BOSTON PROPERTIES INC
Form 10-Q
August 07, 2018

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, 2018
¨ 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	04-2473675
	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Boston Properties Limited Partnership	Delaware	04-3372948
	(State or other jurisdiction of incorporation or organization)	(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 ¨
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 ¨ Emergin
growth company ¨

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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	154,419,806
(Registrant)	(Class)	(Outstanding on August 2, 2018)

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2018 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. 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. Therefore, 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.

As of June 30, 2018, 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 and/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 a 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 interests in 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

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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.

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 $311.9 million, or 1.9% at June 30, 2018 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 7. Noncontrolling Interests;
  - Note 8. Stockholders' Equity / Partners' Capital;
  - Note 9. Earnings Per Share / Common Unit; and
  - Note 11. Segment Information
- 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, 2018
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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, 2018	December 31, 2017
	(in thousands, except for share and par value amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities (“VIEs”) of $7,358,363 and $7,172,718 at June 30, 2018 and December 31, 2017, respectively)	$21,526,520	$21,096,642
Less: accumulated depreciation (amounts related to VIEs of $(910,381) and $(854,172) at June 30, 2018 and December 31, 2017, respectively)	(4,745,590)	(4,589,634)
Total real estate	16,780,930	16,507,008
Cash and cash equivalents (amounts related to VIEs of $277,252 and $304,955 at June 30, 2018 and December 31, 2017, respectively)	472,555	434,767
Cash held in escrows (amounts related to VIEs of $6,099 and $6,135 at June 30, 2018 and December 31, 2017, respectively)	254,505	70,602
Investments in securities	30,063	29,161
Tenant and other receivables (amounts related to VIEs of $17,130 and $27,057 at June 30, 2018 and December 31, 2017, respectively)	63,660	92,186
Accrued rental income (amounts related to VIEs of $268,120 and $242,589 at June 30, 2018 and December 31, 2017, respectively)	912,652	861,575
Deferred charges, net (amounts related to VIEs of $264,973 and $281,678 at June 30, 2018 and December 31, 2017, respectively)	678,319	679,038
Prepaid expenses and other assets (amounts related to VIEs of $34,853 and $33,666 at June 30, 2018 and December 31, 2017, respectively)	85,972	77,971
Investments in unconsolidated joint ventures	682,507	619,925
Total assets	$19,961,163	$19,372,233
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of $2,934,336 and $2,939,183 at June 30, 2018 and December 31, 2017, respectively)	$2,972,052	$2,979,281
Unsecured senior notes, net	7,251,578	7,247,330
Unsecured line of credit	—	45,000
Unsecured term loan, net	498,248	—
Accounts payable and accrued expenses (amounts related to VIEs of $80,098 and $106,683 at June 30, 2018 and December 31, 2017, respectively)	327,067	331,500
Dividends and distributions payable	139,263	139,040
Accrued interest payable (amounts related to VIEs of $6,669 and $6,907 at June 30, 2018 and December 31, 2017, respectively)	96,844	83,646
Other liabilities (amounts related to VIEs of $183,114 and $164,806 at June 30, 2018 and December 31, 2017, respectively)	462,869	443,980
Total liabilities	11,747,921	11,269,777
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, 2018 and December 31, 2017	200,000	200,000
Common stock, $0.01 par value, 250,000,000 shares authorized, 154,490,429 and 154,404,186 issued and 154,411,529 and 154,325,286 outstanding at June 30, 2018 and December 31, 2017, respectively	1,544	1,543
Additional paid-in capital	6,391,460	6,377,908
Dividends in excess of earnings	(649,747)	(712,343)
Treasury common stock at cost, 78,900 shares at June 30, 2018 and December 31, 2017	(2,722)	(2,722)
Accumulated other comprehensive loss	(47,695)	(50,429)
Total stockholders' equity attributable to Boston Properties, Inc.	5,892,840	5,813,957
Noncontrolling interests:		
Common units of Boston Properties Limited Partnership	621,221	604,739
Property partnerships	1,699,181	1,683,760
Total equity	8,213,242	8,102,456
Total liabilities and equity	$19,961,163	$19,372,233

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,	
	2018	2017	2018	2017
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	$516,439	$520,542	$1,035,946	$1,024,104
Recoveries from tenants	95,259	89,163	190,377	178,327
Parking and other	26,904	26,462	53,038	52,072
Total rental revenue	638,602	636,167	1,279,361	1,254,503
Hotel revenue	14,607	13,375	23,709	20,795
Development and management services	9,305	7,365	17,710	13,837
Direct reimbursements of payroll and related costs from management services contracts	1,970	—	4,855	—
Total revenue	664,484	656,907	1,325,635	1,289,135
Expenses				
Operating				
Rental	237,790	230,454	478,119	458,741
Hotel	8,741	8,404	16,814	15,495
General and administrative	28,468	27,141	64,362	58,527
Payroll and related costs from management services contracts	1,970	—	4,855	—
Transaction costs	474	299	495	333
Depreciation and amortization	156,417	151,919	322,214	311,124
Total expenses	433,860	418,217	886,859	844,220
Operating income	230,624	238,690	438,776	444,915
Other income (expense)				
Income from unconsolidated joint ventures	769	3,108	1,230	6,192
Interest and other income	2,579	1,504	4,227	2,118
Gains from investments in securities	505	730	379	1,772
Gains from early extinguishments of debt	—	14,354	—	14,354
Interest expense	(92,204)	(95,143)	(182,424)	(190,677)
Income before gains on sales of real estate	142,273	163,243	262,188	278,674
Gains on sales of real estate	18,292	3,767	114,689	3,900
Net income	160,565	167,010	376,877	282,574
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(14,400)	(15,203)	(31,634)	(19,627)
Noncontrolling interest—common units of Boston Properties Limited Partnership	(14,859)	(15,473)	(35,311)	(26,933)
Net income attributable to Boston Properties, Inc.	131,306	136,334	309,932	236,014
Preferred dividends	(2,625)	(2,625)	(5,250)	(5,250)
Net income attributable to Boston Properties, Inc. common shareholders	$128,681	$133,709	$304,682	$230,764
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	$0.83	$0.87	$1.97	$1.50
Weighted average number of common shares outstanding	154,415	154,177	154,400	154,019

