

BOSTON PROPERTIES INC

Form 10-Q

November 07, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

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)
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Boston Properties Limited Partnership	Delaware (State or other jurisdiction of incorporation or organization)	04-3372948 (I.R.S. Employer Identification Number)
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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 No Boston Properties Limited Partnership: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Boston Properties, Inc.: Yes No Boston Properties Limited Partnership: Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Boston Properties, Inc.:

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Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Boston Properties Limited Partnership:							
Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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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 Boston Properties Limited Partnership: Yes No

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	153,773,460
(Registrant)	(Class)	(Outstanding on November 2, 2016)

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2016 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. 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 September 30, 2016, BXP owned an approximate 89.5% ownership interest in BPLP. The remaining approximate 10.5% 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 revolving credit facility, 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 \$330.0 million, or 2.1% at September 30, 2016 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 9. Noncontrolling Interests;
- Note 10. Stockholders' Equity / Partners' Capital; and
- Note 11. 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 31 and 32 certifications for each of BXP and BPLP.

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 FORM 10-Q
 for the quarter ended September 30, 2016
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PART I. FINANCIAL INFORMATION

ITEM 1—Financial Statements.

BOSTON PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2016	December 31, 2015
	(in thousands, except for share and par value amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities (“VIEs”) of \$6,618,753 at September 30, 2016)	\$ 19,902,756	\$ 19,481,535
Less: accumulated depreciation (amounts related to VIEs of (\$713,454) at September 30, 2016)	(4,113,553)	(3,925,894)
Total real estate	15,789,203	15,555,641
Cash and cash equivalents (amounts related to VIEs of \$244,026 at September 30, 2016)	419,323	723,718
Cash held in escrows (amounts related to VIEs of \$4,988 at September 30, 2016)	63,980	73,790
Investments in securities	23,022	20,380
Tenant and other receivables (amounts related to VIEs of \$19,242 at September 30, 2016)	76,258	97,865
Accrued rental income (amounts related to VIEs of \$221,031 at September 30, 2016)	785,569	754,883
Deferred charges, net (amounts related to VIEs of \$304,358 at September 30, 2016)	680,192	704,867
Prepaid expenses and other assets (amounts related to VIEs of \$76,094 at September 30, 2016)	176,693	185,118
Investments in unconsolidated joint ventures	775,659	235,224
Total assets	\$ 18,789,899	\$ 18,351,486
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of \$2,032,714 at September 30, 2016)	\$ 2,077,707	\$ 3,435,242
Unsecured senior notes, net	7,243,767	5,264,819
Unsecured line of credit	—	—
Mezzanine notes payable (amounts related to VIEs of \$307,448 at September 30, 2016)	307,448	308,482
Outside members’ notes payable (amounts related to VIEs of \$180,000 at September 30, 2016)	180,000	180,000
Accounts payable and accrued expenses (amounts related to VIEs of \$127,846 at September 30, 2016)	312,979	274,709
Dividends and distributions payable	113,038	327,320
Accrued interest payable (amounts related to VIEs of \$153,012 at September 30, 2016)	234,628	190,386
Other liabilities (amounts related to VIEs of \$195,245 at September 30, 2016)	461,079	483,601
Total liabilities	10,930,646	10,464,559
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;		

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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 September 30, 2016 and December 31, 2015	200,000	200,000
Common stock, \$0.01 par value, 250,000,000 shares authorized, 153,851,912 and 153,658,866 issued and 153,773,012 and 153,579,966 outstanding at September 30, 2016 and December 31, 2015, respectively	1,538	1,536
Additional paid-in capital	6,326,580	6,305,687
Dividends in excess of earnings	(725,522	) (780,952)
Treasury common stock at cost, 78,900 shares at September 30, 2016 and December 31, 2015	(2,722	) (2,722)
Accumulated other comprehensive loss	(73,943	) (14,114)
Total stockholders' equity attributable to Boston Properties, Inc.	5,725,931	5,709,435
Noncontrolling interests:		
Common units of the Operating Partnership	608,280	603,092
Property partnerships	1,525,042	1,574,400
Total equity	7,859,253	7,886,927
Total liabilities and equity	\$ 18,789,899	\$ 18,351,486

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

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

	Three months ended September 30, 2016		Nine months ended September 30, 2016	
	2015	2016	2015	2016
(in thousands, except for per share amounts)				
Revenue				
Rental				
Base rent	\$489,312	\$494,300	\$1,518,826	\$1,471,591
Recoveries from tenants	92,560	91,544	267,852	266,932
Parking and other	24,638	25,509	75,576	76,849
Total rental revenue	606,510	611,353	1,862,254	1,815,372
Hotel revenue	12,354	12,619	33,919	35,107
Development and management services	6,364	5,912	18,586	16,102
Total revenue	625,228	629,884	1,914,759	1,866,581
Expenses				
Operating				
Rental	228,560	219,796	665,670	655,610
Hotel	8,118	8,125	23,730	24,196
General and administrative	25,165	20,944	79,936	72,019
Transaction costs	249	254	1,187	789
Impairment loss	1,783	—	1,783	—
Depreciation and amortization	203,748	153,015	516,371	475,082
Total expenses	467,623	402,134	1,288,677	1,227,696
Operating income	157,605	227,750	626,082	638,885
Other income (expense)				
Income from unconsolidated joint ventures	1,464	2,647	5,489	20,559
Interest and other income	3,628	3,637	6,657	6,337
Gains (losses) from investments in securities	976	(1,515)	1,713	(1,146)
Interest expense	(104,641)	(108,727)	(314,953)	(326,018)
Losses from early extinguishments of debt	(371)	—	(371)	—
Losses from interest rate contracts	(140)	—	(140)	—
Income before gains on sales of real estate	58,521	123,792	324,477	338,617
Gains on sales of real estate	12,983	199,479	80,606	294,563
Net income	71,504	323,271	405,083	633,180
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	17,225	(115,240)	(53)	(139,712)
Noncontrolling interest—redeemable preferred units of the Operating Partnership	—	—	—	(6)
Noncontrolling interest—common units of the Operating Partnership	(9,387)	(21,302)	(42,120)	(50,906)
Net income attributable to Boston Properties, Inc.	79,342	186,729	362,910	442,556
Preferred dividends	(2,589)	(2,647)	(7,796)	(7,854)
Net income attributable to Boston Properties, Inc. common shareholders	\$76,753	\$184,082	\$355,114	\$434,702
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	\$0.50	\$1.20	\$2.31	\$2.83
Weighted average number of common shares outstanding	153,754	153,595	153,681	153,426

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Diluted earnings per common share attributable to Boston

Properties, Inc. common shareholders:

Net income	\$0.50	\$1.20	\$2.31	\$2.82
Weighted average number of common and common equivalent shares outstanding	154,136	153,786	153,971	153,825
Dividends per common share	\$0.65	\$0.65	\$1.95	\$1.95

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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income	\$71,504	\$323,271	\$405,083	\$633,180
Other comprehensive income (loss):				
Effective portion of interest rate contracts	5,712	(30,156)	(85,285)	(18,050)
Amortization of interest rate contracts (1)	1,190	627	2,445	1,882
Other comprehensive income (loss)	6,902	(29,529)	(82,840)	(16,168)
Comprehensive income	78,406	293,742	322,243	617,012
Net income attributable to noncontrolling interests	7,838	(136,542)	(42,173)	(190,624)
Other comprehensive income (loss) attributable to noncontrolling interests	(1,097)	7,056	23,011	4,847
Comprehensive income attributable to Boston Properties, Inc.	\$85,147	\$164,256	\$303,081	\$431,235

(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	Additional	Dividends in	Treasury	Accumulated	Noncontrolling	Total
	Shares	Amount	Stock	Paid-in	Excess of	Stock,	Other	Interests	
				Capital	Earnings	at cost	Comprehensive	Loss	
Equity, December 31, 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	173	2	—	5,879	—	—	—	(5,881)) —
Allocated net income for the year	—	—	—	—	362,910	—	—	42,173	405,083
Dividends/distributions declared	—	—	—	—	(307,480)	—	—	(35,500)	) (342,980)
Shares issued pursuant to stock purchase plan	6	—	—	730	—	—	—	—	730
Net activity from stock option and incentive plan	14	—	—	2,870	—	—	—	21,420	24,290
Sale of interests in property partnerships	—	—	—	1,320	—	—	—	(1,320)) —
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	6,737	6,737
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(38,694)	) (38,694)
Effective portion of interest rate contracts	—	—	—	—	—	—	(62,022)	(23,263)	) (85,285)
Amortization of interest rate contracts	—	—	—	—	—	—	2,193	252	2,445
Reallocation of noncontrolling interest	—	—	—	10,094	—	—	—	(10,094)) —
Equity, September 30, 2016	153,773	\$1,538	\$200,000	\$6,326,580	\$(725,522)	\$(2,722)	\$(73,943)	\$2,133,322	\$7,859,253
Equity, December 31, 2014	153,114	\$1,531	\$200,000	\$6,270,257	\$(762,464)	\$(2,722)	\$(9,304)	\$2,205,638	\$7,902,936
Redemption of operating partnership units to common stock	419	5	—	14,152	—	—	—	(14,157)) —
Allocated net income for the year	—	—	—	—	442,556	—	—	185,497	628,053
Dividends/distributions declared	—	—	—	—	(307,146)	—	—	(35,307)) (342,453)

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Shares issued pursuant to stock purchase plan	6	—	—	780	—	—	—	—	780
Net activity from stock option and incentive plan	36	—	—	4,600	—	—	—	29,307	33,907
Acquisition of redeemable noncontrolling interest in property partnership	—	—	—	(1,586	)	—	—	—	(1,586)
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	1,758	1,758
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(144,468)	(144,468)
Effective portion of interest rate contracts	—	—	—	—	—	—	(13,008)	(5,042)	(18,050)
Amortization of interest rate contracts	—	—	—	—	—	—	1,687	195	1,882
Reallocation of noncontrolling interest	—	—	—	12,577	—	—	—	(12,577)	—
Equity, September 30, 2015	153,575	\$ 1,536	\$ 200,000	\$ 6,300,780	\$ (627,054)	\$ (2,722)	\$ (20,625)	\$ 2,210,844	\$ 8,062,759

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

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

	For the nine months ended September 30,	
	2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	\$405,083	\$633,180
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	516,371	475,082
Impairment loss	1,783	—
Non-cash compensation expense	25,290	22,825
Income from unconsolidated joint ventures	(5,489)	(20,559)
Distributions of net cash flow from operations of unconsolidated joint ventures	11,645	6,484
Losses (gains) from investments in securities	(1,713)	1,146
Losses from early extinguishments of debt	371	—
Non-cash portion of interest expense	(27,386)	(32,818)
Gains on sales of real estate	(80,606)	(294,563)
Change in assets and liabilities:		
Cash held in escrows	1,675	(32,750)
Tenant and other receivables, net	22,135	(19,851)
Accrued rental income, net	(14,618)	(55,941)
Prepaid expenses and other assets	4,883	20,988
Accounts payable and accrued expenses	16,852	(2,937)
Accrued interest payable	44,242	37,384
Other liabilities	(114,321)	(73,370)
Tenant leasing costs	(62,412)	(55,422)
Total adjustments	338,702	(24,302)
Net cash provided by operating activities	743,785	608,878
Cash flows from investing activities:		
Acquisition of real estate	(78,000)	—
Construction in progress	(359,716)	(251,984)
Building and other capital improvements	(81,842)	(84,644)
Tenant improvements	(167,762)	(86,052)
Proceeds from sales of real estate	122,750	389,457
Proceeds from sales of real estate placed in escrow	(122,647)	(200,612)
Proceeds from sales of real estate released from escrow	122,647	634,165
Cash placed in escrow for land sale contracts	—	(7,111)
Cash released from escrow for land sale contracts	1,403	3,250
Cash released from escrow for investing activities	6,694	—
Capital contributions to unconsolidated joint ventures	(546,982)	(20,863)
Capital distributions from unconsolidated joint ventures	—	24,527
Investments in securities, net	(929)	(1,332)
Net cash provided by (used in) investing activities	(1,104,384)	398,801

