’s Consolidated Balance Sheets (See Note 5). There were no changes to the ownership interests or rights of the members as a result of the amendment.

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The following table reflects the activity of the noncontrolling interests in property partnerships for the six months ended June 30, 2017 and 2016 (in thousands):

Balance at December 31, 2016	$1,530,647
Capital contributions (1)	133,072
Net income	19,627
Accumulated other comprehensive loss	(2,416)
Distributions	(26,949)
Balance at June 30, 2017	$1,653,981
Balance at December 31, 2015	$1,574,400
Capital contributions	3,720
Net income	17,278
Accumulated other comprehensive loss	(16,547)
Distributions	(25,914)
Balance at June 30, 2016	$1,552,937

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(1) Includes the contribution of the remaining unpaid principal balance of the members' notes payable totaling $109,576 to equity in the consolidated entity that owns 767 Fifth Avenue (the General Motors Building).

9. Stockholders' Equity / Partners' Capital

As of June 30, 2017, Boston Properties, Inc. had 154,307,529 shares of Common Stock outstanding.

As of June 30, 2017, Boston Properties, Inc. owned 1,719,482 general partnership units and 152,588,047 limited partnership units of Boston Properties Limited Partnership.

On June 2, 2017, Boston Properties, Inc. renewed its "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. This program replaces the Company's prior $600.0 million ATM stock offering program that was scheduled to expire on June 3, 2017. 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.

During the six months ended June 30, 2017, Boston Properties, Inc. issued 481,261 shares of Common Stock in connection with the redemption of an equal number of redeemable OP Units from third parties.

The following table presents Boston Properties, Inc.'s dividends per share and Boston Properties Limited Partnership's distributions per OP Unit and LTIP Unit paid in 2017:

Record Date	Payment Date	Dividend (Per Share)	Distribution (Per Unit)
June 30, 2017	July 31, 2017	$0.75	$0.75
March 31, 2017	April 28, 2017	$0.75	$0.75
December 31, 2016	January 30, 2017	$0.75	$0.75

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Preferred Stock

As of June 30, 2017, Boston Properties, Inc. 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). Boston Properties, Inc. 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. Boston Properties, Inc. may not redeem the Series B Preferred Stock prior to March 27, 2018, except in certain circumstances relating to the preservation of Boston Properties, Inc.'s REIT status. On or after March 27, 2018, Boston Properties, Inc., 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 Boston Properties, Inc. or its affiliates.

The following table presents Boston Properties Inc.'s dividends per share on its outstanding Series B Preferred Stock paid during 2017:

Record Date	Payment Date	Dividend (Per Share)
August 4, 2017	August 15, 2017	$32.8125
May 5, 2017	May 15, 2017	$32.8125
February 3, 2017	February 15, 2017	$32.8125

10. Earnings Per Share / Common Unit

Boston Properties, Inc.

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, 2013 MYLTIP Units and 2014 MYLTIP Units required, and the 2015-2017 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 Boston Properties Limited Partnership that are exchangeable for the Boston Properties, Inc.'s Common Stock, and the related impact on earnings, are considered when calculating diluted EPS.

	Three Months Ended June 30, 2017		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 133,709	154,177	$ 0.87
Allocation of undistributed earnings to participating securities	(43)	—	—
Net income attributable to Boston Properties, Inc. common shareholders	$ 133,666	154,177	$ 0.87
Effect of Dilutive Securities:			
Stock Based Compensation	—	154	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 133,666	154,331	$ 0.87

	Three Months Ended June 30, 2016		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 96,597	153,662	$ 0.63
Effect of Dilutive Securities:			
Stock Based Compensation	—	198	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 96,597	153,860	$ 0.63

	Six Months Ended June 30, 2017		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 230,764	154,019	$ 1.50
Allocation of undistributed earnings to participating securities	(9)	—	—
Net income attributable to Boston Properties, Inc. common shareholders	$ 230,755	154,019	$ 1.50
Effect of Dilutive Securities:			
Stock Based Compensation	—	254	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 230,755	154,273	$ 1.50

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	Six Months Ended June 30, 2016		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 278,323	153,644	$ 1.81
Allocation of undistributed earnings to participating securities	(241)	—	—
Net income attributable to Boston Properties, Inc. common shareholders	$ 278,082	153,644	$ 1.81
Effect of Dilutive Securities:			
Stock Based Compensation	—	245	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	$ 278,082	153,889	$ 1.81

Boston Properties Limited Partnership

The following table provides a reconciliation of both the net income attributable to Boston Properties Limited Partnership common unitholders and the number of common units used in the computation of basic earnings per common unit, which is calculated by dividing net income attributable to Boston Properties Limited Partnership common unitholders by the weighted-average number of common units 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 Boston Properties, Inc. and Boston Properties Limited Partnership's LTIP Units, 2012 OPP Units and MYLTIP Units are considered participating securities. Participating securities are included in the computation of basic earnings per common unit using the two-class method. Participating securities are included in the computation of diluted earnings per common unit using the if-converted method if the impact is dilutive. Because the 2012 OPP Units, 2013 MYLTIP Units and 2014 MYLTIP Units required, and the 2015-2017 MYLTIP Units require, Boston Properties, Inc. to outperform absolute and relative return thresholds, unless such thresholds have been met by the end of the applicable reporting period, Boston Properties Limited Partnership excludes such units from the diluted earnings per common unit calculation. Other potentially dilutive common units and the related impact on earnings are considered when calculating diluted earnings per common unit. Included in the number of units (the denominator) below are approximately 17,498,000 and 17,708,000 redeemable common units for the three months ended June 30, 2017 and 2016, respectively, and 17,609,000 and 17,695,000 redeemable common units for the six months ended June 30, 2017 and 2016, respectively.