Diluted earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	$0.83	$0.87	$1.97	$1.50
Weighted average number of common and common equivalent shares outstanding	154,571	154,331	154,638	154,273
Dividends per common share	$0.80	$0.75	$1.60	$1.50

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,	
	2018	2017	2018	2017
	(in thousands)			
Net income	$160,565	$167,010	$376,877	$282,574
Other comprehensive income (loss):				
Effective portion of interest rate contracts	—	(6,313)	—	(6,133)
Amortization of interest rate contracts (1)	1,666	1,397	3,332	2,703
Other comprehensive income (loss)	1,666	(4,916)	3,332	(3,430)
Comprehensive income	162,231	162,094	380,209	279,144
Net income attributable to noncontrolling interests	(29,259)	(30,676)	(66,945)	(46,560)
Other comprehensive (income) loss attributable to noncontrolling interests	(299)	2,738	(598)	2,520
Comprehensive income attributable to Boston Properties, Inc.	$132,673	$134,156	$312,666	$235,104

(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, 2017	154,325	$1,543	$200,000	$6,377,908	$(712,343)	$(2,722)	$(50,429)	$2,288,499	$8,102,456
Cumulative effect of a change in accounting principle	—	—	—	—	4,933	—	—	563	5,496
Redemption of operating partnership units to common stock	35	1	—	1,195	—	—	—	(1,196)	—
Allocated net income for the year	—	—	—	—	309,932	—	—	66,945	376,877
Dividends/distributions declared	—	—	—	—	(252,269)	—	—	(28,708)	(280,977)
Shares issued pursuant to stock purchase plan	3	—	—	429	—	—	—	—	429
Net activity from stock option and incentive plan	49	—	—	600	—	—	—	21,530	22,130
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	27,532	27,532
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(44,033)	(44,033)
Amortization of interest rate contracts	—	—	—	—	—	—	2,734	598	3,332
Reallocation of noncontrolling interest	—	—	—	11,328	—	—	—	(11,328)	—
Equity, June 30, 2018	154,412	$1,544	$200,000	$6,391,460	$(649,747)	$(2,722)	$(47,695)	$2,320,402	$8,213,242
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

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,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$376,877	$282,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	322,214	311,124
Non-cash compensation expense	23,243	19,237
Income from unconsolidated joint ventures	(1,230)	(6,192)
Distributions of net cash flow from operations of unconsolidated joint ventures	1,663	2,905
Gains from investments in securities	(379)	(1,772)
Gains from early extinguishments of debt	—	(14,354)
Non-cash portion of interest expense	10,607	(11,979)
Gains on sales of real estate	(114,689)	(3,900)
Change in assets and liabilities:		
Tenant and other receivables, net	33,012	2,033
Accrued rental income, net	(45,759)	(19,348)
Prepaid expenses and other assets	(4,641)	36,223
Accounts payable and accrued expenses	(9,899)	(2,608)
Accrued interest payable	12,999	(158,761)
Other liabilities	11,571	(33,121)
Tenant leasing costs	(54,743)	(37,252)
Total adjustments	183,969	82,235
Net cash provided by operating activities	560,846	364,809
Cash flows from investing activities:		
Acquisition of real estate	—	(15,953)
Construction in progress	(380,565)	(297,747)
Building and other capital improvements	(96,730)	(100,808)
Tenant improvements	(83,982)	(107,533)
Proceeds from sales of real estate	141,249	17,049
Capital contributions to unconsolidated joint ventures	(65,250)	(41,491)
Investments in securities, net	(523)	(1,195)
Net cash used in investing activities	(485,801)	(547,678)