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

	For the nine months ended September 30,	
	2016	2015
	(in thousands)	
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,323,284)	(20,137)
Proceeds from unsecured senior notes	1,989,790	—
Proceeds from real estate financing transaction	—	6,000
Payments on real estate financing transactions	(4,712)	(2,364)
Deferred financing costs	(16,101)	(1,288)
Net proceeds from equity transactions	(270)	799
Redemption of preferred units	—	(633)
Dividends and distributions	(557,262)	(1,112,019)
Acquisition of noncontrolling interest	—	(108,499)
Contributions from noncontrolling interests in property partnerships	6,737	1,758
Distributions to noncontrolling interests in property partnerships	(38,694)	(147,368)
Net cash provided by (used in) financing activities	56,204	(1,383,751)
Net decrease in cash and cash equivalents	(304,395)	(376,072)
Cash and cash equivalents, beginning of period	723,718	1,763,079
Cash and cash equivalents, end of period	\$419,323	\$1,387,007
Supplemental disclosures:		
Cash paid for interest	\$327,053	\$347,367
Interest capitalized	\$28,956	\$25,915
Non-cash investing and financing activities:		
Write-off of fully depreciated real estate	\$(168,861)	\$(33,532)
Additions to real estate included in accounts payable and accrued expenses	\$11,864	\$28,246
Dividends and distributions declared but not paid	\$113,038	\$112,912
Mortgage notes payable assigned in connection with the sale of real estate	\$—	\$116,993
Conversions of noncontrolling interests to stockholders' equity	\$5,881	\$14,157
Issuance of restricted securities to employees	\$33,711	\$43,363

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2016	December 31, 2015
	(in thousands, except for unit amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities (“VIEs”) of \$6,618,753 at September 30, 2016)	\$ 19,489,365	\$ 19,061,141
Less: accumulated depreciation (amounts related to VIEs of (\$713,454) at September 30, 2016)	(4,030,172)	(3,846,816)
Total real estate	15,459,193	15,214,325
Cash and cash equivalents (amounts related to VIEs of \$244,026 at September 30, 2016)	419,323	723,718
Cash held in escrows (amounts related to VIEs of \$4,988 at September 30, 2016)	63,980	73,790
Investments in securities	23,022	20,380
Tenant and other receivables (amounts related to VIEs of \$19,242 at September 30, 2016)	76,258	97,865
Accrued rental income (amounts related to VIEs of \$221,031 at September 30, 2016)	785,569	754,883
Deferred charges, net (amounts related to VIEs of \$304,358 at September 30, 2016)	680,192	704,867
Prepaid expenses and other assets (amounts related to VIEs of \$76,094 at September 30, 2016)	176,693	185,118
Investments in unconsolidated joint ventures	775,659	235,224
Total assets	\$ 18,459,889	\$ 18,010,170
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of \$2,032,714 at September 30, 2016)	\$ 2,077,707	\$ 3,435,242
Unsecured senior notes, net	7,243,767	5,264,819
Unsecured line of credit	—	—
Mezzanine notes payable (amounts related to VIEs of \$307,448 at September 30, 2016)	307,448	308,482
Outside members’ notes payable (amounts related to VIEs of \$180,000 at September 30, 2016)	180,000	180,000
Accounts payable and accrued expenses (amounts related to VIEs of \$127,846 at September 30, 2016)	312,979	274,709
Distributions payable	113,038	327,320
Accrued interest payable (amounts related to VIEs of \$153,012 at September 30, 2016)	234,628	190,386
Other liabilities (amounts related to VIEs of \$195,245 at September 30, 2016)	461,079	483,601
Total liabilities	10,930,646	10,464,559
Commitments and contingencies	—	—
Noncontrolling interests:		
Redeemable partnership units—17,096,675 and 16,097,473 common units and 905,494 and 1,831,714 long term incentive units outstanding at redemption value at September 30, 2016 and December 31, 2015, respectively	2,453,516	2,286,689
Capital:		
5.25% Series B cumulative redeemable preferred units, liquidation preference \$2,500 per unit, 80,000 units issued and outstanding at September 30, 2016 and December 31, 2015	193,623	193,623
Boston Properties Limited Partnership partners’ capital—1,717,752 and 1,715,092 general partner units and 152,055,260 and 151,864,874 limited partner units outstanding at	B,357,062	3,490,899

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September 30, 2016 and December 31, 2015, respectively

Noncontrolling interests in property partnerships	1,525,042	1,574,400
Total capital	5,075,727	5,258,922
Total liabilities and capital	\$18,459,889	\$18,010,170

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 September 30, 2016		Nine months ended September 30, 2016	
	2015	2016	2015	2016
(in thousands, except for per unit amounts)				
Revenue				
Rental				
Base rent	\$489,312	\$494,300	\$1,518,826	\$1,471,591
Recoveries from tenants	92,560	91,544	267,852	266,932
Parking and other	24,638	25,509	75,576	76,849
Total rental revenue	606,510	611,353	1,862,254	1,815,372
Hotel revenue	12,354	12,619	33,919	35,107
Development and management services	6,364	5,912	18,586	16,102
Total revenue	625,228	629,884	1,914,759	1,866,581
Expenses				
Operating				
Rental	228,560	219,796	665,670	655,610
Hotel	8,118	8,125	23,730	24,196
General and administrative	25,165	20,944	79,936	72,019
Transaction costs	249	254	1,187	789
Impairment loss	1,783	—	1,783	—
Depreciation and amortization	198,582	151,017	507,234	469,087
Total expenses	462,457	400,136	1,279,540	1,221,701
Operating income	162,771	229,748	635,219	644,880
Other income (expense)				
Income from unconsolidated joint ventures	1,464	2,647	5,489	20,559
Interest and other income	3,628	3,637	6,657	6,337
Gains (losses) from investments in securities	976	(1,515)	1,713	(1,146)
Interest expense	(104,641)	(108,727)	(314,953)	(326,018)
Losses from early extinguishments of debt	(371)	—	(371)	—
Losses from interest rate contracts	(140)	—	(140)	—
Income before gains on sales of real estate	63,687	125,790	333,614	344,612
Gains on sales of real estate	12,983	199,723	82,775	294,807
Net income	76,670	325,513	416,389	639,419
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	17,225	(115,240)	(53)	(139,712)
Noncontrolling interest—redeemable preferred units	—	—	—	(6)
Net income attributable to Boston Properties Limited Partnership	93,895	210,273	416,336	499,701
Preferred distributions	(2,589)	(2,647)	(7,796)	(7,854)
Net income attributable to Boston Properties Limited Partnership common unitholders	\$91,306	\$207,626	\$408,540	\$491,847
Basic earnings per common unit attributable to Boston Properties Limited Partnership common unitholders:				
Net income	\$0.53	\$1.21	\$2.38	\$2.87
Weighted average number of common units outstanding	171,379	171,160	171,353	171,131
Diluted earnings per common unit attributable to Boston Properties Limited Partnership common unitholders:				

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Net income	\$0.53	\$1.21	\$2.38	\$2.87
Weighted average number of common and common equivalent units outstanding	171,761	171,351	171,643	171,530
Distributions per common unit	\$0.65	\$0.65	\$1.95	\$1.95

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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income	\$76,670	\$325,513	\$416,389	\$639,419
Other comprehensive income (loss):				
Effective portion of interest rate contracts	5,712	(30,156)	(85,285)	(18,050)
Amortization of interest rate contracts (1)	1,190	627	2,445	1,882
Other comprehensive income (loss)	6,902	(29,529)	(82,840)	(16,168)
Comprehensive income	83,572	295,984	333,549	623,251
Comprehensive income attributable to noncontrolling interests	16,812	(110,784)	16,081	(136,178)
Comprehensive income attributable to Boston Properties Limited Partnership	\$100,384	\$185,200	\$349,630	\$487,073

(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 NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Unaudited and in thousands)

	Total Partners' Capital
Balance at December 31, 2015	\$3,684,522
Contributions	3,269
Net income allocable to general and limited partner units	374,216
Distributions	(307,480)
Accumulated other comprehensive loss	(59,829)
Unearned compensation	1,651
Conversion of redeemable partnership units	5,881
Adjustment to reflect redeemable partnership units at redemption value	(151,545)
Balance at September 30, 2016	\$3,550,685
Balance at December 31, 2014	\$3,639,916
Contributions	5,126
Acquisition of redeemable noncontrolling interest in property partnership	(1,586)
Net income allocable to general and limited partner units	448,795
Distributions	(307,146)
Accumulated other comprehensive loss	(11,321)
Unearned compensation	254
Conversion of redeemable partnership units	14,157
Adjustment to reflect redeemable partnership units at redemption value	216,037
Balance at September 30, 2015	\$4,004,232

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 nine months ended September 30,	
	2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	\$416,389	\$639,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	507,234	469,087
Impairment loss	1,783	—
Non-cash compensation expense	25,290	22,825
Income from unconsolidated joint ventures	(5,489)	(20,559)
Distributions of net cash flow from operations of unconsolidated joint ventures	11,645	6,484
Losses (gains) from investments in securities	(1,713)	1,146
Losses from early extinguishments of debt	371	—
Non-cash portion of interest expense	(27,386)	(32,818)
Gains on sales of real estate	(82,775)	(294,807)
Change in assets and liabilities:		
Cash held in escrows	1,675	(32,750)
Tenant and other receivables, net	22,135	(19,851)
Accrued rental income, net	(14,618)	(55,941)
Prepaid expenses and other assets	4,883	20,988
Accounts payable and accrued expenses	16,852	(2,937)
Accrued interest payable	44,242	37,384
Other liabilities	(114,321)	(73,370)
Tenant leasing costs	(62,412)	(55,422)
Total adjustments	327,396	(30,541)
Net cash provided by operating activities	743,785	608,878
Cash flows from investing activities:		
Acquisition of real estate	(78,000)	—
Construction in progress	(359,716)	(251,984)
Building and other capital improvements	(81,842)	(84,644)
Tenant improvements	(167,762)	(86,052)
Proceeds from sales of real estate	122,750	389,457
Proceeds from sales of real estate placed in escrow	(122,647)	(200,612)
Proceeds from sales of real estate released from escrow	122,647	634,165
Cash placed in escrow for land sale contracts	—	(7,111)
Cash released from escrow for land sale contracts	1,403	3,250
Cash released from escrow for investing activities	6,694	—
Capital contributions to unconsolidated joint ventures	(546,982)	(20,863)
Capital distributions from unconsolidated joint ventures	—	24,527
Investments in securities, net	(929)	(1,332)
Net cash provided by (used in) investing activities	(1,104,384)	398,801

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

	For the nine months ended September 30,	
	2016	2015
	(in thousands)	
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,323,284)	(20,137)
Proceeds from unsecured senior notes	1,989,790	—
Proceeds from real estate financing transaction	—	6,000
Payments on real estate financing transaction	(4,712)	(2,364)
Deferred financing costs	(16,101)	(1,288)
Net proceeds from equity transactions	(270)	799
Redemption of preferred units	—	(633)
Acquisition of noncontrolling interest	—	(108,499)
Distributions	(557,262)	(1,112,019)
Contributions from noncontrolling interests in property partnerships	6,737	1,758
Distributions to noncontrolling interests in property partnerships	(38,694)	(147,368)
Net cash provided by (used in) financing activities	56,204	(1,383,751)
Net decrease in cash and cash equivalents	(304,395)	(376,072)
Cash and cash equivalents, beginning of period	723,718	1,763,079
Cash and cash equivalents, end of period	\$419,323	\$1,387,007
Supplemental disclosures:		
Cash paid for interest	\$327,053	\$347,367
Interest capitalized	\$28,956	\$25,915
Non-cash investing and financing activities:		
Write-off of fully depreciated real estate	\$(168,861)	\$(33,532)
Additions to real estate included in accounts payable and accrued expenses	\$11,864	\$28,246
Distributions declared but not paid	\$113,038	\$112,912
Mortgage notes payable assigned in connection with the sale of real estate	\$—	\$116,993
Conversions of redeemable partnership units to partners' capital	\$5,881	\$14,157
Issuance of restricted securities to employees	\$33,711	\$43,363

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

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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 September 30, 2016 owned an approximate 89.5% (89.5% at December 31, 2015) 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 and 2016 multi-year, long-term incentive program awards (also referred to as “2013 MYLTIP Units,” “2014 MYLTIP Units,” “2015 MYLTIP Units” and “2016 MYLTIP Units,” respectively, and collectively 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 and 2013 MYLTIP Units expired on February 6, 2015 and February 4, 2016, 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 2014, 2015 and 2016 MYLTIP Units differ from other LTIP Units granted to employees (including, as of February 6, 2015, the 2012 OPP Units and, as of February 4, 2016, the 2013 MYLTIP Units). Therefore, unless specifically noted otherwise, all references to LTIP Units exclude the 2014, 2015 and 2016 MYLTIP Units. LTIP Units (including the 2012 OPP Units and the 2013 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 9, 10 and 12).

At September 30, 2016, 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 issuance of 80,000 shares (8,000,000 depository 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 10).

Properties

At September 30, 2016, the Company owned or had interests in a portfolio of 174 commercial real estate properties (the “Properties”) aggregating approximately 47.7 million net rentable square feet of primarily Class A office properties, including eight properties under construction/redevelopment totaling approximately 4.0 million net rentable square feet. At September 30, 2016, the Properties consisted of:

164 Office properties (including six properties under construction/redevelopment);
one hotel;
five retail properties; and
four residential properties (including two 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, 2015. Beginning on January 1, 2016, the properties that were historically included in the Company’s Office/Technical segment are now included in the Office segment (See Note 13).

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.