	Three Months Ended June 30, 2017		
	Income (Numerator)	Units (Denominator)	Per Unit Amount
	(in thousands, except for per unit amounts)		
Basic Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 151,844	171,675	$ 0.88
Allocation of undistributed earnings to participating securities	(48)	—	—
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 151,796	171,675	$ 0.88
Effect of Dilutive Securities:			
Stock Based Compensation	—	154	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 151,796	171,829	$ 0.88

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	Three Months Ended June 30, 2016		
	Income (Numerator)	Units (Denominator)	Per Unit Amount
	(in thousands, except for per unit amounts)		
Basic Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 109,938	171,370	$ 0.64
Effect of Dilutive Securities:			
Stock Based Compensation	—	198	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 109,938	171,568	$ 0.64

	Six Months Ended June 30, 2017		
	Income (Numerator)	Units (Denominator)	Per Unit Amount
	(in thousands, except for per unit amounts)		
Basic Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 262,506	171,628	$ 1.53
Allocation of undistributed earnings to participating securities	(10)	—	—
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 262,496	171,628	$ 1.53
Effect of Dilutive Securities:			
Stock Based Compensation	—	254	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 262,496	171,882	$ 1.53

	Six Months Ended June 30, 2016		
	Income (Numerator)	Units (Denominator)	Per Unit Amount
	(in thousands, except for per unit amounts)		
Basic Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 317,234	171,339	$ 1.85
Allocation of undistributed earnings to participating securities	(269)	—	—
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 316,965	171,339	$ 1.85
Effect of Dilutive Securities:			
Stock Based Compensation	—	245	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	$ 316,965	171,584	$ 1.85

11. Stock Option and Incentive Plan

On January 25, 2017, Boston Properties, Inc.’s Compensation Committee approved the 2017 MYLTIP awards under Boston Properties, Inc.’s 2012 Stock Option and Incentive Plan (the “2012 Plan”) to certain officers and employees of Boston Properties, Inc. The 2017 MYLTIP awards utilize Boston Properties, Inc.’s total stockholder return (“TSR”) over

a three-year measurement period, on an annualized, compounded basis, as the performance metric. Earned awards will be based on Boston

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Properties, Inc.'s TSR relative to (i) the Cohen & Steers Realty Majors Portfolio Index (50% weight) and (ii) the NAREIT Office Index adjusted to include Vornado Realty Trust (50% weight). Earned awards will range from zero to a maximum of approximately $42.7 million depending on Boston Properties, Inc.'s TSR relative to the two indices, with four tiers (threshold: approximately $10.7 million; target: approximately $21.3 million; high: approximately $32.0 million; exceptional: approximately $42.7 million) and linear interpolation between tiers. Earned awards measured on the basis of relative TSR performance are subject to an absolute TSR component in the form of relatively simple modifiers that (A) reduce the level of earned awards in the event Boston Properties, Inc.'s annualized TSR is less than 0% and (B) cause some awards to be earned in the event Boston Properties, Inc.'s annualized TSR is more than 12% even though on a relative basis alone Boston Properties, Inc.'s TSR would not result in any earned awards. Earned awards (if any) will vest 50% on February 6, 2020 and 50% on February 6, 2021, based on continued employment. Vesting will be accelerated in the event of a change in control, termination of employment by Boston Properties, Inc. 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 6, 2020, earned awards will be calculated based on TSR performance up to the date of the change of control. The 2017 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 common partnership units and no special distributions.

Under ASC 718, the 2017 MYLTIP awards have an aggregate value of approximately $17.7 million, which amount will generally be amortized into earnings over the four-year plan period under the graded vesting method.

On February 3, 2017, the measurement period for the Company's 2014 MYLTIP awards ended and, based on Boston Properties, Inc.'s relative TSR performance, the final awards were determined to be 27.7% of target or an aggregate of approximately $3.5 million (after giving effect to voluntary employee separations and the unallocated reserve). As a result, an aggregate of 447,386 2014 MYLTIP Units that had been previously granted were automatically forfeited.

During the six months ended June 30, 2017, Boston Properties, Inc. issued 37,414 shares of restricted common stock and Boston Properties Limited Partnership issued 111,488 LTIP Units and 400,000 2017 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 2017 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 and the closing price of Boston Properties, Inc.'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 six months ended June 30, 2017 were valued at approximately $4.9 million ($130.32 per share weighted-average). The LTIP Units granted were valued at approximately $13.3 million (approximately $119.52 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 2.14% and an expected price volatility of 28.0%. As the 2012 OPP Units, 2013 MYLTIP Units, 2014 MYLTIP Units, 2015 MYLTIP Units, 2016 MYLTIP Units and 2017 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, 2015 MYLTIP Units, 2016 MYLTIP Units and 2017 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. The Company recognizes forfeitures as they occur on its awards of stock-based compensation (See Note 2). Dividends paid on both vested and unvested shares of restricted stock are charged directly to Dividends in Excess of Earnings in Boston Properties, Inc.'s Consolidated Balance Sheets and Partners' Capital in Boston Properties Limited Partnership's 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, 2015 MYLTIP Units, 2016 MYLTIP Units and 2017 MYLTIP Units was approximately $7.9 million and $7.1 million for the three months ended June 30, 2017 and 2016, respectively, and $18.1 million and $16.5 million for the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, there was $26.8 million of unrecognized compensation expense related to unvested restricted stock, LTIP Units, 2013 MYLTIP Units and 2014 MYLTIP Units and $28.5 million of unrecognized compensation expense related to unvested 2015 MYLTIP Units, 2016 MYLTIP Units and 2017 MYLTIP Units that is expected to be recognized over a weighted-average period of approximately 2.7 years.