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

	For the six months ended June 30,	
	2018	2017
	(in thousands)	
Cash flows from financing activities:		
Proceeds from mortgage notes payable	—	2,300,000
Repayments of mortgage notes payable	(9,192)	(1,308,708)
Borrowings on unsecured line of credit	345,000	430,000
Repayments of unsecured line of credit	(390,000)	(430,000)
Proceeds from unsecured term loan	500,000	—
Repayments of mezzanine notes payable	—	(306,000)
Repayments of outside members' notes payable	—	(70,424)
Payments on capital lease obligations	—	(548)
Payments on real estate financing transactions	(960)	(1,013)
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	(263)	(43,635)
Debt prepayment and extinguishment costs	—	(90)
Net proceeds from equity transactions	(684)	(181)
Dividends and distributions	(280,754)	(263,221)
Contributions from noncontrolling interests in property partnerships	27,532	23,496
Distributions to noncontrolling interests in property partnerships	(44,033)	(27,115)
Net cash provided by financing activities	146,646	302,561
Net increase in cash and cash equivalents and cash held in escrows	221,691	119,692
Cash and cash equivalents and cash held in escrows, beginning of period	505,369	420,088
Cash and cash equivalents and cash held in escrows, end of period	$727,060	$539,780
Reconciliation of cash and cash equivalents and cash held in escrows:		
Cash and cash equivalents, beginning of period	$434,767	$356,914
Cash held in escrows, beginning of period	70,602	63,174
Cash and cash equivalents and cash held in escrows, beginning of period	$505,369	$420,088
Cash and cash equivalents, end of period	$472,555	$492,435
Cash held in escrows, end of period	254,505	47,345
Cash and cash equivalents and cash held in escrows, end of period	$727,060	$539,780
Supplemental disclosures:		
Cash paid for interest	$192,898	$388,045
Interest capitalized	$34,999	$26,628
Non-cash investing and financing activities:		
Write-off of fully depreciated real estate	$(78,900)	$(86,135)
Additions to real estate included in accounts payable and accrued expenses	$326	$22,994
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	$139,263	$130,432
Conversions of noncontrolling interests to stockholders' equity	$1,196	$16,422

Issuance of restricted securities to employees	$37,342	$35,945

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, 2018	December 31, 2017
	(in thousands, except for unit amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities (“VIEs”) of $7,358,363 and $7,172,718 at June 30, 2018 and December 31, 2017, respectively)	$21,118,909	$20,685,164
Less: accumulated depreciation (amounts related to VIEs of $(910,381) and $(854,172) at June 30, 2018 and December 31, 2017, respectively)	(4,649,907)	(4,496,959)
Total real estate	16,469,002	16,188,205
Cash and cash equivalents (amounts related to VIEs of $277,252 and $304,955 at June 30, 2018 and December 31, 2017, respectively)	472,555	434,767
Cash held in escrows (amounts related to VIEs of $6,099 and $6,135 at June 30, 2018 and December 31, 2017, respectively)	254,505	70,602
Investments in securities	30,063	29,161
Tenant and other receivables (amounts related to VIEs of $17,130 and $27,057 at June 30, 2018 and December 31, 2017, respectively)	63,660	92,186
Accrued rental income (amounts related to VIEs of $268,120 and $242,589 at June 30, 2018 and December 31, 2017, respectively)	912,652	861,575
Deferred charges, net (amounts related to VIEs of $264,973 and $281,678 at June 30, 2018 and December 31, 2017, respectively)	678,319	679,038
Prepaid expenses and other assets (amounts related to VIEs of $34,853 and $33,666 at June 30, 2018 and December 31, 2017, respectively)	85,972	77,971
Investments in unconsolidated joint ventures	682,507	619,925
Total assets	$19,649,235	$19,053,430
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of $2,934,336 and $2,939,183 at June 30, 2018 and December 31, 2017, respectively)	$2,972,052	$2,979,281
Unsecured senior notes, net	7,251,578	7,247,330
Unsecured line of credit	—	45,000
Unsecured term loan	498,248	—
Accounts payable and accrued expenses (amounts related to VIEs of $80,098 and $106,683 at June 30, 2018 and December 31, 2017, respectively)	327,067	331,500
Distributions payable	139,263	139,040
Accrued interest payable (amounts related to VIEs of $6,669 and $6,907 at June 30, 2018 and December 31, 2017, respectively)	96,844	83,646
Other liabilities (amounts related to VIEs of $183,114 and $164,806 at June 30, 2018 and December 31, 2017, respectively)	462,869	443,980
Total liabilities	11,747,921	11,269,777
Commitments and contingencies	—	—
Noncontrolling interests:		
Redeemable partnership units—16,831,182 and 16,810,378 common units and 992,387 and 818,343 long term incentive units outstanding at redemption value at June 30, 2018 and December 31, 2017, respectively	2,235,432	2,292,263

Capital:		
5.25% Series B cumulative redeemable preferred units, liquidation preference $2,500 per unit, 80,000 units issued and outstanding at June 30, 2018 and December 31, 2017	193,623	193,623
Boston Properties Limited Partnership partners' capital—1,722,351 and 1,719,540 general partner units and 152,689,178 and 152,605,746 limited partner units outstanding at June 30, 2018 and December 31, 2017, respectively	3,773,078	3,614,007
Noncontrolling interests in property partnerships	1,699,181	1,683,760
Total capital	5,665,882	5,491,390
Total liabilities and capital	$19,649,235	$19,053,430