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 September 30, 2016 and December 31, 2015 (in thousands):

September 30, 2016		December 31, 2015	
Carrying	Estimated	Carrying	Estimated

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	Amount	Fair Value	Amount	Fair Value
Mortgage notes payable, net	\$2,077,707	\$2,111,614	\$3,435,242	\$3,503,746
Mezzanine notes payable	307,448	309,095	308,482	306,103
Unsecured senior notes, net	7,243,767	7,761,908	5,264,819	5,547,738
Total	\$9,628,922	\$10,182,617	\$9,008,543	\$9,357,587

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The Company uses interest rate swap agreements to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2016, 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)

On January 1, 2016, the Company adopted Accounting Standards Update ("ASU") ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 (1) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, (2) eliminates the presumption that a general partner should consolidate a limited partnership and (3) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The Company reviewed all of its legal entities in accordance with ASU 2015-02 and concluded that certain of its legal entities, including Boston Properties Limited Partnership, which had been consolidated in accordance with the voting interest model, are now variable interest entities under the VIE model, as discussed below. The adoption of the guidance did not alter any of the Company's consolidation conclusions, but resulted in additional disclosures.

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 September 30, 2016, 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), Time 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 as 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 9).

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 Dock72 at the Brooklyn Navy Yard, is a VIE. The Company does not consolidate this entity 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.

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Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contract with Customers (Topic 606)” (“ASU 2014-09”). The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying ASU 2014-09, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB’s Accounting Standards Codification (“ASC”). 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. The Company is currently assessing the potential impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and shall be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Early adoption is permitted for financial statements that have not been previously issued. On January 1, 2016, the Company adopted ASU 2015-03 and retrospectively applied the guidance to its Mortgage Notes Payable and Unsecured Senior Notes for all periods presented. Unamortized deferred financing costs, which were previously included in Deferred Charges, Net, totaling approximately \$2.5 million and \$36.8 million are included in Mortgage Notes Payable, Net and Unsecured Senior Notes, Net, respectively, as of September 30, 2016 and approximately \$3.5 million and \$24.5 million are included in Mortgage Notes Payable, Net and Unsecured Senior Notes, Net, respectively, as of December 31, 2015.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. ASU 2016-01 is effective for the Company for reporting periods beginning after December 15, 2017. Early application is permitted. The Company is currently assessing the potential impact that the adoption of ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases” (“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 is expected to impact the Company’s consolidated financial

statements as the Company has certain operating land lease arrangements for which it is the lessee. 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 is currently assessing the potential impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

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In March 2016, the FASB issued ASU 2016-05, “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships” (“ASU 2016-05”), which provides guidance clarifying that a novation of party to a derivative instrument, whereby one of the parties to a derivative instrument is replaced with another party, does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge criteria continue to be met. ASU 2016-05 is effective for the Company for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the potential impact that the adoption of ASU 2016-05 will have on its consolidated financial statements.

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. The Company is currently assessing the potential impact that the adoption of ASU 2016-09 will have on its consolidated financial statements.

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 is currently assessing the potential impact that the adoption of ASU 2016-12 will have on its consolidated financial statements.

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 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 is 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. The Company is currently assessing the potential impact that the adoption of ASU 2016-15 will have on its consolidated financial statements.

3. Real Estate

Boston Properties, Inc.

Real estate consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, December 31,	
	2016	2015
Land	\$4,879,020	\$4,806,021
Land held for future development (1)	243,887	252,195
Buildings and improvements	11,792,853	11,709,285
Tenant improvements	2,001,259	1,920,247
Furniture, fixtures and equipment	31,724	29,852
Construction in progress	954,013	763,935
Total	19,902,756	19,481,535
Less: Accumulated depreciation	(4,113,553)	(3,925,894)
	\$ 15,789,203	\$ 15,555,641

(1) Includes pre-development costs.

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Boston Properties Limited Partnership

Real estate consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Land	\$4,774,460	\$4,700,793
Land held for future development (1)	243,887	252,195
Buildings and improvements	11,484,022	11,394,119
Tenant improvements	2,001,259	1,920,247
Furniture, fixtures and equipment	31,724	29,852
Construction in progress	954,013	763,935
Total	19,489,365	19,061,141
Less: Accumulated depreciation	(4,030,172)	(3,846,816)
	\$ 15,459,193	\$ 15,214,325

(1) Includes pre-development costs.

Acquisitions

On April 22, 2016, the Company acquired 3625-3635 Peterson Way located in Santa Clara, California for a purchase price of approximately \$78.0 million in cash. 3625-3635 Peterson Way is an approximately 218,000 net rentable square foot office property. The property is 100% leased to a single tenant through March 2021. Following the lease expiration, the Company intends to develop the site into a Class A office campus containing an aggregate of approximately 632,000 net rentable square feet. The following table summarizes the allocation of the aggregate purchase price of 3625-3635 Peterson Way at the date of acquisition (in thousands).

Land	\$63,206
Building and improvements	7,210
Tenant improvements	7,669
In-place lease intangibles	4,262
Below-market lease intangible (4,347)	
Net assets acquired	\$78,000

The following table summarizes the estimated annual amortization of the acquired below-market lease intangible and the acquired in-place lease intangibles for 3625-3635 Peterson Way for the remainder of 2016 and each of the next four succeeding fiscal years (in thousands).

	Acquired In-Place Lease Intangibles	Acquired Below- Market Lease Intangible
Period from April 22, 2016 through December 31, 2016	\$ 578	\$ (589)
2017	867	(884)
2018	867	(884)
2019	867	(884)
2020	867	(884)

3625-3635 Peterson Way contributed approximately \$2.4 million of revenue and approximately \$6,000 of earnings to the Company for the period from April 22, 2016 through September 30, 2016.

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Dispositions

On February 1, 2016, the Company completed the sale of its 415 Main Street property located in Cambridge, Massachusetts to the tenant for a gross sale price of approximately \$105.4 million. Net cash proceeds totaled approximately \$104.9 million, resulting in a gain on sale of real estate totaling approximately \$60.8 million for Boston Properties, Inc. and approximately \$63.0 million for Boston Properties Limited Partnership. As part of its lease signed on July 14, 2004, the tenant was granted a fixed-price option to purchase the building at the beginning of the 11th lease year, which option was exercised by the tenant on October 22, 2014. 415 Main Street is an office property with approximately 231,000 net rentable square feet. 415 Main Street contributed approximately \$1.2 million of net income to the Company for the period from January 1, 2016 through January 31, 2016 and contributed approximately \$(35,000) and \$6.2 million of net income (loss) to the Company for the three and nine months ended September 30, 2015, respectively.

On August 16, 2016, the Company completed the sale of a parcel of land within its Broad Run Business Park property located in Loudoun County, Virginia for a gross sale price of approximately \$18.0 million. Net cash proceeds totaled approximately \$17.9 million, resulting in a gain on sale of real estate totaling approximately \$13.0 million.

On September 27, 2016, the Company executed a letter of intent for the sale of the remaining parcel of land at its Washingtonian North property located in Gaithersburg, Maryland. The letter of intent caused the Company to reevaluate its strategy for the land and, based on a shorter than expected hold period, the Company reduced the carrying value of the land to the estimated net sales price and recognized an impairment loss of approximately \$1.8 million during the three and nine months ended September 30, 2016.

Development

On May 27, 2016, the Company completed and fully placed in-service 601 Massachusetts Avenue, a Class A office project with approximately 479,000 net rentable square feet located in Washington, DC.

On May 27, 2016, the Company completed and fully placed in-service 804 Carnegie Center, a Class A office project with approximately 130,000 net rentable square feet located in Princeton, New Jersey.

On June 24, 2016, the Company completed and fully placed in-service 10 CityPoint, a Class A office project with approximately 241,000 net rentable square feet located in Waltham, Massachusetts.

On August 19, 2016, the consolidated entity in which the Company has a 55% interest and that owns 601 Lexington Avenue located in New York City commenced the redevelopment of the six-story low-rise office and retail building component of the complex. The redeveloped portion of the low-rise building will contain approximately 195,000 net rentable square feet of Class A office space and approximately 25,000 net rentable square feet of retail space. The Company will capitalize incremental costs during the redevelopment. Boston Properties, Inc. and Boston Properties Limited Partnership recognized approximately \$50.8 million and \$47.6 million, respectively, of depreciation expense associated with the acceleration of depreciation on the assets being removed from service and demolished as part of the redevelopment of the property. Approximately \$21.4 million of those amounts was allocated to the outside partners and is included within Noncontrolling Interests in Property Partnerships in the Company's Consolidated Statements of Operations.

On September 16, 2016, the Company partially placed in-service 888 Boylston Street, a Class A office project with approximately 425,000 net rentable square feet located in Boston, Massachusetts.

Lease Terminations

On February 3, 2016, the Company entered into a lease termination agreement with a tenant for an approximately 85,000 square foot lease at its 250 West 55th Street property located in New York City. The lease was scheduled to expire on February 28, 2035. In consideration for the termination of the lease, the tenant paid the Company approximately \$45.0 million, which was recognized as termination income and is included in Base Rent in the Consolidated Statements of Operations for the nine months ended September 30, 2016.

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4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at September 30, 2016 and December 31, 2015:

Entity	Properties	Nominal % Ownership	Carrying Value of Investment (1)	
			September 30, 2016	December 31, 2015
Square 407 Limited Partnership	Market Square North	50.0 %	\$(8,483)	\$(9,951)
The Metropolitan Square Associates LLC	Metropolitan Square	51.0 %	9,552	9,179
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0 % (2)	(10,898)	(11,958)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3 % (3)	42,073	43,524
Annapolis Junction NFM, LLC	Annapolis Junction	50.0 % (4)	21,075	29,009
540 Madison Venture LLC	540 Madison Avenue	60.0 %	69,602	68,983
500 North Capitol Venture LLC	500 North Capitol Street, NW	30.0 %	(3,395)	(3,292)
501 K Street LLC	1001 6th Street	50.0 % (5)	42,541	42,584
Podium Developer LLC	The Hub on Causeway	50.0 %	33,820	18,508
1265 Main Office JV LLC	1265 Main Street	50.0 %	23,757	11,916
BNY Tower Holdings LLC (6)	Dock72 at the Brooklyn Navy Yard	50.0 %	25,980	11,521
CA-Colorado Center Limited Partnership	Colorado Center	49.8 %	507,259	N/A
			\$752,883	\$ 210,023

Investments with deficit balances aggregating approximately \$22.8 million and \$25.2 million at September 30, (1)2016 and December 31, 2015, 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.

Under the joint venture agreement for this land parcel, the partner will be entitled to up to two additional payments (5)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:

	September 30, 2016	December 31, 2015
	(in thousands)	
ASSETS		
Real estate and development in process, net	\$1,460,808	\$1,072,412
Other assets	294,912	252,285
Total assets	\$1,755,720	\$1,324,697
LIABILITIES AND MEMBERS'/PARTNERS' EQUITY		
Mortgage and notes payable, net	\$826,807	\$830,125
Other liabilities	54,390	44,549
Members'/Partners' equity	874,523	450,023
Total liabilities and members'/partners' equity	\$1,755,720	\$1,324,697
Company's share of equity	\$449,351	\$237,070
Basis differentials (1)	303,532	(27,047)
Carrying value of the Company's investments in unconsolidated joint ventures (2)	\$752,883	\$210,023

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 (1) acquisition, transaction and other costs may not be reflected in the net assets at the joint venture level. At September 30, 2016, there is an aggregate basis differential of approximately \$330.1 million 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.

Investments with deficit balances aggregating approximately \$22.8 million and \$25.2 million at September 30, (2)2016 and December 31, 2015, 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Total revenue (1)	\$49,002	\$38,197	\$125,039	\$116,881
Expenses				
Operating	21,753	15,896	54,779	47,995
Depreciation and amortization	12,038	8,832	30,306	26,854
Total expenses	33,791	24,728	85,085	74,849
Operating income	15,211	13,469	39,954	42,032
Other expense				
Interest expense	8,400	8,019	25,172	23,985
Net income	\$6,811	\$5,450	\$14,782	\$18,047
Company's share of net income	\$3,179	\$2,481	\$6,830	\$20,025 (2)
Basis differential (3)	(1,715)	166	(1,341)	534
Income from unconsolidated joint ventures	\$1,464	\$2,647	\$5,489	\$20,559

- (1) Includes straight-line rent adjustments of approximately \$5.2 million and \$(0.3) million for the three months ended September 30, 2016 and 2015, respectively, and approximately \$11.0 million and \$1.7 million for the nine months ended September 30, 2016 and 2015, respectively.

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

(2) Includes a straight-line rent adjustment of approximately \$0.7 million and a net above-/below-market rent adjustment of approximately \$0.5 million for the three and nine months ended September 30, 2016.