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12. Segment Information

The following tables present reconciliations of Net Income Attributable to Boston Properties, Inc. Common Shareholders to Net Operating Income and Net Income Attributable to Boston Properties Limited Partnership Common Unitholders to Net Operating Income for the three and six months ended June 30, 2017 and 2016.

Boston Properties, Inc.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income attributable to Boston Properties, Inc. common shareholders	$133,709	$96,597	$230,764	$278,323
Add:				
Preferred dividends	2,625	2,589	5,250	5,207
Noncontrolling interest—common units of Boston Properties Limited Partnership	15,473	11,357	26,933	32,771
Noncontrolling interests in property partnerships	15,203	6,814	19,627	17,278
Interest expense	95,143	105,003	190,677	210,312
Depreciation and amortization expense	151,919	153,175	311,124	312,623
Transaction costs	299	913	333	938
General and administrative expense	27,141	25,418	58,527	54,771
Less:				
Gains on sales of real estate	3,767	—	3,900	67,623
Gains from early extinguishments of debt	14,354	—	14,354	—
Gains from investments in securities	730	478	1,772	737
Interest and other income	1,504	1,524	2,118	3,029
Income from unconsolidated joint ventures	3,108	2,234	6,192	4,025
Development and management services revenue	7,365	5,533	13,837	12,222
Net Operating Income	$410,684	$392,097	$801,062	$824,587

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Boston Properties Limited Partnership

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income attributable to Boston Properties Limited Partnership common unitholders	$151,844	$109,938	$262,506	$317,234
Add:				
Preferred distributions	2,625	2,589	5,250	5,207
Noncontrolling interests in property partnerships	15,203	6,814	19,627	17,278
Interest expense	95,143	105,003	190,677	210,312
Depreciation and amortization expense	149,834	151,191	306,892	308,652
Transaction costs	299	913	333	938
General and administrative expense	27,141	25,418	58,527	54,771
Less:				
Gains on sales of real estate	4,344	—	4,477	69,792
Gains from early extinguishments of debt	14,354	—	14,354	—
Gains from investments in securities	730	478	1,772	737
Interest and other income	1,504	1,524	2,118	3,029
Income from unconsolidated joint ventures	3,108	2,234	6,192	4,025
Development and management services revenue	7,365	5,533	13,837	12,222
Net Operating Income	$410,684	$392,097	$801,062	$824,587

Net operating income (“NOI”) is a non-GAAP financial measure equal to net income attributable to Boston Properties, Inc. common shareholders and net income attributable to Boston Properties Limited Partnership common unitholders, the most directly comparable GAAP financial measures, plus (1) preferred dividends/distributions, noncontrolling interests, interest expense, depreciation and amortization expense, transaction costs and general and administrative expense less (2) gains on sales of real estate, gains from early extinguishments of debt, gains from investments in securities, interest and other income, income from unconsolidated joint ventures and development and management services revenue. The Company believes NOI is useful to investors as a performance measure and believes it provides useful information to investors regarding its financial condition and results of operations because, when compared across periods, it reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspective not immediately apparent from net income attributable to Boston Properties, Inc. common shareholders or net income attributable to Boston Properties Limited Partnership common unitholders. 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. Similarly, interest expense may be incurred at the property level even though the financing proceeds may be used at the corporate level (e.g., for other investment activity). In addition, because of historical cost accounting and useful life estimates, depreciation and amortization may distort operating performance measures at the property level. NOI presented by the Company may not be comparable to NOI reported by other REITs or real estate companies that define NOI differently.

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. Preferred dividends/distributions, noncontrolling interests, gains on sales of real estate, interest expense, gains from early extinguishments of debt, gains from investments in securities, interest and other income, income from unconsolidated joint ventures, depreciation and amortization expense, transaction costs, general and administrative expenses and development and management services revenue are not included in Net Operating Income as internal reporting addresses these items on a corporate level.

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: Office, Residential and Hotel.

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

For the three months ended June 30, 2017:

	Boston	New York	San Francisco	Washington, DC	Total
Rental Revenue:					
Office	$191,760	$251,844	$85,483	$102,870	$631,957
Residential	1,153	—	—	3,057	4,210
Hotel	13,375	—	—	—	13,375
Total	206,288	251,844	85,483	105,927	649,542
% of Grand Totals	31.76 %	38.77 %	13.16 %	16.31 %	100.00 %
Rental Expenses:					
Office	74,160	93,110	25,938	35,611	228,819
Residential	545	—	—	1,090	1,635
Hotel	8,404	—	—	—	8,404
Total	83,109	93,110	25,938	36,701	238,858
% of Grand Totals	34.79 %	38.98 %	10.86 %	15.37 %	100.00 %
Net operating income	$123,179	$158,734	$59,545	$69,226	$410,684
% of Grand Totals	29.99 %	38.65 %	14.50 %	16.86 %	100.00 %

For the three months ended June 30, 2016:

	Boston	New York	San Francisco	Washington, DC	Total
Rental Revenue:					
Office	$179,048	$243,957	$78,524	$99,588	$601,117
Residential	1,180	—	—	2,908	4,088
Hotel	12,808	—	—	—	12,808
Total	193,036	243,957	78,524	102,496	618,013
% of Grand Totals	31.24 %	39.47 %	12.71 %	16.58 %	100.00 %
Rental Expenses:					
Office	68,754	88,749	25,470	33,359	216,332
Residential	513	—	—	1,093	1,606
Hotel	7,978	—	—	—	7,978
Total	77,245	88,749	25,470	34,452	225,916
% of Grand Totals	34.19 %	39.29 %	11.27 %	15.25 %	100.00 %
Net operating income	$115,791	$155,208	$53,054	$68,044	$392,097
% of Grand Totals	29.53 %	39.59 %	13.53 %	17.35 %	100.00 %

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For the six months ended June 30, 2017:

	Boston	New York	San Francisco	Washington, DC	Total
Rental Revenue:					
Office	$377,196	$493,414	$170,124	$205,603	$1,246,337
Residential	2,292	—	—	5,874	8,166
Hotel	20,795	—	—	—	20,795
Total	400,283	493,414	170,124	211,477	1,275,298
% of Grand Totals	31.39 %	38.69 %	13.34 %	16.58 %	100.00 %
Rental Expenses:					
Office	149,416	184,794	50,412	70,933	455,555
Residential	1,040	—	—	2,146	3,186
Hotel	15,495	—	—	—	15,495
Total	165,951	184,794	50,412	73,079	474,236
% of Grand Totals	34.99 %	38.97 %	10.63 %	15.41 %	100.00 %
Net operating income	$234,332	$308,620	$119,712	$138,398	$801,062
% of Grand Totals	29.25 %	38.53 %	14.94 %	17.28 %	100.00 %

For the six months ended June 30, 2016:

	Boston	New York	San Francisco	Washington, DC	Total
Rental Revenue:					
Office	$356,875	$535,815	$154,841	$200,076	$1,247,607
Residential	2,351	—	—	5,786	8,137
Hotel	21,565	—	—	—	21,565
Total	380,791	535,815	154,841	205,862	1,277,309
% of Grand Totals	29.81 %	41.95 %	12.12 %	16.12 %	100.00 %
Rental Expenses:					
Office	139,441	177,547	49,375	67,541	433,904
Residential	1,033	—	—	2,173	3,206
Hotel	15,612	—	—	—	15,612
Total	156,086	177,547	49,375	69,714	452,722
% of Grand Totals	34.47 %	39.22 %	10.91 %	15.40 %	100.00 %
Net operating income	$224,705	$358,268	$105,466	$136,148	$824,587
% of Grand Totals	27.25 %	43.45 %	12.79 %	16.51 %	100.00 %

13. Subsequent Events

On July 26, 2017, a joint venture between the Company and The Bernstein Companies entered into a build-to-suit lease agreement with an affiliate of Marriott International, Inc. under which Marriott will lease 100% of an approximately 720,000 square foot office building and below-grade parking garage to be constructed by the joint venture at 7750 Wisconsin Avenue in Bethesda, Maryland. The joint venture will lease the office building to Marriott for 20 years on a net basis and will serve as Marriott's world-wide headquarters. The Company and The Bernstein Companies will each own a 50% interest in the joint venture. The Company will serve as development manager for the venture and expects to commence construction in 2018. Marriott has agreed to fund 100% of the related tenant improvement costs and leasing commissions for the office building.

On July 28, 2017, a joint venture in which the Company has a 50% interest obtained mortgage financing collateralized by its Colorado Center property totaling $550.0 million. The mortgage financing bears interest at a fixed rate of 3.56% per annum and matures on August 9, 2027. The loan requires interest-only payments during the 10-year term of the loan, with the entire principal amount due at maturity. Colorado Center is a six-building office complex that sits on a 15-acre site and contains an

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aggregate of approximately 1,184,000 net rentable square feet with an underground parking garage for 3,100 vehicles located in Santa Monica, California.

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ITEM 2—Management's Discussion and Analysis of Financial Condition and Results of Operations
The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.
These Quarterly Reports 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," "budget," "estimate," "expect," "intend," "may," "might," "plan," "project," "sh 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, without limitation, 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;
- 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;
- volatile or adverse global economic and political conditions, and dislocations in the credit markets, could adversely affect our business opportunities, results of operations and financial condition;
- 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 and/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;

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- 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 BXP's 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 Reports 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 we 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 Reports 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.

Overview

BXP is a fully integrated, self-administered and self-managed REIT and one of the largest owners, managers and developers of primarily Class A office properties in the United States. BPLP is the entity through which BXP conducts substantially all of its business and owns (either directly or through subsidiaries) substantially all of its assets. Our properties are concentrated in five markets - Boston, Los Angeles, 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, current and anticipated vacancy, current and anticipated future demand for office space and general economic factors.

Our core strategy has always been to develop, acquire and operate 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.

Outlook

Economic growth in the United States continues to be tepid yet consistent with approximately 209,000 non-farm jobs created in July 2017 resulting in a slight dip in the unemployment rate to 4.3%. The Federal Reserve has increased interest rates three times since December 2016 with indications of more increases to come, yet interest rates remain relatively low. Given the pace of GDP growth, low inflation and the uncertainty associated with Federal Reserve fiscal

policy and tax reform, we do not expect a sharp increase in long-term interest rates and expect reasonably healthy operating and financial market conditions to continue.