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,	
	2018	2017	2018	2017
	(in thousands, except for per unit amounts)			
Revenue				
Rental				
Base rent	$516,439	$520,542	$1,035,946	$1,024,104
Recoveries from tenants	95,259	89,163	190,377	178,327
Parking and other	26,904	26,462	53,038	52,072
Total rental revenue	638,602	636,167	1,279,361	1,254,503
Hotel revenue	14,607	13,375	23,709	20,795
Development and management services	9,305	7,365	17,710	13,837
Direct reimbursements of payroll and related costs from management services contracts	1,970	—	4,855	—
Total revenue	664,484	656,907	1,325,635	1,289,135
Expenses				
Operating				
Rental	237,790	230,454	478,119	458,741
Hotel	8,741	8,404	16,814	15,495
General and administrative	28,468	27,141	64,362	58,527
Payroll and related costs from management services contracts	1,970	—	4,855	—
Transaction costs	474	299	495	333
Depreciation and amortization	154,474	149,834	318,327	306,892
Total expenses	431,917	416,132	882,972	839,988
Operating income	232,567	240,775	442,663	449,147
Other income (expense)				
Income from unconsolidated joint ventures	769	3,108	1,230	6,192
Interest and other income	2,579	1,504	4,227	2,118
Gains from investments in securities	505	730	379	1,772
Gains from early extinguishments of debt	—	14,354	—	14,354
Interest expense	(92,204)	(95,143)	(182,424)	(190,677)
Income before gains on sales of real estate	144,216	165,328	266,075	282,906
Gains on sales of real estate	18,770	4,344	117,677	4,477
Net income	162,986	169,672	383,752	287,383
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(14,400)	(15,203)	(31,634)	(19,627)
Net income attributable to Boston Properties Limited Partnership	148,586	154,469	352,118	267,756
Preferred distributions	(2,625)	(2,625)	(5,250)	(5,250)
Net income attributable to Boston Properties Limited Partnership common unitholders	$145,961	$151,844	$346,868	$262,506
Basic earnings per common unit attributable to Boston Properties Limited Partnership common unitholders:				
Net income	$0.85	$0.88	$2.02	$1.53
Weighted average number of common units outstanding	171,916	171,675	171,892	171,628
Diluted earnings per common unit attributable to Boston Properties Limited Partnership common unitholders:				

Net income	$0.85	$0.88	$2.01	$1.53
Weighted average number of common and common equivalent units outstanding	172,072	171,829	172,130	171,882
Distributions per common unit	$0.80	$0.75	$1.60	$1.50

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,	
	2018	2017	2018	2017
	(in thousands)			
Net income	$162,986	$169,672	$383,752	$287,383
Other comprehensive income (loss):				
Effective portion of interest rate contracts	—	(6,313)	—	(6,133)
Amortization of interest rate contracts (1)	1,666	1,397	3,332	2,703
Other comprehensive income (loss)	1,666	(4,916)	3,332	(3,430)
Comprehensive income	164,652	164,756	387,084	283,953
Comprehensive income attributable to noncontrolling interests	(14,544)	(12,715)	(31,922)	(17,211)
Comprehensive income attributable to Boston Properties Limited Partnership	$150,108	$152,041	$355,162	$266,742

(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, 2018 AND 2017
(Unaudited and in thousands)

	Total Partners' Capital
Balance at December 31, 2017	$3,807,630
Cumulative effect of a change in accounting principle	4,933
Contributions	1,685
Net income allocable to general and limited partner units	316,807
Distributions	(252,269)
Other comprehensive income	2,734
Unearned compensation	(656)
Conversion of redeemable partnership units	1,196
Adjustment to reflect redeemable partnership units at redemption value	84,641
Balance at June 30, 2018	$3,966,701
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)
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

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,	
	2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$383,752	$287,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	318,327	306,892
Non-cash compensation expense	23,243	19,237
Income from unconsolidated joint ventures	(1,230)	(6,192)
Distributions of net cash flow from operations of unconsolidated joint ventures	1,663	2,905
Gains from investments in securities	(379)	(1,772)
Gains from early extinguishments of debt	—	(14,354)
Non-cash portion of interest expense	10,607	(11,979)
Gains on sales of real estate	(117,677)	(4,477)
Change in assets and liabilities:		
Tenant and other receivables, net	33,012	2,033
Accrued rental income, net	(45,759)	(19,348)
Prepaid expenses and other assets	(4,641)	36,223
Accounts payable and accrued expenses	(9,899)	(2,608)
Accrued interest payable	12,999	(158,761)
Other liabilities	11,571	(33,121)
Tenant leasing costs	(54,743)	(37,252)
Total adjustments	177,094	77,426
Net cash provided by operating activities	560,846	364,809
Cash flows from investing activities:		
Acquisition of real estate	—	(15,953)
Construction in progress	(380,565)	(297,747)
Building and other capital improvements	(96,730)	(100,808)
Tenant improvements	(83,982)	(107,533)
Proceeds from sales of real estate	141,249	17,049
Capital contributions to unconsolidated joint ventures	(65,250)	(41,491)
Investments in securities, net	(523)	(1,195)
Net cash used in investing activities	(485,801)	(547,678)