(3) On April 4, 2016, a joint venture in which the Company has a 50% interest extended the loan collateralized by its Annapolis Junction Building Seven property. At the time of the extension, the outstanding balance of the loan totaled approximately \$21.5 million and was scheduled to mature on April 4, 2016. The extended loan has a total commitment amount of \$22.0 million, bears interest at a variable rate equal to LIBOR plus 1.65% per annum and matures on April 4, 2017, with one, one-year extension option, subject to certain conditions. Annapolis Junction Building Seven is a Class A office property with approximately 127,000 net rentable square feet located in Annapolis, Maryland.

On April 11, 2016, a joint venture in which the Company has a 50% interest received a notice of event of default from the lender for the loan collateralized by its Annapolis Junction Building One property. The event of default relates to the loan to value ratio not being in compliance with the loan agreement. The joint venture is currently in discussions with the lender regarding the event of default, although there can be no assurance as to the outcome of those discussions. The estimated fair value of the Company's investment in the unconsolidated joint venture exceeds its carrying value. The loan has an outstanding balance of approximately \$39.7 million, is non-recourse to the Company, bears interest at a variable rate equal to LIBOR plus 1.75% per annum and has a stated maturity date of March 31, 2018, with one, three-year extension option, subject to certain conditions. Annapolis Junction Building One is a Class A office property with approximately 118,000 net rentable square feet located in Annapolis, Maryland.

On July 1, 2016, the Company entered the Los Angeles market through its acquisition of a 49.8% interest in an existing joint venture that owns and operates Colorado Center located in Santa Monica, California for a gross purchase price of approximately \$511.1 million, or approximately \$503.6 million in cash net of credits for free rent, unfunded leasing costs and other adjustments. 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. The following table summarizes the allocation of the Company's aggregate purchase price for its 49.8% interest in Colorado Center at the date of acquisition (in thousands).

Land and improvements	\$ 189,597
Site improvements	9,050
Building and improvements	259,592
Tenant improvements	17,234
In-place lease intangibles	43,157
Above-market lease intangible	819
Below-market lease intangible	(16,461)
Net assets	\$ 502,988

5. Mortgage Notes Payable

On April 11, 2016, the Company used available cash to repay the mortgage loan collateralized by its Fountain Square property located in Reston, Virginia totaling approximately \$211.3 million. The mortgage loan bore interest at a fixed rate of 5.71% per annum and was scheduled to mature on October 11, 2016. There was no prepayment penalty.

On September 1, 2016, the Company used a portion of the net proceeds from Boston Properties Limited Partnership's offering of senior unsecured notes (See Note 6) and available cash to repay the mortgage loan collateralized by its 599 Lexington Avenue property located in New York City totaling \$750.0 million. The mortgage loan bore interest at a fixed rate of 5.57% per annum (5.41% per annum including the impact of financing costs and interest rate hedges) and was scheduled to mature on March 1, 2017. There was no prepayment penalty. The Company recognized a gain from

early extinguishment of debt totaling approximately \$0.4 million consisting of the acceleration of the remaining balance related to the effective portion of a previous interest rate hedging program included within accumulated other comprehensive loss, offset by the write-off of unamortized deferred financing costs.

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On September 1, 2016, the Company used a portion of the net proceeds from Boston Properties Limited Partnership's offering of senior unsecured notes (See Note 6) and available cash to repay the mortgage loan collateralized by its Embarcadero Center Four property located in San Francisco, California totaling approximately \$344.8 million. The mortgage loan bore interest at a fixed rate of 6.10% per annum (7.02% per annum including the impact of financing costs and interest rate hedges) and was scheduled to mature on December 1, 2016. There was no prepayment penalty. The Company recognized a loss from early extinguishment of debt totaling approximately \$0.7 million consisting of the write-off of unamortized deferred financing costs and the acceleration of the remaining balance related to the effective portion of a previous interest rate hedging program included within accumulated other comprehensive loss.

6. Unsecured Senior Notes

The following summarizes the unsecured senior notes outstanding as of September 30, 2016 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
10 Year Unsecured Senior Notes	5.875 %	5.967 %	\$700,000	October 15, 2019
10 Year Unsecured Senior Notes	5.625 %	5.708 %	700,000	November 15, 2020
10 Year Unsecured Senior Notes	4.125 %	4.289 %	850,000	May 15, 2021
7 Year Unsecured Senior Notes	3.700 %	3.853 %	850,000	November 15, 2018
11 Year Unsecured Senior Notes	3.850 %	3.954 %	1,000,000	February 1, 2023
10.5 Year Unsecured Senior Notes	3.125 %	3.279 %	500,000	September 1, 2023
10.5 Year Unsecured Senior Notes	3.800 %	3.916 %	700,000	February 1, 2024
10 Year Unsecured Senior Notes	3.650 %	3.766 %	1,000,000	February 1, 2026
10 Year Unsecured Senior Notes	2.750 %	3.495 %	1,000,000	October 1, 2026
Total principal			7,300,000	
Net unamortized discount			(19,429)	
Deferred financing costs, net			(36,804)	
Total			\$7,243,767	

(1) Yield on issuance date including the effects of discounts on the notes, settlements of interest rate contracts and the amortization of financing costs.

(2) No principal amounts are due prior to maturity.

The indenture relating to the unsecured senior notes contains certain financial restrictions and requirements, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage ratio not to exceed 50%, (3) an interest coverage ratio of greater than 1.50, and (4) an unencumbered asset value of not less than 150% of unsecured debt. At September 30, 2016, Boston Properties Limited Partnership was in compliance with each of these financial restrictions and requirements.

On January 20, 2016, Boston Properties Limited Partnership completed a public offering of \$1.0 billion in aggregate principal amount of its 3.650% senior unsecured notes due 2026. The notes were priced at 99.708% of the principal amount to yield an effective rate (including financing fees) of approximately 3.766% per annum to maturity. The notes will mature on February 1, 2026, unless earlier redeemed. The aggregate net proceeds from the offering were approximately \$988.9 million after deducting underwriting discounts and transaction expenses.

On August 17, 2016, Boston Properties Limited Partnership completed a public offering of \$1.0 billion in aggregate principal amount of its 2.750% senior unsecured notes due 2026. The notes were priced at 99.271% of the principal amount to yield an effective rate, including financing fees and the impact of the settlement of certain forward-starting interest rate swap contracts (See Note 7), of approximately 3.495% per annum to maturity. The notes will mature on October 1, 2026, unless earlier redeemed. The aggregate net proceeds from the offering were approximately \$984.7 million after deducting underwriting discounts and transaction expenses.

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7. Derivative Instruments and Hedging Activities

Boston Properties Limited Partnership had entered into seventeen 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% unsecured senior notes due 2026 (See Note 6), 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 three and nine months ended September 30, 2016 related to the partial ineffectiveness of the interest rate contracts. The Company will reclassify into earnings over the 10-year term of the 2.750% senior unsecured notes due 2026 as an increase to interest expense approximately \$49.2 million (or approximately \$4.9 million per year) 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. As of September 30, 2016, 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, had entered into sixteen forward-starting interest rate swap contracts (including two contracts entered into during the nine months ended September 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.

767 Fifth Avenue Partners LLC's interest rate swap contracts consisted of the following at September 30, 2016 (dollars in thousands):

Derivative Instrument	Aggregate		Maturity Date	Strike Rate		Balance Sheet Location	Fair Value
	Notional Amount	Effective Date		Range	Low			High

767 Fifth Partners LLC:

Interest Rate Swaps	\$450,000	June 7, 2017	June 7, 2027	2.336%-2.950%		Other Liabilities	\$(46,405)
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Boston Properties Limited Partnership's and 767 Fifth Avenue Partners LLC's interest rate swap contracts consisted of the following at December 31, 2015 (dollars in thousands):

Derivative Instrument	Aggregate		Maturity Date	Strike Rate		Balance Sheet Location	Fair Value
	Notional Amount	Effective Date		Range	Low			High

Boston Properties Limited Partnership:

Interest Rate Swaps	\$400,000	September 1, 2016	September 1, 2026	2.348%-2.571%		Other Liabilities	\$(5,419)
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Interest Rate Swaps	150,000	September 1, 2016	September 1, 2026	2.129%-2.325%		Prepaid Expenses and Other Assets	1,188
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\$550,000

\$(4,231)

767 Fifth Partners LLC:

Interest Rate Swaps	\$250,000	June 7, 2017	June 7, 2027	2.677%-2.950%		Other Liabilities	\$(7,247)
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Interest Rate Swaps	150,000	June 7, 2017	June 7, 2027	2.336%-2.430%		Prepaid Expenses and Other Assets	1,176
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\$400,000

\$(6,071)

\$950,000

\$(10,302)

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

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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. 767 Fifth Partners LLC has agreements with each of its derivative counterparties that contain a provision where it could be declared in default on its derivative obligations if repayment of its indebtedness is accelerated by the lender due to its default on the indebtedness. As of September 30, 2016, the fair value of 767 Fifth Partners LLC's derivatives is in a liability position, excluding any adjustment for nonperformance risk and excluding accrued interest, related to these agreements of approximately \$46.5 million. As of September 30, 2016, 767 Fifth Partners LLC has not posted any collateral related to these agreements. If 767 Fifth Partners LLC had breached any of these provisions at September 30, 2016, it could have been required to settle its obligations under the agreements at their termination value of approximately \$46.5 million. The Company accounts for the effective portion of changes in the fair value of a derivative in accumulated other comprehensive loss and subsequently reclassifies the effective portion to earnings over the term that the hedged transaction affects earnings. The Company accounts for the ineffective portion of changes in the fair value of a derivative directly in earnings. The Company classifies cash flows related to derivative instruments within its Consolidated Statements of Cash Flows consistent with the nature of the hedged item. 767 Fifth Partners LLC has recorded the changes in fair value of the swap contracts related to the effective portion of the interest rate contracts aggregating approximately \$46.4 million in Other Liabilities and Accumulated Other Comprehensive Loss within the Company's Consolidated Balance Sheets. During the nine months ended September 30, 2016, 767 Fifth Partners LLC did not record any hedge ineffectiveness. 767 Fifth Partners LLC expects that within the next twelve months it will reclassify into earnings as an increase to interest expense approximately \$1.5 million of the amounts recorded within Accumulated Other Comprehensive Loss relating to the forward-starting interest rate swap contracts in effect and as of September 30, 2016.

The following table presents the location in the financial statements of the losses recognized related to the Company's cash flow hedges for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30, 2016		Nine months ended September 30, 2016	
	2016	2015	2016	2015
	(in thousands)			
Amount of gain (loss) related to the effective portion recognized in other comprehensive loss	\$5,712	\$(30,156)	\$(85,285)	\$(18,050)
Amount of loss related to the effective portion subsequently reclassified to earnings	\$(1,190)	\$(627)	\$(2,445)	\$(1,882)
Amount of loss related to the ineffective portion and amount excluded from effectiveness testing	\$(140)	\$—	\$(140)	\$—

Boston Properties, Inc.

The following table reflects the changes in accumulated other comprehensive loss for the nine months ended September 30, 2016 and 2015 (in thousands):

Balance at December 31, 2015	\$(14,114)
Effective portion of interest rate contracts	(85,285)
Amortization of interest rate contracts	2,445
Other comprehensive loss attributable to noncontrolling interests	23,011
Balance at September 30, 2016	\$(73,943)
Balance at December 31, 2014	\$(9,304)
Effective portion of interest rate contracts	(18,050)
Amortization of interest rate contracts	1,882
Other comprehensive loss attributable to noncontrolling interests	4,847
Balance at September 30, 2015	\$(20,625)

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Boston Properties Limited Partnership

The following table reflects the changes in accumulated other comprehensive loss for the nine months ended September 30, 2016 and 2015 (in thousands):

Balance at December 31, 2015	\$(18,337)
Effective portion of interest rate contracts	(85,285)
Amortization of interest rate contracts	2,445
Other comprehensive loss attributable to noncontrolling interests	16,134
Balance at September 30, 2016	\$(85,043)

Balance at December 31, 2014	\$(12,973)
Effective portion of interest rate contracts	(18,050)
Amortization of interest rate contracts	1,882
Other comprehensive loss attributable to noncontrolling interests	3,540
Balance at September 30, 2015	\$(25,601)

8. 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 \$14.0 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.

In connection with the assumption of 767 Fifth Avenue's (the General Motors Building) secured loan by the Company's consolidated joint venture entity, 767 Venture, LLC, the Company guaranteed the consolidated joint venture's obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of September 30, 2016, the maximum funding obligation under the guarantee was approximately \$14.5 million. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee.

In connection with 767 Fifth Partners LLC entering into interest rate swap contracts (See Note 7), the Company guaranteed 767 Fifth Partners LLC's obligations under the hedging agreements in favor of each hedge counterparty. 767 Fifth Partners LLC is the entity that owns 767 Fifth Avenue (the General Motors Building). It is a subsidiary of 767 Venture, LLC, a consolidated entity in which the Company has a 60% interest. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee.