In this economic climate, we continue to focus on (1) ensuring tenant satisfaction throughout our portfolio; (2) leasing available space in our in-service and development properties, as well as focusing on future large lease expirations; (3) completing the construction of our properties under development and redevelopment; (4) redeveloping and repositioning several key properties to increase future revenues and asset values over the long-term, despite the adverse impact on near-term

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revenue; (5) maintaining discipline in our underwriting of investment opportunities by (x) seeking pre-leasing commitments to begin new construction and (y) targeting acquisition activity in non-stabilized assets near innovation centers where we see the strongest prospects for overall growth and our operational expertise can create value; and (6) maintaining our conservative balance sheet by managing our near-term debt maturities.

During the second quarter of 2017, we signed leases across our portfolio totaling approximately 927,000 square feet. In addition, during July 2017, we signed additional leases totaling approximately 1.4 million square feet, bringing our total leasing since January 1, 2017 to approximately 2.9 million square feet. We commenced revenue recognition on approximately 1.3 million square feet of leases in second generation space in the second quarter. Of these second generation leases, approximately 1.0 million square feet had been vacant for less than one year and provides an average increase in net rental obligation of approximately 28%, demonstrating the strong internal growth opportunities embedded in our portfolio. Across our portfolio we are experiencing increases in construction costs, which result in increased tenant allowances and costs to build out tenant spaces. The overall occupancy of our in-service properties increased to 90.8% at June 30, 2017 from 90.4% at March 31, 2017 due mainly to leasing transactions at our Boston Central Business District ("CBD") properties, 601 Lexington Avenue in New York and our suburban Washington, DC properties.

Our investment strategy remains largely unchanged. Other than possible acquisitions of value-add assets, such as those requiring lease-up or repositioning like Colorado Center in Santa Monica, California, we intend to continue to invest primarily in higher yielding new developments with significant pre-leasing commitments and redevelopment opportunities rather than lower yielding acquisitions of stabilized assets for which demand and pricing remains strong.

Our development activity remains attractive and vibrant. During the second quarter, we commenced development on two new projects, and in July 2017 we signed a commitment for a third. First, we started the development of 145 Broadway, a 485,000 net rentable square foot Class A office property, including approximately 9,500 net rentable square feet of retail space located in Cambridge, Massachusetts. The office space is 100% pre-leased to an expanding existing tenant and we expect the building will be available for occupancy during the fourth quarter of 2019. Second, on June 29, 2017, we executed a ground lease, with a future right to purchase, a land parcel adjacent to the MacArthur BART station located in Oakland, California, that will support the development of a 402-unit residential building and ancillary retail space. Finally, after the end of the second quarter, a joint venture in which we and The Bernstein Companies will each own a 50% interest, entered into a build-to-suit lease agreement with Marriott International, Inc. under which Marriott will lease 100% of an approximately 720,000 square foot office building and below-grade parking garage to be constructed by the joint venture at 7750 Wisconsin Avenue in Bethesda, Maryland. The office building will be leased to Marriott for 20 years on a net basis and will serve as Marriott's world-wide headquarters. We will serve as the development manager for the joint venture and expect to begin construction in 2018.

As of June 30, 2017, our development pipeline consists of nine development/redevelopment projects representing approximately 4.7 million net rentable square feet and our share of the estimated total investment of approximately $2.9 billion, of which approximately $1.3 billion of equity remained to be invested as of June 30, 2017. As of August 3, 2017, approximately 66% of the commercial space in these development projects is pre-leased. In addition, we have begun the repositioning of several of our properties, including 399 Park Avenue and the retail and plaza at 767 Fifth Avenue (the General Motors Building) in New York City, 100 Federal Street in Boston, Massachusetts, and Metropolitan Square in Washington, DC. We expect these projects will require significant capital expenditures and, in some cases, necessitate that space is vacated for an extended period of time.

Since the beginning of the second quarter, we enhanced our liquidity and mitigated interest rate risk on our 2017 loan maturities with commitments for an aggregate of $4.3 billion of debt funding. First, on April 24, 2017 we amended and restated our unsecured line of credit (as amended and restated, the "2017 Credit Facility") to, among other things: (1) increase the total commitment of the revolving line of credit (the "Revolving Facility") from $1.0 billion to $1.5 billion, (2) extend the maturity date from July 26, 2018 to April 24, 2022, (3) reduce the per annum variable interest rates, and (4) add a $500.0 million delayed draw term loan facility (the "Delayed Draw Facility") that allows us to delay drawing funds for up to one year from the closing date. Second, on June 7, 2017 the consolidated joint venture entity in which we have a 60% interest and which owns 767 Fifth Avenue (the General Motors Building) located in New York City completed the refinancing of indebtedness totaling $1.6 billion that had been secured by direct and indirect

interests in the property. The new mortgage financing has a principal amount of $2.3 billion, bears interest at a fixed rate of 3.43% per annum and matures on June 9, 2027.
In addition, on July 28, 2017, Colorado Center, a joint venture in which we own a 50% interest, obtained mortgage financing totaling $550.0 million. The mortgage bears interest at a rate of 3.56% and matures on August 9, 2027. The venture distributed proceeds of $251.0 million to each partner.

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Given the relatively low interest rates currently available to us in the debt markets, we may elect to supplement our liquidity position to provide additional capacity to fund our remaining capital requirements for existing development and redevelopment projects and pursue attractive additional investment opportunities. Depending on the type and timing of financing, raising capital may result in us carrying additional cash and cash equivalents pending our use of the proceeds.

The same factors that create challenges to acquiring assets present opportunities for us to continue to review our portfolio to identify properties that may no longer fit within our portfolio strategy or could attract premium pricing in the current market environment as potential sales candidates. We expect to sell a modest number of non-core assets in 2017, subject to market conditions.