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

	For the six months ended June 30,	
	2018	2017
	(in thousands)	
Cash flows from financing activities:		
Proceeds from mortgage notes payable	—	2,300,000
Repayments of mortgage notes payable	(9,192)	(1,308,708)
Borrowings on unsecured line of credit	345,000	430,000
Repayments of unsecured line of credit	(390,000)	(430,000)
Proceeds from unsecured term loan	500,000	—
Repayments of mezzanine notes payable	—	(306,000)
Repayments of outside members' notes payable	—	(70,424)
Payments on capital lease obligations	—	(548)
Payments on real estate financing transaction	(960)	(1,013)
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	(263)	(43,635)
Debt prepayment and extinguishment costs	—	(90)
Net proceeds from equity transactions	(684)	(181)
Distributions	(280,754)	(263,221)
Contributions from noncontrolling interests in property partnerships	27,532	23,496
Distributions to noncontrolling interests in property partnerships	(44,033)	(27,115)
Net cash provided by financing activities	146,646	302,561
Net increase in cash and cash equivalents and cash held in escrows	221,691	119,692
Cash and cash equivalents and cash held in escrows, beginning of period	505,369	420,088
Cash and cash equivalents and cash held in escrows, end of period	$727,060	$539,780
Reconciliation of cash and cash equivalents and cash held in escrows:		
Cash and cash equivalents, beginning of period	$434,767	$356,914
Cash held in escrows, beginning of period	70,602	63,174
Cash and cash equivalents and cash held in escrows, beginning of period	$505,369	$420,088
Cash and cash equivalents, end of period	$472,555	$492,435
Cash held in escrows, end of period	254,505	47,345
Cash and cash equivalents and cash held in escrows, end of period	$727,060	$539,780
Supplemental disclosures:		
Cash paid for interest	$192,898	$388,045
Interest capitalized	$34,999	$26,628
Non-cash investing and financing activities:		
Write-off of fully depreciated real estate	$(78,900)	$(85,525)
Additions to real estate included in accounts payable and accrued expenses	$326	$22,994
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	$139,263	$130,432
Conversions of redeemable partnership units to partners' capital	$1,196	$16,422

Issuance of restricted securities to employees	$37,342	$35,945

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, 2018 owned an approximate 89.7% (89.7% at December 31, 2017) 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 the OP Unit for cash equal to the value of a share of common stock of Boston Properties, Inc. ("Common Stock"). In lieu of a cash redemption, Boston Properties, Inc. may elect to acquire the 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, 2017 and 2018 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, 2014 MYLTIP Units and 2015 MYLTIP Units expired on February 6, 2015, February 4, 2016, February 3, 2017 and February 4, 2018, 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 2016, 2017 and 2018 MYLTIP Units differ from other LTIP Units granted to employees (including the 2012 OPP Units, the 2013 MYLTIP Units, the 2014 MYLTIP Units and the 2015 MYLTIP Units, which have been earned). Therefore, unless specifically noted otherwise, all references to LTIP Units exclude the 2016, 2017 and 2018 MYLTIP Units. LTIP Units (including the 2012 OPP Units, the 2013 MYLTIP Units, the 2014 MYLTIP Units and the 2015 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 7, 8 and 10).

At June 30, 2018, 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 8).

Properties

At June 30, 2018, the Company owned or had interests in a portfolio of 178 commercial real estate properties (the "Properties") aggregating approximately 50.2 million net rentable square feet of primarily Class A office properties, including twelve properties under construction/redevelopment totaling approximately 6.0 million net rentable square feet. At June 30, 2018, the Properties consisted of:

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- 166 office properties (including nine properties under construction/redevelopment);
- six residential properties (including three properties under construction);
- five retail properties; and
- one hotel.

The Company considers Class A office properties to be well-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, 2017.

Fair Value of Financial Instruments

The Company follows the authoritative guidance for fair value measurements when valuing its financial instruments for disclosure purposes. Boston Properties Limited Partnership determines the fair value of its unsecured senior notes using market prices. The inputs used in determining the fair value of Boston Properties Limited Partnership's unsecured senior notes is categorized at a Level 1 basis (as defined in Accounting Standards Codification ("ASC") 820 "Fair Value Measurements and Disclosures," the accounting standards for Fair Value Measurements and Disclosures) due to the fact that it 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 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 or unsecured term loan, 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 Boston Properties Limited Partnership'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 estimated and therefore would be primarily based upon a Level 3 input.

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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, unsecured line of credit, unsecured term loan, net and unsecured senior notes, net and the Company's corresponding estimate of fair value as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018		December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Mortgage notes payable, net	$2,972,052	$2,938,167	$2,979,281	$3,042,920
Unsecured senior notes, net	7,251,578	7,188,261	7,247,330	7,461,615
Unsecured line of credit	—	—	45,000	45,000
Unsecured term loan, net	498,248	500,181	—	—
Total	$10,721,878	$10,626,609	$10,271,611	$10,549,535

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 nine entities that are VIEs.

Consolidated Variable Interest Entities

As of June 30, 2018, 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) Salesforce Tower, which was partially placed in-service on December 1, 2017.

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 7).

In addition, Boston Properties, Inc.'s only 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.

Variable Interest Entities Not Consolidated

The Company has determined that its 7750 Wisconsin Avenue LLC and Residential Tower Developer LLC joint ventures, which own 7750 Wisconsin Avenue and The Hub on Causeway - Residential, respectively, are VIEs. The Company does not consolidate these entities as 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.

New Accounting Pronouncements

New Accounting Pronouncements Adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards 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, which supersedes most of the existing revenue recognition guidance, including industry-specific guidance. The core

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principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying ASU 2014-09, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. The five-step analysis consists of the following: (i) identifying the contract with a customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations in the contract and (v) recognizing revenue when (or as) the entity satisfies a performance obligation. 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 was 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 and notes that lease contracts with customers are a scope exception. ASU 2014-09 was effective for the Company for reporting periods beginning after December 15, 2017.