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

In 2009, the Company filed a general unsecured creditor's claim against Lehman Brothers, Inc. for approximately \$45.3 million related to its rejection of a lease at 399 Park Avenue in New York City. On January 10, 2014, the trustee for the liquidation of the business of Lehman Brothers allowed the Company's claim in the amount of approximately \$45.2 million. During 2014, the Company received a distribution of approximately \$7.7 million. On March 11, 2015,

the Company received a

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second interim distribution totaling approximately \$4.5 million, which is included in Base Rent in the Consolidated Statements of Operations for the nine months ended September 30, 2015. On September 9, 2015, the Company received a third interim distribution totaling approximately \$3.6 million, which is also included in Base Rent in the Consolidated Statements of Operations for the three and nine months ended September 30, 2015. On July 5, 2016, the Company received a fourth interim distribution totaling approximately \$1.4 million, which is included in Base Rent in the Consolidated Statements of Operations for the nine months ended September 30, 2016, leaving a remaining claim of approximately \$28.0 million. The Company will continue to evaluate whether to attempt to sell the remaining claim or wait until the trustee distributes proceeds from the Lehman Brothers estate. Given the inherent uncertainties in bankruptcy proceedings, there can be no assurance as to the timing or amount of additional proceeds, if any, that the Company may ultimately realize on the remaining claim, whether by sale to a third party or by one or more distributions from the trustee. Accordingly, the Company has not recorded any estimated recoveries associated with this gain contingency within its Consolidated Financial Statements at September 30, 2016.

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 2016, the program trigger is \$120 million and the coinsurance is 16%, however, both will increase in subsequent years pursuant to TRIPRA. If the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. The Company may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in its portfolio or for any other reason. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain terrorism insurance in amounts and on terms that are commercially reasonable.

The Company also currently carries earthquake insurance on its properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that the Company believes is commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 3% of the value of the affected property. Specifically, the Company currently carries earthquake insurance which covers its San Francisco and Los Angeles regions (excluding Salesforce Tower) with a \$170 million per occurrence limit, and a \$170 million annual aggregate

limit, \$20 million of which is provided by IXP, as a direct insurer. The builders risk policy maintained for the development of Salesforce Tower in San Francisco includes a \$60 million per occurrence and annual aggregate limit of earthquake coverage. The amount of the Company's earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact the Company's ability to finance properties subject to earthquake risk. The Company may discontinue earthquake insurance or change the structure of its earthquake insurance program on some or all of its properties in the future if the premiums exceed the Company's estimation of the value of the coverage.

IXP, a captive insurance company which is a wholly-owned subsidiary of the Company, acts as a direct insurer with respect to a portion of the Company's earthquake insurance coverage for its Greater San Francisco 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

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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.

9. 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 September 30, 2016, the noncontrolling interests in Boston Properties Limited Partnership consisted of 17,096,675 OP Units, 905,494 LTIP Units (including 166,629 2012 OPP Units and 93,928 2013 MYLTIP Units), 474,415 2014 MYLTIP Units, 367,218 2015 MYLTIP Units and 473,360 2016 MYLTIP Units held by parties other than Boston Properties, Inc.

Noncontrolling Interest—Redeemable Preferred Units

On June 25, 2015, Boston Properties Limited Partnership redeemed the remaining 12,667 Series Four Preferred Units for cash totaling approximately \$0.6 million, plus accrued and unpaid distributions. The Series Four Preferred Units bore a preferred distribution equal to 2.00% per annum on a liquidation preference of \$50.00 per unit and were not convertible into OP Units. The holders of Series Four Preferred Units had the right, at certain times and subject to certain conditions set forth in the Certificate of Designations establishing the rights, limitations and preferences of the Series Four Preferred Units, to require Boston Properties Limited Partnership to redeem all of their units for cash at the redemption price of \$50.00 per unit. Boston Properties Limited Partnership also had the right, at certain times and subject to certain conditions, to redeem all of the Series Four Preferred Units for cash at the redemption price of \$50.00 per unit. In order to secure the performance of certain post-issuance obligations by the holders, all of such outstanding Series Four Preferred Units were subject to forfeiture pursuant to the terms of a pledge agreement and not eligible for redemption until the security interest was released. Due to the holders' redemption option existing outside the control of the Company, the Series Four Preferred Units were presented outside of permanent equity in the Company's Consolidated Balance Sheets.

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

Balance at December 31, 2014	\$633
Net income	6
Distributions	(6)
Redemption of redeemable preferred units (Series Four Preferred Units)	(633)
Balance at September 30, 2015	\$—

Noncontrolling Interest—Redeemable Interest in Property Partnership

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

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

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

Balance at December 31, 2014	\$104,692
Net loss	(7)
Distributions	(2,900)
Adjustment to reflect redeemable interest at redemption value	5,128
Acquisition of interest	(106,913)
Balance at September 30, 2015	\$—

Noncontrolling Interest—Common Units

During the nine months ended September 30, 2016, 173,694 OP Units were presented by the holders for redemption (including 86,684 OP Units issued upon conversion of LTIP Units, 2012 OPP Units and 2013 MYLTIP Units) and were redeemed by Boston Properties, Inc. in exchange for an equal number of shares of Common Stock.

Boston Properties Limited Partnership exercised its right under the terms of its partnership agreement to convert an aggregate of 625,043 eligible LTIP Units (including an aggregate of 32,349 2012 OPP Units and 2013 MYLTIP Units) into Common Units effective as of May 2, 2016. These conversions were effected solely for administrative efficiency and had no substantive impact on the rights of Boston Properties Limited Partnership or the holders of these LTIP Units, as the economic and other rights of the LTIP Units converted were substantively identical to those of the Common Units. In the future, Boston Properties Limited Partnership intends to convert LTIP Units (including 2012 OPP Units and MYLTIP Units) into Common Units promptly after they become eligible for conversion. The May 2016 conversions were, and future conversions will be, effected at the election of Boston Properties Limited Partnership and are without regard to the investment intentions of the holders of the units.

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At September 30, 2016, Boston Properties Limited Partnership had outstanding 474,415 2014 MYLTIP Units, 367,218 2015 MYLTIP Units and 473,360 2016 MYLTIP Units. Prior to the applicable measurement date (February 3, 2017 for 2014 MYLTIP Units, February 4, 2018 for 2015 MYLTIP Units and February 9, 2019 for 2016 MYLTIP Units), holders of MYLTIP Units will be entitled to receive per unit distributions equal to one-tenth (10%) of the regular quarterly distributions payable on an OP Unit, but will not be entitled to receive any special distributions. After the measurement date, the number of MYLTIP Units, both vested and unvested, that MYLTIP award recipients have earned, if any, based on the establishment of a performance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit.

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

On February 4, 2016, the measurement period for the Company's 2013 MYLTIP awards ended and, based on Boston Properties, Inc.'s relative TSR performance, the final awards were determined to be 109.5% of target, or an aggregate of approximately \$13.5 million. As a result, 205,762 2013 MYLTIP Units 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, after the February 4, 2016 measurement date, the 2013 MYLTIP Units) and its distributions on the 2013 MYLTIP Units (prior to the February 4, 2016 measurement date), 2014 MYLTIP Units, 2015 MYLTIP Units and 2016 MYLTIP Units (after the February 10, 2016 issuance date) paid in 2016:

Record Date	Payment Date	Distributions per OP Unit and LTIP Unit	Distributions per MYLTIP Unit
September 30, 2016	October 31, 2016	\$0.65	\$0.065
June 30, 2016	July 29, 2016	\$0.65	\$0.065
March 31, 2016	April 29, 2016	\$0.65	\$0.065
December 31, 2015	January 28, 2016	\$1.90	(1)\$0.065

(1)Includes a special distribution of \$1.25 per unit.

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 and 2013 MYLTIP Units) assuming that all conditions had been met for the conversion thereof had all of such units been redeemed at September 30, 2016 was approximately \$2.5 billion based on the last reported price of a share of Common Stock on the New York Stock Exchange of \$136.29 per share on September 30, 2016.

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Boston Properties Limited Partnership

The following table reflects the activity of noncontrolling interests—redeemable common units of Boston Properties Limited Partnership for the nine months ended September 30, 2016 and 2015 (in thousands):

Balance at December 31, 2015	\$2,286,689
Contributions	31,492
Net income	42,120
Distributions	(35,500)
Conversion of redeemable partnership units	(5,881)
Unearned compensation	(10,072)
Accumulated other comprehensive loss	(6,877)
Adjustment to reflect redeemable partnership units at redemption value	151,545
Balance at September 30, 2016	\$2,453,516
Balance at December 31, 2014	\$2,310,046
Contributions	39,036
Net income	50,906
Distributions	(35,307)
Conversion of redeemable partnership units	(14,157)
Unearned compensation	(9,729)
Accumulated other comprehensive loss	(1,307)
Adjustment to reflect redeemable partnership units at redemption value	(216,037)
Balance at September 30, 2015	\$2,123,451

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 \$1.5 billion at September 30, 2016 and approximately \$1.6 billion at December 31, 2015, are included in Noncontrolling Interests—Property Partnerships in the accompanying Consolidated Balance Sheets.

On September 18, 2015, a consolidated entity in which the Company has a 50% interest completed the sale of its 505 9th Street, N.W. property located in Washington, DC for approximately \$318.0 million, including the assumption by the buyer of approximately \$117.0 million of mortgage indebtedness. 505 9th Street, N.W. is an approximately 322,000 net rentable square foot Class A office building. Net cash proceeds totaled approximately \$194.6 million, of which the partners' share was approximately \$97.3 million. The Company recognized a gain on sale of real estate totaling approximately \$199.5 million and \$199.7 million for Boston Properties, Inc. and Boston Properties Limited Partnership, respectively, of which approximately \$101.1 million was allocated to the outside partners.

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 September 30, 2016, approximately \$2.0 million of preferred equity had been contributed by the Company to the venture.

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The following table reflects the activity of the noncontrolling interests in property partnerships for the nine months ended September 30, 2016 and 2015 (in thousands):

Balance at December 31, 2015	\$1,574,400
Capital contributions	5,417
Net income	53
Accumulated other comprehensive loss	(16,134)
Distributions	(38,694)
Balance at September 30, 2016	\$1,525,042

Balance at December 31, 2014	\$1,602,467
Capital contributions	1,758
Net income	134,591
Accumulated other comprehensive loss	(3,540)
Distributions	(144,468)
Balance at September 30, 2015	\$1,590,808

10. Stockholders' Equity / Partners' Capital

As of September 30, 2016, Boston Properties, Inc. had 153,773,012 shares of Common Stock outstanding.

As of September 30, 2016, Boston Properties, Inc. owned 1,717,752 general partnership units and 152,055,260 limited partnership units of Boston Properties Limited Partnership.

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

During the nine months ended September 30, 2016, Boston Properties, Inc. issued 173,694 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 2016:

Record Date	Payment Date	Dividend (Per Share)	Distribution (Per Unit)	
September 30, 2016	October 31, 2016	\$0.65	\$0.65	
June 30, 2016	July 29, 2016	\$0.65	\$0.65	
March 31, 2016	April 29, 2016	\$0.65	\$0.65	
December 31, 2015	January 28, 2016	\$1.90	(1)\$1.90	(1)

(1)Includes a special dividend/distribution of \$1.25 per share/OP Unit and LTIP Unit.

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Preferred Stock

As of September 30, 2016, Boston Properties, Inc. had 80,000 shares (8,000,000 depository 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 depository 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 depository 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 2016:

Record Date	Payment Date	Dividend (Per Share)
November 4, 2016	November 15, 2016	\$32.8125
August 5, 2016	August 15, 2016	\$32.8125
May 5, 2016	May 16, 2016	\$32.8125
February 5, 2016	February 16, 2016	\$32.8125

11. 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 and 2013 MYLTIP Units required and the 2014-2016 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 September 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	\$ 76,753	153,754	\$ 0.50
Effect of Dilutive Securities:			
Stock Based Compensation	—	382	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$ 76,753	154,136	\$ 0.50

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	Three Months Ended September 30, 2015		
	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	\$ 184,082	153,595	\$ 1.20
Allocation of undistributed earnings to participating securities	(221)	—	—
Net income attributable to Boston Properties, Inc. common shareholders	\$ 183,861	153,595	\$ 1.20
Effect of Dilutive Securities:			
Stock Based Compensation	—	191	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$ 183,861	153,786	\$ 1.20
	Nine Months Ended September 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	\$ 355,114	153,681	\$ 2.31
Allocation of undistributed earnings to participating securities	(189)	—	—
Net income attributable to Boston Properties, Inc. common shareholders	\$ 354,925	153,681	\$ 2.31
Effect of Dilutive Securities:			
Stock Based Compensation	—	290	—
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$ 354,925	153,971	\$ 2.31
	Nine Months Ended September 30, 2015		
	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	\$ 434,702	153,426	\$ 2.83
Allocation of undistributed earnings to participating securities	(361)	—	—
Net income attributable to Boston Properties, Inc. common shareholders	\$ 434,341	153,426	\$ 2.83
Effect of Dilutive Securities:			
Stock Based Compensation	—	399	(0.01)
Diluted Earnings:			
Net income attributable to Boston Properties, Inc. common shareholders	\$ 434,341	153,825	\$ 2.82

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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 and 2013 MYLTIP Units required and the 2014-2016 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 17,625,000 and 17,565,000 redeemable common units for the three months ended September 30, 2016 and 2015, respectively, and approximately 17,672,000 and 17,705,000 redeemable common units for the nine months ended September 30, 2016 and 2015, respectively.