A brief overview of each of our markets follows.

Boston

The greater Boston region continues to attract life science and established technology companies, as well as start-up technology and maker organizations. The Boston CBD submarket continues to be driven by lease expirations from traditional financial and professional services tenants and a steady flow of new technology companies moving into the CBD. We made significant progress leasing the vacant space at our 200 Clarendon Street property by signing approximately 134,000 square feet of leases since the first quarter, and we have approximately 54,000 square feet of leases under negotiation. Excluding 200 Clarendon Street, our CBD portfolio is 97% leased. Our most active leasing opportunity is at the first phase of our Hub on Causeway development project with approximately 220,000 square feet that is not yet leased. We expect to complete the development of this phase of the project in 2019.

The Cambridge office market continues to be very tight and expensive overall, in certain cases, forcing tenants to consider alternate locations, like our Hub on Causeway project. Our 1.6 million square foot in-service office portfolio in Cambridge is dominated by large users and is 100% occupied.

Our suburban Waltham/Lexington submarket continues to strengthen due to the organic growth of our existing tenant base and other tenants in the market looking for space to accommodate their expanding workforces. At our recently redeveloped Reservoir Place North property in Waltham, Massachusetts, we are in discussions with a tenant to lease 100% of this approximately 73,000 square foot building.

Los Angeles

During the second quarter, we completed a lease expansion with an existing tenant at our Colorado Center joint venture asset in Santa Monica, California for approximately 63,000 square feet, which brings the percentage committed from 65.5% at acquisition on July 1, 2016 to approximately 93% as of June 30, 2017. We have proposals ongoing for the remaining space, but we believe that overall leasing activity for larger spaces has moderated. In our first year of ownership, our approach to property management, leasing and commitment to invest capital has transformed this once under-leased asset into a top-tier property in the marketplace. As a direct result of our operational success, on July 28, 2017, we placed a $550.0 million, 10-year mortgage on this previously unencumbered asset. We continue to execute on our repositioning plans and are currently working with local permitting authorities to commence construction on an amenities enhancement project in late 2017.

We are committed to growing our presence and portfolio in the Los Angeles market and expect to continue to underwrite investment opportunities in this market while maintaining our disciplined investment approach.

New York

Our overall expectations for the midtown Manhattan office market and the leasing activity in our portfolio have been generally consistent with recent quarters. New supply continues to come into the market in the form of new deliveries and large lease expirations. As a result, tenants have increasing options and therefore we are not anticipating significant growth in office rents in the near-term and we are witnessing higher tenant concessions. However, we are encouraged, in the second quarter, by an increase in relocations of tenants to high-end space at rental rates in excess of $100 per square foot. Our New York City portfolio remains well leased at 92.9% with 6% rollover throughout the remainder of 2017.

In July 2017, we completed an important lease renewal with Aramis (Estee Lauder) at 767 Fifth Avenue (the General Motors Building). They are currently a 295,000 square foot tenant and have committed to a minimum of 220,000 square feet with a right to expand. This transaction limits the available space for the next several years.

Our largest lease expiration exposure will occur in the third quarter 2017 with approximately 286,000 square feet of expirations at 399 Park Avenue. We have good activity on this space with tours and proposals with revenue from replacement tenants expected to begin in 2019.

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San Francisco

The San Francisco CBD leasing market remains healthy and among the strongest markets in the United States. We continue to benefit from this strength as evidenced by the approximately 226,000 square feet of second generation leases that commenced during the second quarter of 2017, which have been vacant for less than one year and provide an average increase in net rental obligation of approximately 61.0%.

Our near-term leasing focus remains on the lease up of Salesforce Tower, for which we signed leases totaling approximately 174,000 square feet in the second quarter of 2017. As of August 3, 2017, Salesforce Tower is 82% leased. We are in lease negotiations for another five floors totaling approximately 116,000 square feet which, if signed, would bring the project to approximately 90% leased and tour activity remains active. We expect the first tenants to occupy this building in the first quarter of 2018.

Washington, DC

Overall market conditions in the Washington CBD have not changed in any meaningful way over the past few quarters. Leasing activity remains very competitive primarily because there has been no significant increase in demand. Outside of the district, our Reston Town Center properties are approximately 96.7% leased and leasing activity is healthy for our available and near-term expiring space.

The table below details the leasing activity during the three and six months ended June 30, 2017:

	Three months ended June 30, 2017	Six months ended June 30, 2017
	(Square Feet)	
Vacant space available at the beginning of the period	4,110,657	4,196,275
Property dispositions/properties taken out of service	(115,289)	(115,289)
Properties acquired vacant space	15,944	15,944
Properties placed in-service	73,258	82,738
Leases expiring or terminated during the period	1,261,949	2,105,596
Total space available for lease	5,346,519	6,285,264
1st generation leases	53,588	77,453
2nd generation leases with new tenants	816,044	1,440,469
2nd generation lease renewals	524,556	815,011
Total space leased (1)	1,394,188	2,332,933
Vacant space available for lease at the end of the period	3,952,331	3,952,331
Leases executed during the period, in square feet (2)	927,257	1,492,445
Second generation leasing information: (3)		
Leases commencing during the period, in square feet	1,340,600	2,255,480
Weighted Average Lease Term	103 Months	96 Months
Weighted Average Free Rent Period	139 Days	116 Days
Total Transaction Costs Per Square Foot (4)	$63.96	$60.70
Increase in Gross Rents (5)	17.69 %	16.02 %
Increase in Net Rents (6)	28.37 %	25.05 %

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(1) Represents leases for which rental revenue recognition has commenced in accordance with GAAP during the three and six months ended June 30, 2017.