The Company adopted ASU 2014-09 effective January 1, 2018 using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements. The Company applied the guidance only to contracts that were not completed as of January 1, 2018. The Company does not have material contract assets and liabilities within the scope of ASC 606. The adoption of ASU 2014-09 resulted in a change to the timing pattern of revenue recognized, but not the total revenue recognized over time for certain of the Company's development services contracts. As a result, the modified retrospective approach resulted in the Company recognizing on January 1, 2018 the cumulative effect of adopting ASU 2014-09 aggregating approximately $4.9 million to Dividends in Excess of Earnings of Boston Properties, Inc. and Partners' Capital of Boston Properties Limited Partnership and approximately $0.6 million to Noncontrolling Interests - Common Units of Boston Properties, Inc. and Noncontrolling Interests - Redeemable Partnership Units of Boston Properties Limited Partnership on the corresponding Consolidated Balance Sheets.

The Company disaggregates its revenue by source within its Consolidated Statements of Operations. As an owner and operator of real estate, the Company derives the majority of its revenue from leasing space to tenants at its properties. As a result, the majority of the Company's revenue is accounted for pursuant to ASC 840 "Leases" ("ASC 840") and is reflected within Base Rent in the Consolidated Statements of Operations. In addition, the Company earns revenue from recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs. Revenue from recoveries from tenants is recognized under the guidance within ASC 840 until the adoption of ASC 842 "Leases" in 2019 at which time it may fall within the guidance under ASC 606 (see New Accounting Pronouncements Issued but not yet Adopted "Leases").

The Company also earns revenue from the following sources; parking and other revenue, hotel revenue and development and management services revenue.

Parking and other revenue is derived primarily from monthly and transient daily parking. In addition, the Company has certain lease arrangements for parking accounted for under the guidance in ASC 840. The monthly and transient daily parking revenue falls within the scope of ASC 606 and is accounted for at the point in time when control of the goods or services transfers to the customer and the Company's performance obligation is satisfied, consistent with the Company's previous accounting.

Hotel revenue is derived from room rentals and other sources such as charges to guests for telephone service, movie and vending commissions, meeting and banquet room revenue and laundry services. Hotel revenue also falls within the scope of ASC 606 and is accounted for at the point in time when control of the goods or services transfers to the customer and the Company's performance obligation is satisfied, consistent with the Company's previous accounting.

Development and management services revenue is earned from unconsolidated joint venture entities and third party property owners. The Company determined that the performance obligations associated with its development services contracts are satisfied over time and that the Company would recognize its development services revenue under the output method evenly over time from the development commencement date through the substantial completion date of the development management services project due to the stand-ready nature of the contracts. Significant judgments impacting the amount and timing of revenue recognized from the Company's development services contracts include estimates of total development project costs from which the fees are typically derived and estimates of the period of time until substantial completion of the development project, the period of time over which the development services are required to be performed. As a result, the pattern of revenue recognized over time under ASC 606 differs from the Company's previous accounting. The Company recognizes development fees earned from unconsolidated joint venture projects equal to its cost plus profit to the extent of the third party partners' ownership interest. Property management fees are recorded and earned based on a percentage of collected rents at the properties under management, and not on a straight-line basis, because such fees are contingent upon the collection of rents. The revenue recognized under property management services contracts is recognized consistent with the Company's previous accounting.

ASU 2014-09 also updates the principal versus agent considerations and as a result the Company determined that amounts reimbursed for payroll and related costs received from unconsolidated joint venture entities and third party property owners in connection with management services contracts should be reflected on a gross basis instead of on a net basis as the Company has determined that it is the principal under these arrangements. During the three and six months ended June 30, 2018, the Company recognized approximately $2.0 million and $4.9 million, respectively, of expenses consisting of payroll and related costs from management services contracts and recognized corresponding revenue of approximately $2.0 million and $4.9 million, respectively, reflecting the direct reimbursements of such costs from the unconsolidated joint venture entities and third party property owners.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-15"). ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The areas addressed in the new guidance related to debt prepayment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned and bank-owned life insurance policies, distributions received from equity method investments, beneficial interest in securitization transactions, and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 was effective for the Company for reporting periods beginning after December 15, 2017, with early adoption permitted (provided that all of the amendments are adopted in the same period), and was required to be applied retrospectively to all periods presented. The Company adopted ASU 2016-15 effective January 1, 2018. The adoption of ASU 2016-15 did not have a material impact on the Company's consolidated financial statements. The adoption of ASU 2016-15 will result in the retrospective classification of debt prepayment costs as a component of financing activities instead of as a component of operating activities in the Company's Consolidated Statements of Cash Flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-18"). ASU 2016-18 requires companies to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 also requires a disclosure of a reconciliation between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash and restricted cash equivalents. Entities with material restricted cash and restricted cash equivalents balances are required to disclose the nature of the restrictions. ASU 2016-18 was effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and is required to be applied retrospectively to all periods presented. The Company adopted ASU 2016-18 effective January 1, 2018. The adoption of ASU 2016-18 did not have a material impact on the Company's consolidated financial statements. The retrospective adoption of ASU 2016-18 resulted in a decrease to net cash provided by operating activities totaling approximately $7.5 million, an increase to net cash used in investing activities totaling approximately $8.2 million, a decrease to net cash provided by financing activities totaling approximately $0.1 million, and a corresponding decrease to the net increase in cash and cash equivalents and cash held in escrows totaling approximately $15.8 million from amounts previously reported for the six months ended June 30, 2017. Cash held in escrows include amounts established pursuant to various agreements for security deposits, property taxes, insurance and other costs. Cash held in escrows also include cash held by qualified intermediaries for possible investments in like-kind exchanges in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended, in connection with sales of the Company's properties.