	Three Months Ended September 30, 2016		
	Income (Numerator) (in thousands, except for per unit amounts)	Units (Denominator)	Per Unit Amount
Basic Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 91,306	171,379	\$ 0.53
Effect of Dilutive Securities:			
Stock Based Compensation	—	382	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 91,306	171,761	\$ 0.53

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	Three Months Ended September 30, 2015		
	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	\$ 207,626	171,160	\$ 1.21
Allocation of undistributed earnings to participating securities	(246) —	—
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 207,380	171,160	\$ 1.21
Effect of Dilutive Securities:			
Stock Based Compensation	—	191	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 207,380	171,351	\$ 1.21
	Nine Months Ended September 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	\$ 408,540	171,353	\$ 2.38
Allocation of undistributed earnings to participating securities	(210) —	—
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 408,330	171,353	\$ 2.38
Effect of Dilutive Securities:			
Stock Based Compensation	—	290	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 408,330	171,643	\$ 2.38
	Nine Months Ended September 30, 2015		
	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	\$ 491,847	171,131	\$ 2.87
Allocation of undistributed earnings to participating securities	(402) —	—
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 491,445	171,131	\$ 2.87
Effect of Dilutive Securities:			
Stock Based Compensation	—	399	—
Diluted Earnings:			
Net income attributable to Boston Properties Limited Partnership common unitholders	\$ 491,445	171,530	\$ 2.87

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12. Stock Option and Incentive Plan

On January 25, 2016, Boston Properties Inc.'s Compensation Committee approved the 2016 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 2016 MYLTIP awards utilize TSR over a three-year measurement period, on an annualized, compounded basis, as the performance metric. Earned awards will be based on Boston 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 and exclude Boston Properties, Inc. (50% weight). Earned awards will range from zero to a maximum of approximately \$49.3 million depending on Boston Properties, Inc.'s TSR relative to the two indices, with three tiers (threshold: approximately \$9.9 million; target: approximately \$19.7 million; high: approximately \$49.3 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 9, 2019 and 50% on February 9, 2020, 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 9, 2019, earned awards will be calculated based on TSR performance up to the date of the change of control. The 2016 MYLTIP awards are in the form of LTIP Units issued on the grant date which (i) are subject to forfeiture to the extent awards are not earned and (ii) prior to the performance measurement date are only entitled to one-tenth (10%) of the regular quarterly distributions payable on OP Units and no special distributions.

Under the FASB's ASC 718 "Compensation-Stock Compensation," the 2016 MYLTIP awards have an aggregate value of approximately \$17.3 million, which amount will generally be amortized into earnings over the four-year plan period under the graded vesting method.

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

On February 4, 2016, the measurement period for the Company's 2013 MYLTIP awards ended and, based on Boston Properties, Inc.'s relative TSR performance, the final awards were determined to be 109.5% of target or an aggregate of approximately \$13.5 million. As a result, 205,762 2013 MYLTIP Units were automatically forfeited.

During the nine months ended September 30, 2016, Boston Properties, Inc. issued 22,067 shares of restricted common stock and Boston Properties Limited Partnership issued 147,872 LTIP Units and 475,004 2016 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 2016 MYLTIP Unit. When issued, LTIP Units are not economically equivalent in value to a share of Common Stock, but over time can increase in value to one-for-one parity with Common Stock if there is sufficient appreciation in the value of the Company's assets. The aggregate value of the LTIP Units is included in noncontrolling interests in the Consolidated Balance Sheets. Grants of restricted stock and LTIP Units to employees vest in four equal annual installments. Restricted stock is measured at fair value on the date of grant based on the number of shares granted, as adjusted for forfeitures, and the closing price of 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 nine months ended September 30, 2016 were valued at approximately \$2.5 million (\$113.51 per share weighted-average). The LTIP Units granted were valued at approximately \$15.4 million (\$103.83 per unit weighted-average fair value) using a Monte Carlo simulation method model. The per unit fair values of the LTIP Units granted were estimated on the dates of grant and for a substantial majority of such units were valued using the following assumptions: an expected life of 5.7 years, a risk-free interest rate of 1.61% and an expected price volatility

of 33%. As the 2012 OPP Units, 2013 MYLTIP Units, 2014 MYLTIP Units, 2015 MYLTIP Units and 2016 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 and 2016 MYLTIP Units under the graded vesting attribution method. Under the graded vesting attribution method, each portion of the award that vests at a different date is accounted for as a separate award and recognized over the period appropriate to that portion so that the compensation cost for each portion should be recognized in full by the time that portion vests. Dividends paid on both vested and unvested shares of restricted stock are charged directly to Dividends in Excess of Earnings in 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

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MYLTIP Units, 2014 MYLTIP Units, 2015 MYLTIP Units and 2016 MYLTIP Units was approximately \$7.1 million and \$5.9 million for the three months ended September 30, 2016 and 2015, respectively, and approximately \$23.6 million and \$21.0 million for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, there was \$22.8 million of unrecognized compensation expense related to unvested restricted stock, LTIP Units, 2012 OPP Units and 2013 MYLTIP Units and \$22.9 million of unrecognized compensation expense related to unvested 2014 MYLTIP Units, 2015 MYLTIP Units and 2016 MYLTIP Units that is expected to be recognized over a weighted-average period of approximately 2.5 years.

13. 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 nine months ended September 30, 2016 and 2015. Boston Properties, Inc.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income attributable to Boston Properties, Inc. common shareholders	\$76,753	\$184,082	\$355,114	\$434,702
Add:				
Preferred dividends	2,589	2,647	7,796	7,854
Noncontrolling interest—common units of the Operating Partnership	9,387	21,302	42,120	50,906
Noncontrolling interest—redeemable preferred units of the Operating Partnership	—	—	—	6
Noncontrolling interests in property partnerships	(17,225)	115,240	53	139,712
Losses from interest rate contracts	140	—	140	—
Losses from early extinguishments of debt	371	—	371	—
Interest expense	104,641	108,727	314,953	326,018
Depreciation and amortization expense	203,748	153,015	516,371	475,082
Impairment loss	1,783	—	1,783	—
Transaction costs	249	254	1,187	789
General and administrative expense	25,165	20,944	79,936	72,019
Less:				
Gains on sales of real estate	12,983	199,479	80,606	294,563
Gains (losses) from investments in securities	976	(1,515)	1,713	(1,146)
Interest and other income	3,628	3,637	6,657	6,337
Income from unconsolidated joint ventures	1,464	2,647	5,489	20,559
Development and management services income	6,364	5,912	18,586	16,102
Net Operating Income	\$382,186	\$396,051	\$1,206,773	\$1,170,673

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Boston Properties Limited Partnership

	Three months ended		Nine months ended	
	September 30, 2016	2015	September 30, 2016	2015
	(in thousands)			
Net income attributable to Boston Properties Limited Partnership common unitholders	91,306	207,626	408,540	491,847
Add:				
Preferred distributions	2,589	2,647	7,796	7,854
Noncontrolling interest—redeemable preferred units	—	—	—	6
Noncontrolling interests in property partnerships	(17,225)	115,240	53	139,712
Losses from interest rate contracts	140	—	140	—
Losses from early extinguishments of debt	371	—	371	—
Interest expense	104,641	108,727	314,953	326,018
Depreciation and amortization expense	198,582	151,017	507,234	469,087
Impairment loss	1,783	—	1,783	—
Transaction costs	249	254	1,187	789
General and administrative expense	25,165	20,944	79,936	72,019
Less:				
Gains on sales of real estate	12,983	199,723	82,775	294,807
Gains (losses) from investments in securities	976	(1,515)	1,713	(1,146)
Interest and other income	3,628	3,637	6,657	6,337
Income from unconsolidated joint ventures	1,464	2,647	5,489	20,559
Development and management services income	6,364	5,912	18,586	16,102
Net Operating Income	\$382,186	\$396,051	\$1,206,773	\$1,170,673

Net Operating Income is not a measure of operating results or cash flows from operating activities as measured by GAAP, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. All companies may not calculate Net Operating Income in the same manner. The Company considers Net Operating Income to be an appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of the Company's properties. The Company's management also uses Net Operating Income to evaluate regional property level performance and to make decisions about resource allocations. Further, the Company believes Net Operating Income is useful to investors as a performance measure because, when compared across periods, Net Operating Income reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspectives not immediately apparent from net income attributable to Boston Properties, Inc. common shareholders and net income attributable to Boston Properties Limited Partnership common unitholders. 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, losses from interest rate contracts, losses from early extinguishments of debt, interest expense, gains (losses) from investments in securities, interest and other income, income from unconsolidated joint ventures, depreciation and amortization expense, impairment loss, transaction costs, general and administrative expenses and development and management services income 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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Beginning on January 1, 2016, the properties that were historically included in the Company's Office/Technical segment are now included in the Office segment to align with its method of internal reporting, which shifted after the disposition of 415 Main Street in Cambridge, Massachusetts. As such, the amounts previously included in Office/Technical are now included in Office for all periods presented.

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

For the three months ended September 30, 2016:

	Boston	New York	San Francisco	Washington, DC	Total	
Rental Revenue:						
Office	\$ 183,975	\$ 237,262	\$ 80,235	\$ 100,666	\$ 602,138	
Residential	1,227	—	—	3,145	4,372	
Hotel	12,354	—	—	—	12,354	
Total	197,556	237,262	80,235	103,811	618,864	
% of Grand Totals	31.92	% 38.34	% 12.96	% 16.78	% 100.00	%
Rental Expenses:						
Office	71,254	95,073	26,037	33,973	226,337	
Residential	1,141	—	—	1,082	2,223	
Hotel	8,118	—	—	—	8,118	
Total	80,513	95,073	26,037	35,055	236,678	
% of Grand Totals	34.02	% 40.17	% 11.00	% 14.81	% 100.00	%
Net operating income	\$ 117,043	\$ 142,189	\$ 54,198	\$ 68,756	\$ 382,186	
% of Grand Totals	30.62	% 37.21	% 14.18	% 17.99	% 100.00	%

For the three months ended September 30, 2015:

	Boston	New York	San Francisco	Washington, DC	Total	
Rental Revenue:						
Office	\$ 179,278	\$ 253,612	\$ 77,315	\$ 97,037	\$ 607,242	
Residential	1,275	—	—	2,836	4,111	
Hotel	12,619	—	—	—	12,619	
Total	193,172	253,612	77,315	99,873	623,972	
% of Grand Totals	30.96	% 40.64	% 12.39	% 16.01	% 100.00	%
Rental Expenses:						
Office	71,898	88,496	25,883	31,985	218,262	
Residential	485	—	—	1,049	1,534	
Hotel	8,125	—	—	—	8,125	
Total	80,508	88,496	25,883	33,034	227,921	
% of Grand Totals	35.32	% 38.83	% 11.36	% 14.49	% 100.00	%
Net operating income	\$ 112,664	\$ 165,116	\$ 51,432	\$ 66,839	\$ 396,051	
% of Grand Totals	28.45	% 41.69	% 12.98	% 16.88	% 100.00	%

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For the nine months ended September 30, 2016:

	Boston	New York	San Francisco	Washington, DC	Total	
Rental Revenue:						
Office	\$540,850	\$773,077	\$235,076	\$300,742	\$1,849,745	
Residential	3,578	—	—	8,931	12,509	
Hotel	33,919	—	—	—	33,919	
Total	578,347	773,077	235,076	309,673	1,896,173	
% of Grand Totals	30.50	% 40.77	% 12.40	% 16.33	% 100.00	%
Rental Expenses:						
Office	210,695	272,620	75,412	101,514	660,241	
Residential	2,174	—	—	3,255	5,429	
Hotel	23,730	—	—	—	23,730	
Total	236,599	272,620	75,412	104,769	689,400	
% of Grand Totals	34.32	% 39.54	% 10.94	% 15.20	% 100.00	%
Net operating income	\$341,748	\$500,457	\$159,664	\$204,904	\$1,206,773	
% of Grand Totals	28.32	% 41.47	% 13.23	% 16.98	% 100.00	%

For the nine months ended September 30, 2015:

	Boston	New York	San Francisco	Washington, DC	Total	
Rental Revenue:						
Office	\$536,241	\$753,142	\$223,561	\$287,652	\$1,800,596	
Residential	3,584	—	—	11,192	14,776	
Hotel	35,107	—	—	—	35,107	
Total	574,932	753,142	223,561	298,844	1,850,479	
% of Grand Totals	31.07	% 40.70	% 12.08	% 16.15	% 100.00	%
Rental Expenses:						
Office	218,002	259,218	73,119	98,660	648,999	
Residential	1,505	—	—	5,106	6,611	
Hotel	24,196	—	—	—	24,196	
Total	243,703	259,218	73,119	103,766	679,806	
% of Grand Totals	35.85	% 38.13	% 10.76	% 15.26	% 100.00	%
Net operating income	\$331,229	\$493,924	\$150,442	\$195,078	\$1,170,673	
% of Grand Totals	28.29	% 42.19	% 12.85	% 16.67	% 100.00	%

14. Subsequent Events

On October 1, 2016, a joint venture in which the Company has a 50% interest completed and fully placed in-service 1265 Main Street, a Class A office project with approximately 115,000 net rentable feet located in Waltham, Massachusetts.