(2)

Represents leases executed during the three and six months ended June 30, 2017 for which we 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 six months ended June 30, 2017 is 269,881 and 409,616, respectively.

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(3) Second generation leases are defined as leases for space that had previously been leased by us. Of the 1,340,600 and 2,255,480 square feet of second generation leases that commenced during the three and six months ended June 30, 2017, respectively, leases for 1,070,719 and 1,845,864 square feet were signed in prior periods.

(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 1,026,480 and 1,636,104 square feet of second generation leases that had been occupied within the prior 12 months for the three and six months ended June 30, 2017, 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 1,026,480 and 1,636,104 square feet of second generation leases that had been occupied within the prior 12 months for the three and six months ended June 30, 2017, respectively; excludes leases that management considers temporary because the tenant is not expected to occupy the space on a long-term basis.

Transactions during the three months ended June 30, 2017 included the following:

- On April 19, 2017, we completed the sale of an approximately 9.5-acre parcel of land at 30 Shattuck Road located in Andover, Massachusetts for a gross sale price of $5.0 million. Net cash proceeds totaled approximately $5.0 million, resulting in a gain on sale of real estate totaling approximately $3.7 million.
- On April 24, 2017, BPLP entered into the 2017 Credit Facility. Among other things, the 2017 Credit Facility (1) increased the total commitment of the Revolving Facility from $1.0 billion to $1.5 billion, (2) extended the maturity date from July 26, 2018 to April 24, 2022, (3) reduced the per annum variable interest rates, and (4) added a $500.0 million Delayed Draw Facility that permits BPLP to draw until the first anniversary of the closing date. Based on BPLP's current credit rating, (1) the applicable Eurocurrency margins for the Revolving Facility and Delayed Draw Facility are 87.5 basis points and 95 basis points, respectively, and (2) the facility fee on the Revolving Facility commitment is 0.15% per annum. The Delayed Draw Facility has a fee on unused commitments equal to 0.15% per annum (See Note 5 to the Consolidated Financial Statements).
- On April 6, 2017, we commenced the development of 145 Broadway, a build-to-suit Class A office project with approximately 485,000 net rentable square feet located in Cambridge, Massachusetts. The property is 98% leased.
- On May 15, 2017, we acquired 103 Carnegie Center located in Princeton, New Jersey for a purchase price of approximately $15.8 million in cash. 103 Carnegie Center is an approximately 96,000 net rentable square foot Class A office property. The property is 83% leased.
- On May 27, 2017, we completed and fully placed in-service Reservoir Place North, a Class A office redevelopment project with approximately 73,000 net rentable square feet located in Waltham, Massachusetts. The property is 0% leased.
- On June 2, 2017, BXP renewed its "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. This program replaces BXP's prior $600.0 million ATM stock offering program that was scheduled to expire on June 3, 2017. BXP 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.
- On June 7, 2017, our consolidated entity in which we have a 60% ownership interest and that owns 767 Fifth Avenue (the General Motors Building) located in New York City completed the refinancing of approximately $1.6 billion of indebtedness that had been secured by direct and indirect interests in 767 Fifth Avenue. The new mortgage financing has a principal amount of $2.3 billion, bears interest at a fixed interest rate of 3.43% per annum and matures on June 9, 2027. The loan requires interest-only payments during the 10-year term of the loan, with the entire principal amount due at maturity. The extinguished debt bore interest at a weighted-average rate of approximately 5.96% per annum, an effective GAAP interest rate of approximately 3.03% per annum and was scheduled to mature on October 7, 2017. There was no prepayment penalty associated with the repayment of the prior indebtedness. We recognized a net gain from early extinguishment of debt totaling approximately $14.6 million primarily consisting of the

acceleration of the remaining balance related to the historical fair value debt adjustment. On April 24, 2017, our consolidated entity entered into an interest rate lock and commitment agreement for the financing. In conjunction with the interest rate lock and commitment agreement, the consolidated entity terminated its forward-starting interest rate swap contracts with notional

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amounts aggregating $450.0 million and cash-settled the contracts by making cash payments to the counterparties aggregating approximately $14.4 million, which amount will increase our interest expense over the ten-year term of the financing, resulting in an effective GAAP interest rate on the financing of approximately 3.64% per annum, inclusive of the amortization of financing costs and additional mortgage recording taxes.

- On June 13, 2017, we completed the sale of 40 Shattuck Road located in Andover, Massachusetts for a gross sale price of $12.0 million. Net cash proceeds totaled approximately $11.9 million, resulting in a gain on sale of real estate totaling approximately $28,000 for BXP and approximately $0.6 million for BPLP. 40 Shattuck Road is an approximately 122,000 net rentable square foot Class A office property. The property is 71% leased.
- On June 29, 2017, we executed a 99-year ground lease (including extension options), with the right to purchase prior to 10 years after stabilization of the development project as defined in the lease, land adjacent to the MacArthur BART station located in Oakland, California. We have commenced development of a 402-unit residential building and supporting retail space on the site.