Sales of Real Estate

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 were effective for the first interim period within annual reporting periods beginning after December 15, 2017. The Company adopted ASU 2017-05 effective January 1, 2018 using the modified retrospective approach. The adoption of ASU 2017-05 did not have a material impact on the Company's consolidated financial statements. See also Note 3.

Stock Compensation

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 was effective for public entities for fiscal years and interim periods beginning after December 15, 2017. The Company adopted ASU 2017-09 effective January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company's consolidated financial statements.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). ASU 2017-12 was issued with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU 2017-12 also makes certain targeted improvements to simplify the application of the hedge accounting guidance. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company early adopted ASU 2017-12 effective January 1, 2018. The adoption of ASU 2017-12 did not have a material impact on the Company's consolidated financial statements. As of June 30, 2018, the Company does not have any outstanding hedges, but continues to reclassify into earnings as an increase primarily to interest expense approximately $1.7 million per quarter relating to previously settled interest rate contracts.

New Accounting Pronouncements Issued but not yet Adopted

Leases

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 will adopt ASU 2016-02 effective January 1, 2019 using the modified retrospective approach. The Company is in the process of evaluating whether it will elect to apply the practical expedients. The Company is in the process of adopting ASU 2016-02 and its project team has compiled an inventory of its leases that will be impacted by the adoption of ASU 2016-02. The Company continues to assess the impact of adopting ASU 2016-02. However, the Company will account for operating leases under which it is the lessor on its balance sheet in a manner similar to its current accounting with the underlying leased asset recognized as real estate.

On July 30, 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements" ("ASU 2018-11"), that allows lessors to elect, as a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (ASC 606) and both of the following are met:

1. The timing and pattern of transfer of the nonlease component(s) and associated lease components are the same.
2. The lease component, if accounted for separately, would be classified as an operating lease.

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If the nonlease component or components associated with the lease component are the predominant component of the combined component, an entity is required to account for the combined component in accordance with ASC 606. Certain disclosures are required if applying this practical expedient. The Company's project team is evaluating this recently issued ASU 2018-11. For leases in which the Company is the lessee, primarily consisting of ground leases, the Company will 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 over the term of the lease. In addition, under ASU 2016-02, lessors will only capitalize incremental direct leasing costs. As a result, the Company will no longer be able to capitalize legal costs and internal leasing wages and instead will be required to expense these and other non-incremental costs as incurred. In January 2018, the FASB issued ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842" ("ASU 2018-01"), which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The effective date and transition requirements for ASU 2018-01 are the same as the effective date and transition requirements in ASU 2016-02. The Company plans to elect this practical expedient and has gathered its inventory and is in the process of drafting procedures and controls.

3. Real Estate

Boston Properties, Inc.

Real estate consisted of the following at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Land	$5,108,880	$5,080,679
Land held for future development (1)	210,902	204,925
Buildings and improvements	12,720,779	12,284,164
Tenant improvements	2,278,755	2,219,608
Furniture, fixtures and equipment	44,164	37,928
Construction in progress	1,163,040	1,269,338
Total	21,526,520	21,096,642
Less: Accumulated depreciation	(4,745,590)	(4,589,634)
	$16,780,930	$16,507,008

(1) Includes pre-development costs.

Boston Properties Limited Partnership

Real estate consisted of the following at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Land	$5,005,471	$4,976,303
Land held for future development (1)	210,902	204,925
Buildings and improvements	12,416,577	11,977,062
Tenant improvements	2,278,755	2,219,608
Furniture, fixtures and equipment	44,164	37,928
Construction in progress	1,163,040	1,269,338
Total	21,118,909	20,685,164
Less: Accumulated depreciation	(4,649,907)	(4,496,959)
	$16,469,002	$16,188,205

(1) Includes pre-development costs.

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Development

On January 24, 2018, the Company entered into a lease agreement with Leidos for a build-to-suit project with approximately 276,000 net rentable square feet of Class A office space at the Company's 17Fifty Presidents Street development project located in Reston, Virginia. Concurrently with the execution of the lease, the Company commenced development of the project and expects the building to be completed and available for occupancy during the second quarter of 2020.

On January 31, 2018, the Company partially placed in-service its Signature at Reston development project comprised of 508 apartment units and retail space aggregating approximately 518,000 square feet located in Reston, Virginia. This project was completed and fully placed in-service on June 7, 2018.

On February 23, 2018, the Company entered into a lease agreement with Fannie Mae to lease approximately 850,000 net rentable square feet of Class A office space at the Company's Reston Gateway development project located in Reston, Virginia. The initial phase of the project will consist of approximately 1.1 million net rentable square feet. The Company expects to begin construction in the second half of 2018 upon receipt of all necessary approvals.

On June 20, 2018, the Company partially placed in-service its Proto Kendall Square development project comprised of 280 apartment units and retail space aggregating approximately 167,000 square feet located in Cambridge, Massachusetts.