On October 20, 2016, the Company and its partner in the unconsolidated joint venture that owns Metropolitan Square located in Washington, DC, completed the sale of an 80% interest in the joint venture for a gross sale price of approximately \$282.4 million, including the assumption by the buyer of its pro rata share of the mortgage loan collateralized by the property totaling approximately \$133.4 million. In addition, the buyer has agreed to assume certain unfunded leasing costs totaling approximately \$14.2 million. Prior to the sale, the Company owned a 51% interest and its partner owned a 49% interest in the joint venture. Following the sale, the Company continues to own a 20% interest in the joint venture with the buyer owning the remaining 80%. Metropolitan Square is an approximately 607,000 net rentable square foot Class A office property.

On October 24, 2016, the Company entered into an option agreement that will allow it to ground lease and/or purchase real property adjacent to the MacArthur BART station located in Oakland, California, that could support the development of a 400-unit residential building and supporting retail space.

On November 7, 2016, the Company entered into a 15-year lease with a tenant for approximately 476,500 net rentable square feet of Class A office space in a build-to-suit development project to be located at the Company's 145 Broadway property at Kendall Center in Cambridge, Massachusetts. 145 Broadway currently consists of an approximately 80,000 net rentable square foot Class A office property that will be redeveloped into an approximately 486,000 net rentable square foot Class A office property, including approximately 9,500 net rentable square feet of retail space. The commencement of the redevelopment project is subject to the receipt of the remaining necessary approvals, and the Company currently expects to begin the project in the second quarter of 2017 with the relocation of an existing tenant to another property within the Company's portfolio. The Company expects the building will be available for occupancy by the new tenant during the fourth quarter of 2019. There can be no assurance that the project will commence or that the building will be available for occupancy on the anticipated schedule or at all.

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," "estimate," "expect," "intend," "may," "might," "plan," "project," "result," "show," and similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected by the forward-looking statements. We caution you that, while forward-looking statements reflect our good-faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. Accordingly, investors should use caution in relying on forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- if there is a negative change in the economy including, but not limited to, a reversal of current job growth trends and an increase in unemployment, it could have a negative effect on the following, among other things:
 - the fundamentals of our business, including overall market occupancy, tenant space utilization, and rental rates;
 - 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;

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- the ability of our joint venture partners to satisfy their obligations;
- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, increased construction costs, cost overruns, inability to obtain necessary permits, tenant accounting considerations that may result in negotiated lease provisions that limit a tenant's liability during construction, and public opposition to such activities);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments or refinance existing indebtedness, including the impact of higher interest rates on the cost and/or availability of financing;
- risks associated with forward interest rate contracts and the effectiveness of such arrangements;
- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;
- risks associated with actual or threatened terrorist attacks;
- costs of compliance with the Americans with Disabilities Act and other similar laws;
- potential liability for uninsured losses and environmental contamination;
- risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems, which support our operations and our buildings;
- risks associated with 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 and developers of 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. From time to time, we also generate cash through the sale of assets depending on market conditions. 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

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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 signals have been mixed as the United States' gross domestic product, or GDP, improved in the third quarter of 2016 after a sluggish first half of the year, while the unemployment rate has remained relatively unchanged since the beginning of the year. Interest rates, as measured by the 10-year U.S. Treasury Rate, have increased approximately 40 basis points since early July 2016 in anticipation of a rate increase by the Federal Reserve, but remain very low relative to historical averages, and national office markets continue to improve with asking rents and construction levels increasing. We believe these indicators, although varied, are driving improving office market fundamentals, but we are later in the economic cycle and slowing slightly.

In this economic climate, we continue to focus on (1) ensuring tenant satisfaction throughout our portfolio; (2) leasing available space in our in-service properties and development properties, as well as focusing on future large lease maturities; (3) completing the construction of our properties under development; (4) redeveloping and repositioning several key properties to materially increase future demand for revenues from, and asset values of, the properties, despite the adverse impact on near-term revenue; (5) maintaining discipline in our underwriting of investment opportunities by (i) seeking pre-leasing commitments to begin new construction and (ii) targeting acquisition activity in non-stabilized assets near innovation centers where we see the strongest prospects for overall growth and where our operational expertise can create value and (6) preserving our conservative balance sheet by managing our near-term pending maturities.

During the third quarter of 2016, we signed leases across our portfolio totaling approximately 894,000 square feet and commenced revenue recognition on approximately 1.2 million square feet of second generation leases. Of these second generation leases, approximately 825,000 square feet have been vacant for less than one year and provide an average increase in net rental obligation of more than 8.4%, demonstrating the strong internal growth opportunities embedded in our portfolio. The overall occupancy of our in-service properties decreased from 90.8% at June 30, 2016 to 89.6% at September 30, 2016 due mainly to the acquisition of our interest in the joint venture that owns Colorado Center in Santa Monica, California, which was 65.5% leased at September 30, 2016. We believe Colorado Center represents a strong leasing opportunity to increase its revenues as evidenced by a lease recently executed for approximately 160,000 square feet resulting in the property being 79.9% leased.

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, 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 current development pipeline consists of eight development projects representing approximately 4.0 million square feet and an estimated total investment of approximately \$2.2 billion, of which 51% of the commercial space is pre-leased. In addition, we have begun, or will soon begin, the repositioning of several of our properties, including the retail and low-rise portions of 601 Lexington Avenue and 399 Park Avenue in New York City, 100 Federal Street and the Prudential Center (retail shops) in Boston and 1330 Connecticut Avenue and Metropolitan Square in Washington, DC. These projects require significant capital expenditures and, in some cases, necessitate that space is vacated for an extended period of time. We also have significant land holdings and opportunities to increase square footage density that we will continue to move through the design and permitting processes and add selectively to our development pipeline, including some developments that may commence in 2017.

The combination of the successful execution of our asset disposition strategy and the delivery of higher yielding development projects over the past three years has resulted in a meaningful decrease in our leverage and strengthening of our liquidity, which provided us the flexibility to purchase our interest in Colorado Center in July 2016 using available cash. In addition, we repaid prior to maturity an aggregate of approximately \$1.1 billion of mortgage loans having a weighted average effective GAAP interest rate of approximately 5.92% per annum by issuing \$1.0 billion of

unsecured senior notes due 2026 having an effective interest rate, after the settlement of certain interest rate contracts and closing costs, of approximately 3.495% per annum.

Given the relatively low interest rates currently available to us in the debt markets, we may seek to enhance our liquidity to provide sufficient capacity to fund our remaining capital requirements for existing development projects and pursue attractive additional investment opportunities. This may result in us carrying additional cash and cash equivalents pending our use of the proceeds, and doing so would be dilutive to our earnings because it would increase our net interest expense.

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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 can attract premium pricing in the current market environment as potential sales candidates. Although we expect no further asset sales in 2016, we expect to continue to sell non-core assets in 2017, subject to market conditions.

A brief overview of each of our markets follows.

New York

Our overall expectations for the midtown Manhattan market and the leasing activity in our portfolio have been generally consistent for the past two years. New supply continues to come into the market, and large financial services tenants continue to shrink their space needs and, in certain instances, have chosen to move to the far West Side of Manhattan creating additional inventory in our submarkets. Our New York City portfolio remains well leased at 94.2% with 7.4% rollover in 2017. In the third quarter of 2016, we completed approximately 113,000 square feet of leases, including an approximately 55,000 square foot lease at 250 West 55th Street bringing that property to 90.7% leased. In addition, we are negotiating leases for almost 70% of our 2017 lease expirations at 599 Lexington Avenue. Our largest 2017 exposure is at 399 Park Avenue where we have approximately 500,000 square feet of leases expiring. Although we are seeing good demand and recently signed leases for approximately 190,000 square feet, we expect it will take time to re-lease the balance of the space and that we will experience downtime before revenue recognition will commence. We are also seeing activity on the recent vacancy in the high-rise space at 767 Fifth Avenue (the General Motors Building) and a majority of the vacant space at 250 West 55th Street. During the third quarter, the joint venture in which we have a 55% interest and that owns 601 Lexington Avenue commenced the redevelopment of the six-story low-rise office and retail building component of the complex. The redeveloped portion of the low-rise building, which is being re-branded as “159 East 53rd Street,” will contain approximately 195,000 net rentable square feet of Class A office space and approximately 25,000 net rentable square feet of retail space. The building will have a new dedicated street entrance and lobby providing branding opportunities for major tenants, and the building is being re-clad along with many other improvements including redesigned outdoor terraces and retail atrium. Although removing this portion of the complex from service will have a negative impact on near-term revenues, we believe these capital improvements will enhance the long-term value of the asset.

Boston

The greater Boston region continues to attract life science and established technology companies, as well as start-up technology and maker organizations. Our East Cambridge properties are outperforming the overall submarket at approximately 100% occupancy. Additionally, we have entered into a build-to-suit with a tenant to construct an approximately 486,000 net rentable square foot office building at our 145 Broadway property in Kendall Center in Cambridge. 145 Broadway currently consists of an approximately 80,000 net rentable square foot Class A office property that will be redeveloped into an approximately 486,000 net rentable square foot Class A office property including approximately 9,500 net rentable square feet of retail space. The commencement of the redevelopment project is subject to the receipt of the remaining necessary approvals, and we currently expect to begin the project in the second quarter of 2017 with the relocation of an existing tenant to another property within our portfolio. We expect the building will be available for occupancy by the new tenant during the fourth quarter of 2019. There can be no assurance that the project will commence or that the building will be available for occupancy on the anticipated schedule or at all.

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. In the third quarter of 2016, we completed approximately 172,000 square feet of leases and we have over 475,000 square feet of leases with new tenants, renewals and relocations with growing tenants under negotiations. In addition, on October 1, 2016, a joint venture in which we have a 50% interest completed and fully placed in-service 1265 Main Street, a Class A office building with approximately 115,000 net rentable feet located in Waltham, Massachusetts. The property is 100% leased.

The Boston Central Business District (“CBD”) market 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. During the quarter, we leased approximately 60,000 square feet and our Boston CBD portfolio was 90.4% leased at

September 30, 2016. Our largest vacancy exposure remains at 200 Clarendon Street where we have approximately 290,000 square feet available, including seven full floors. While the low-rise portion is attractive to non-financial tenants, as evidenced by recently signed leases for approximately 55,000 square feet with new tenants, the high-rise continues to be driven by traditional financial services tenants and activity has been slower. During the third quarter, we partially placed in-service 888 Boylston Street, a Class A office building with approximately 425,000 net rentable square feet. After the signing of a lease for approximately 52,000 square feet in October 2016, the property is 84% leased. The joint venture that owns the Hub on Causeway continues its development and leasing activity.

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Los Angeles

Activity at our Colorado Center joint venture asset in West Los Angeles (“LA”) is robust, and in November 2016 the joint venture signed a 15-year lease with a tenant for approximately 160,000 square feet, reducing its availability from approximately 385,000 square feet to approximately 225,000 square feet, or approximately 14%. In addition, the joint venture anticipates signing leases for more than approximately 40,000 square feet of this remaining availability in the near term and extending existing leases for another approximately 190,000 square feet. The West LA market has had a series of strong quarters of rental rate growth as it benefits from both the creativity and entrepreneurship of local content creators and providers, the explosion of new content from new economy entertainment companies and the growing labor market for a number of the San Francisco-based technology companies that are trying to broaden their workforce reach. Since July, leases for more than 400,000 square feet in the submarket have been signed, and there is activity on another 790,000 square feet including our in-process transactions. Rents have increased almost 10% for these large blocks of space since July, which is stronger than we assumed when underwriting our acquisition of Colorado Center.