Transactions completed subsequent to June 30, 2017 included the following:

- On July 26, 2017, a joint venture between us and The Bernstein Companies entered into a build-to-suit lease agreement with an affiliate of Marriott International, Inc. under which Marriott will lease 100% of an approximately 720,000 square foot office building and below-grade parking garage to be constructed by the joint venture at 7750 Wisconsin Avenue in Bethesda, Maryland. The joint venture will lease the office building to Marriott for 20 years on a net basis and will serve as Marriott’s world-wide headquarters. We and The Bernstein Companies will each own a 50% interest in the joint venture. We will serve as development manager for the venture and expect to commence construction in 2018. Marriott has agreed to fund 100% of the related tenant improvement costs and leasing commissions for the office building.
- On July 28, 2017, a joint venture in which we have a 50% interest obtained mortgage financing collateralized by its Colorado Center property totaling $550.0 million. The mortgage financing bears interest at a fixed rate of 3.56% per annum and matures on August 9, 2027. The loan requires interest-only payments during the 10-year term of the loan, with the entire principal amount due at maturity. Colorado Center is a six-building office complex that sits on a 15-acre site and contains an aggregate of approximately 1,184,000 net rentable square feet with an underground parking garage for 3,100 vehicles located in Santa Monica, California.

Critical Accounting Policies

Management’s Discussion and Analysis of Financial Condition and Results of Operations discuss our Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles (“GAAP”). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain accounting policies are considered to be critical accounting policies, as they require management to make assumptions about matters that are highly uncertain at the time the estimate is made and changes in accounting estimate are reasonably likely to occur from period to period. Management bases its estimates and assumptions on historical experience and current economic conditions. On an on-going basis, management evaluates its estimates and assumptions including those related to revenue, impairment of long-lived assets and the allowance for doubtful accounts. Actual results may differ from those estimates and assumptions.

Our Annual Report on Form 10-K for the year ended December 31, 2016 contains a discussion of our critical accounting policies, except for our policies established following the adoption of each of ASU 2016-09 and ASU 2017-01. The adoption of each of ASU 2016-09 and ASU 2017-01 is discussed in Note 2 to our Consolidated Financial Statements. Management discusses and reviews our critical accounting policies and management’s judgments and estimates with BXP’s Audit Committee.

Results of Operations for the Six Months Ended June 30, 2017 and 2016

Net income attributable to Boston Properties, Inc. common shareholders and net income attributable to Boston Properties Limited Partnership common unitholders decreased approximately $47.6 million and $54.7 million for the six months ended June 30, 2017 compared to 2016, respectively, as detailed in the following tables and for the reasons discussed below under the heading “Comparison of the six months ended June 30, 2017 to the six months ended

June 30, 2016" within "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations." The following are reconciliations of net income attributable to Boston Properties, Inc. common shareholders to net operating income and net income attributable to Boston Properties Limited Partnership common unitholders to net operating income for the six months ended June 30, 2017 and 2016 (in thousands):

Boston Properties, Inc.

	Total Property Portfolio			
	2017	2016	Increase/ (Decrease)	% Change
Net Income Attributable to Boston Properties, Inc. Common Shareholders	$230,764	$278,323	$(47,559)	(17.09)%
Preferred dividends	5,250	5,207	43	0.83 %
Net Income Attributable to Boston Properties, Inc.	236,014	283,530	(47,516)	(16.76)%
Net Income Attributable to Noncontrolling Interests:				
Noncontrolling interest—common units of the Operating Partnership	26,933	32,771	(5,838)	(17.81)%
Noncontrolling interests in property partnerships	19,627	17,278	2,349	13.60 %
Net Income	282,574	333,579	(51,005)	(15.29)%
Gains on sales of real estate	3,900	67,623	(63,723)	(94.23)%
Income Before Gains on Sales of Real Estate	278,674	265,956	12,718	4.78 %
Other Expenses:				
Add:				
Interest expense	190,677	210,312	(19,635)	(9.34)%
Other Income:				
Less:				
Gains from early extinguishments of debt	14,354	—	14,354	100.00 %
Gains from investments in securities	1,772	737	1,035	140.43 %
Interest and other income	2,118	3,029	(911)	(30.08)%
Income from unconsolidated joint ventures	6,192	4,025	2,167	53.84 %
Operating Income	444,915	468,477	(23,562)	(5.03)%
Other Expenses:				
Add:				
Depreciation and amortization expense	311,124	312,623	(1,499)	(0.48)%
Transaction costs	333	938	(605)	(64.50)%
General and administrative expense	58,527	54,771	3,756	6.86 %
Other Revenue:				
Less:				
Development and management services revenue	13,837	12,222	1,615	13.21 %
Net Operating Income	$801,062	$824,587	$(23,525)	(2.85)%

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Boston Properties Limited Partnership

	Total Property Portfolio			
	2017	2016	Increase/ (Decrease)	% Change
Net Income Attributable to Boston Properties Limited Partnership Common Unitholders	$262,506	$317,234	$(54,728)	(17.25)%
Preferred distributions	5,250	5,207	43	0.83 %
Net Income Attributable to Boston Properties Limited Partnership	267,756	322,441	(54,685)	(16.96)%
Net Income Attributable to Noncontrolling Interests:				
Noncontrolling interests in property partnerships	19,627	17,278	2,349	13.60 %
Net Income	287,383	339,719	(52,336)	(15.41)%
Gains on sales of real estate	4,477	69,792	(65,315)	(93.59)%
Income Before Gains on Sales of Real Estate	282,906	269,927	12,979	4.81 %
Other Expenses:				
Add:				
Interest expense	190,677	210,312	(19,635)	(9.34)%
Other Income:				
Less:				
Gains from early extinguishments of debt	14,354	—	14,354	100.00 %
Gains from investments in securities	1,772	737	1,035	140.43 %
Interest and other income	2,118	3,029	(911)	(30.08)%
Income from unconsolidated joint ventures	6,192	4,025	2,167	53.84 %
Operating Income	449,147			