Dispositions

On January 9, 2018, the Company completed the sale of its 500 E Street, S.W. property located in Washington, DC for a net contract sale price of approximately $118.6 million. Net cash proceeds totaled approximately $116.1 million, resulting in a gain on sale of real estate totaling approximately $96.4 million for Boston Properties, Inc. and approximately $98.9 million for Boston Properties Limited Partnership. 500 E Street, S.W. is an approximately 262,000 net rentable square foot Class A office property. 500 E Street, S.W. contributed approximately $0.1 million of net income to the Company for the period from January 1, 2018 through January 8, 2018 and contributed approximately $1.6 million and $3.2 million of net income to the Company for the three and six months ended June 30, 2017, respectively.

On May 24, 2018, the Company completed the sale of its 91 Hartwell Avenue property located in Lexington, Massachusetts for a gross sale price of approximately $22.2 million. Net cash proceeds totaled approximately $21.7 million, resulting in a gain on sale of real estate totaling approximately $15.5 million for Boston Properties, Inc. and approximately $15.9 million for Boston Properties Limited Partnership. 91 Hartwell Avenue is an approximately 119,000 net rentable square foot Class A office property. 91 Hartwell Avenue contributed approximately $0.1 million and $0.3 million of net income to the Company for the period from April 1, 2018 through May 23, 2018 and the period from January 1, 2018 through May 23, 2018, respectively, and contributed approximately $0.1 million and $0.3 million of net income to the Company for the three and six months ended June 30, 2017, respectively.

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4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at June 30, 2018 and December 31, 2017:

Entity	Properties	Nominal % Ownership			Carrying Value of Investment (1) June 30, 2018	December 31, 2017
					(in thousands)	
Square 407 Limited Partnership	Market Square North	50.0	%		$(7,371)	$ (8,258)
The Metropolitan Square Associates LLC	Metropolitan Square	20.0	%		4,628	3,339
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0	%	(2)	(12,824)	(13,811)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3	%	(3)	39,015	39,710
Annapolis Junction NFM, LLC	Annapolis Junction	50.0	%	(4)	17,597	18,381
540 Madison Venture LLC	540 Madison Avenue	60.0	%		66,385	66,179
500 North Capitol Venture LLC	500 North Capitol Street, NW	30.0	%		(4,416)	(3,876)
501 K Street LLC	1001 6th Street	50.0	%	(5)	42,646	42,657
Podium Developer LLC	The Hub on Causeway	50.0	%		72,900	67,120
Residential Tower Developer LLC	The Hub on Causeway - Residential	50.0	%	(6)	38,958	28,212
Hotel Tower Developer LLC	The Hub on Causeway - Hotel Air Rights	50.0	%		2,046	1,690
1265 Main Office JV LLC	1265 Main Street	50.0	%		4,413	4,641
BNY Tower Holdings LLC	Dock 72 at the Brooklyn Navy Yard	50.0	%		71,651	72,104
CA-Colorado Center Limited Partnership	Colorado Center	50.0	%		253,864	254,440
7750 Wisconsin Avenue LLC	7750 Wisconsin Avenue	50.0	%	(6)	68,404	21,452
					$657,896	$ 593,980

(1) Investments with deficit balances aggregating approximately $24.6 million and $25.9 million at June 30, 2018 and December 31, 2017, 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 subsidiary that owns Wisconsin Place Office also owns a 33.3% interest in the joint venture entity that owns 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) This 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 exceptions, 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, 2018	December 31, 2017
	(in thousands)	
ASSETS		
Real estate and development in process, net	$1,938,438	$ 1,768,996
Other assets	397,442	367,743
Total assets	$2,335,880	$ 2,136,739
LIABILITIES AND MEMBERS'/PARTNERS' EQUITY		
Mortgage and notes payable, net	$1,524,951	$ 1,437,440
Other liabilities	126,179	99,215
Members'/Partners' equity	684,750	600,084
Total liabilities and members'/partners' equity	$2,335,880	$ 2,136,739
Company's share of equity	$349,576	$ 286,495
Basis differentials (1)	308,320	307,485
Carrying value of the Company's investments in unconsolidated joint ventures (2)	$657,896	$ 593,980

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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, 2018 and December 31, 2017, there was an aggregate basis differential of approximately $319.7 million and $322.5 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 $24.6 million and $25.9 million at June 30, 2018 and December 31, 2017, 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,	
	2018	2017	2018	2017
	(in thousands)			
Total revenue (1)	$57,096	$55,862	$113,582	$110,623
Expenses				
Operating	22,868	22,103	45,717	44,182
Depreciation and amortization	14,527	14,224	29,252	28,533
Total expenses	37,395	36,327	74,969	72,715
Operating income	19,701	19,535	38,613	37,908
Other expense				
Interest expense	14,708	9,427	29,132	18,727
Net income	$4,993	$10,108	$9,481	$19,181
Company's share of net income	$2,105	$4,344	$3,931	$8,667
Basis differential (2)	(1,336)	(1,236)	(2,701)	(2,475)
Income from unconsolidated joint ventures	$769	$3,108	$1,230	$6,192

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(1) Includes straight-line rent adjustments of approximately $3.2 million and $4.3 million for the three months ended June 30, 2018 and 2017, respectively, and $5.0 million and $11.3 million for the six months ended June 30, 2018 and 2017, respectively.

(2) Includes straight-line rent adjustments of approximately $0.7 million and $0.8 million for the three months ended June 30, 2018 and 2017, respectively, and $1.4 million and $1.5 million for the six months ended June 30, 2018 and 2017, respectively. Also includes net above-/below-market rent adjustments of approximately