San Francisco

Although leasing velocity in the San Francisco CBD has moderated from the peak levels we saw in 2014 and early 2015, the CBD leasing market remains healthy and among the strongest markets in the United States. Continuing a recent trend, each quarter there continues to be significant technology company lease expansions, which compensate for any additional sublet availability. We continue to benefit from this strength as evidenced by the approximately 219,000 square feet of office leases signed at Embarcadero Center during the third quarter of 2016 with a 78% increase in net rents compared to expiring leases.

Our near-term leasing focus will remain on the lease-up of Salesforce Tower, which is 59% pre-leased, and future roll-over at Embarcadero Center. Salesforce Tower is now the tallest building in the city and prospective tenants may now tour the available floors and experience the breadth of vision glass, column free floors and floor heights and views. We are having discussions with companies in various industries for single and multi-floor leases. However, many of these tenants’ requirements are lease-expiration driven for occupancy at the end of 2017 or 2018 and, therefore, they may take longer to evaluate their options and make decisions. We anticipate delivering the first block of space to Salesforce.com in the second quarter of 2017 and we have future delivery dates that extend until the fourth 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 and slow primarily because there has been no significant increase in demand. The GSA continues to have a measured approach to renewals and we are not aware of any requirements that are net demand generators. Moreover, the U.S. presidential election is causing “election inertia,” particularly impacting the GSA’s and government contractors’ leasing decisions.

With respect to our properties, in October 2016 we completed the sale of a portion of our 51% interest in Metropolitan Square. Following the transaction, we continue to own a 20% ownership interest and have retained responsibility for property management and leasing. The joint venture plans to reposition this building, including updates to its lobby and common areas, which it believes will enhance the marketability and value of the building.

Our Reston Town Center properties are approximately 97% leased and continue to command a premium compared to the rents realized in nearby submarkets.

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The table below details the leasing activity during the three and nine months ended September 30, 2016:

	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(Square Feet)	
Vacant space available at the beginning of the period	3,869,290	3,530,913
Property dispositions/properties taken out of service	(211,110)	(211,110)
Properties acquired vacant space	511,789	511,789
Properties placed in-service	52,340	513,172
Leases expiring or terminated during the period	1,553,284	4,632,185
Total space available for lease	5,775,593	8,976,949
1 st generation leases	122,885	642,927
2 nd generation leases with new tenants	864,280	2,219,937
2 nd generation lease renewals	313,098	1,638,755
Total space leased (1)	1,300,263	4,501,619
Vacant space available for lease at the end of the period	4,475,330	4,475,330
Leases executed during the period, in square feet (2)	893,728	3,350,751
Second generation leasing information: (3)		
Leases commencing during the period, in square feet	1,177,378	3,858,692
Weighted Average Lease Term	100 Months	99 Months
Weighted Average Free Rent Period	129 Days	95 Days
Total Transaction Costs Per Square Foot (4)	\$59.26	\$59.23
Increase in Gross Rents (5)	5.95	% 14.29
Increase in Net Rents (6)	8.44	% 21.70

(1) Represents leases for which rental revenue recognition has commenced in accordance with GAAP during the three and nine months ended September 30, 2016.

Represents leases executed during the three and nine months ended September 30, 2016 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 nine months ended September 30, 2016 is 287,244 and 573,356, respectively.

Second generation leases are defined as leases for space that had previously been leased by us. Of the 1,177,378 and 3,858,692 square feet of second generation leases that commenced during the three and nine months ended September 30, 2016, respectively, leases for 906,639 and 3,311,728 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 825,356 and 3,096,336 square feet of second generation leases that had been occupied within the prior 12 months for the three and nine months ended September 30, 2016, 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 825,356 and 3,096,336 square feet of second generation leases that had been occupied within the prior 12 months

for the three and nine months ended September 30, 2016, respectively; excludes leases that management considers temporary because the tenant is not expected to occupy the space on a long-term basis.

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Transactions during the three months ended September 30, 2016 included the following:

On July 1, 2016, we entered the Los Angeles market through our acquisition of a 49.8% interest in an existing joint venture that owns and operates Colorado Center located in Santa Monica, California for a gross purchase price of approximately \$511.1 million, or approximately \$503.6 million in cash net of credits for free rent, unfunded leasing costs and other adjustments. 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. As of September 30, 2016, this property was 66% leased.

On August 16, 2016, we completed the sale of a parcel of land within our Broad Run Business Park property located in Loudoun County, Virginia for a gross sale price of approximately \$18.0 million. Net cash proceeds totaled approximately \$17.9 million, resulting in a gain on sale of real estate totaling approximately \$13.0 million. The sale of the land parcel was completed as part of a like kind exchange under Section 1031 of the Internal Revenue Code.

On August 17, 2016, BPLP completed a public offering of \$1.0 billion in aggregate principal amount of its 2.750% senior unsecured notes due 2026. The notes were priced at 99.271% of the principal amount to yield an effective rate, including financing fees and the impact of the settlement of certain forward-starting interest rate swap contracts, of approximately 3.495% per annum to maturity. The notes will mature on October 1, 2026, unless earlier redeemed.

The aggregate net proceeds from the offering were approximately \$984.7 million after deducting underwriting discounts and transaction expenses.

On August 17, 2016, in conjunction with BPLP's offering of its 2.750% senior unsecured notes due 2026, we terminated 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. We cash-settled the contracts and made cash payments to the counterparties aggregating approximately \$49.3 million. We recognized approximately \$0.1 million of losses on interest rate contracts during the three and nine months ended September 30, 2016 related to the partial ineffectiveness of the interest rate contracts. We will reclassify into earnings over the 10-year term of the 2.750% senior unsecured notes due 2026 as an increase to interest expense approximately \$49.2 million (or approximately \$4.9 million per year) of the amounts recorded on our consolidated balance sheets within accumulated other comprehensive loss, which represents the effective portion of the applicable interest rate contracts.

On August 19, 2016, the consolidated entity in which we have a 55% interest and that owns 601 Lexington Avenue located in New York City commenced the redevelopment of the six-story low-rise office and retail building component of the complex. The redeveloped portion of the low-rise building will contain approximately 195,000 net rentable square feet of Class A office space and approximately 25,000 net rentable square feet of retail space. We will capitalize incremental costs during the redevelopment. BXP and BPLP recognized approximately \$50.8 million and \$47.6 million, respectively, of depreciation expense associated with the acceleration of depreciation on the assets being removed from service and demolished as part of the redevelopment of the property. Approximately \$21.4 million of those amounts was allocated to the outside partners and is included within noncontrolling interests in property partnerships in our consolidated statements of operations.

On September 1, 2016, we used a portion of the net proceeds from BPLP's offering of senior unsecured notes and available cash to repay the mortgage loan collateralized by our 599 Lexington Avenue property located in New York City totaling \$750.0 million. The mortgage loan bore interest at a fixed rate of 5.57% per annum (5.41% per annum GAAP interest rate) and was scheduled to mature on March 1, 2017. There was no prepayment penalty. We recognized a gain from early extinguishment of debt totaling approximately \$0.4 million consisting of the acceleration of the remaining balance related to the effective portion of a previous interest rate hedging program included within accumulated other comprehensive loss, offset by the write-off of unamortized deferred financing costs.

On September 1, 2016, we used a portion of the net proceeds from BPLP's offering of senior unsecured notes and available cash to repay the mortgage loan collateralized by our Embarcadero Center Four property located in San Francisco, California totaling approximately \$344.8 million. The mortgage loan bore interest at a fixed rate of 6.10% per annum (7.02% per annum GAAP interest rate) and was scheduled to mature on December 1, 2016. There was no prepayment penalty. We recognized a loss from early extinguishment of debt totaling approximately \$0.7 million consisting of the write-off of unamortized deferred financing costs and the acceleration of the remaining balance related to the effective portion of a previous interest rate hedging program included within accumulated other

comprehensive loss.

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On September 16, 2016, we partially placed in-service 888 Boylston Street, a Class A office project with approximately 425,000 net rentable square feet located in Boston, Massachusetts. As of November 2, 2016, this property was 84% leased.

On September 27, 2016, we executed a letter of intent for the sale of the remaining parcel of land at our Washingtonian North property located in Gaithersburg, Maryland. The letter of intent caused us to reevaluate our strategy for the land and, based on a shorter than expected hold period, we reduced the carrying value of the land to the estimated net sales price and recognized an impairment loss of approximately \$1.8 million during the three and nine months ended September 30, 2016.

Transactions completed subsequent to September 30, 2016 included the following:

On October 1, 2016, a joint venture in which we have a 50% interest completed and fully placed in-service 1265 Main Street, a Class A office project with approximately 115,000 net rentable feet located in Waltham, Massachusetts. This property is 100% leased.

On October 20, 2016, we and our partner in the unconsolidated joint venture that owns Metropolitan Square located in Washington, DC, completed the sale of an 80% interest in the joint venture for a gross sale price of approximately \$282.4 million, including the assumption by the buyer of its pro rata share of the mortgage loan collateralized by the property totaling approximately \$133.4 million. In addition, the buyer has agreed to assume certain unfunded leasing costs totaling approximately \$14.2 million. Prior to the sale, we owned a 51% interest and our partner owned a 49% interest in the joint venture. Following the sale, we continue to own a 20% interest in the joint venture with the buyer owning the remaining 80%. Metropolitan Square is an approximately 607,000 net rentable square foot Class A office property.

On October 24, 2016, we entered into an option agreement that will allow us to ground lease and/or purchase real property adjacent to the MacArthur BART station located in Oakland, California, that could support the development of a 400-unit residential building and supporting retail space.

On November 7, 2016, we entered into a 15-year lease with a tenant for approximately 476,500 net rentable square feet of Class A office space in a build-to-suit development project to be located at our 145 Broadway property at Kendall Center in Cambridge, Massachusetts. 145 Broadway currently consists of an approximately 80,000 net rentable square foot Class A office property that will be redeveloped into an approximately 486,000 net rentable square foot Class A office property, including approximately 9,500 net rentable square feet of retail space. The commencement of the redevelopment project is subject to the receipt of the remaining necessary approvals, and we currently expect to begin the project in the second quarter of 2017 with the relocation of an existing tenant to another property within our portfolio. We expect the building will be available for occupancy by the new tenant during the fourth quarter of 2019. There can be no assurance that the project will commence or that the building will be available for occupancy on the anticipated schedule or at all.

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 Reports on Form 10-K for the year ended December 31, 2015 contains a discussion of our critical accounting policies. Except for the adoption of ASU 2015-02 and ASU 2015-03 and the modified presentation of our Office/Technical properties to be included within Office properties to align with our method of internal reporting, which shifted after the disposition of 415 Main Street in Cambridge, Massachusetts, there have been no significant

changes in our critical accounting policies since December 31, 2015. The adoption of ASU 2015-02 and ASU 2015-03 and the modification of our segment presentation are discussed in Notes 2 and 13, respectively, to our Consolidated Financial Statements. When applicable, management discusses our critical accounting policies and management's judgments and estimates with BXP's Audit Committee.

Results of Operations for the Nine Months Ended September 30, 2016 and 2015

Net income attributable to Boston Properties, Inc. common shareholders and net income attributable to Boston Properties Limited Partnership common unitholders decreased approximately \$79.6 million and \$83.3 million for the nine months ended September 30, 2016 compared to 2015, respectively, as detailed in the following tables and for the reasons discussed below under the heading "Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015" within "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations."

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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 nine months ended September 30, 2016 and 2015 (in thousands):

Boston Properties, Inc.

	Total Property Portfolio		Increase/ (Decrease)	% Change
	2016	2015		
Net Income Attributable to Boston Properties, Inc. Common Shareholders	\$355,114	\$434,702	\$(79,588)	(18.31)%
Preferred dividends	7,796	7,854	(58)	(0.74)%
Net Income Attributable to Boston Properties, Inc.	362,910	442,556	(79,646)	(18.00)%
Net Income Attributable to Noncontrolling Interests:				
Noncontrolling interest—common units of the Operating Partnership	42,120	50,906	(8,786)	(17.26)%
Noncontrolling interest—redeemable preferred units of the Operating Partnership	—	6	(6)	(100.00)%
Noncontrolling interests in property partnerships	53	139,712	(139,659)	(99.96)%
Net Income	405,083	633,180	(228,097)	(36.02)%
Gains on sales of real estate	80,606	294,563	(213,957)	(72.64)%
Income Before Gains on Sales of Real Estate	324,477	338,617	(14,140)	(4.18)%
Other Expenses:				
Losses from interest rate contracts	140	—	140	100.00%
Losses from early extinguishments of debt	371	—	371	100.00%
Interest expense	314,953	326,018	(11,065)	(3.39)%
Other Income:				
Gains (losses) from investments in securities	1,713	(1,146)	2,859	249.48%
Interest and other income	6,657	6,337	320	5.05%
Income from unconsolidated joint ventures	5,489	20,559	(15,070)	(73.30)%
Operating Income	626,082	638,885	(12,803)	(2.00)%
Other Expenses:				
Depreciation and amortization	516,371	475,082	41,289	8.69%
Impairment loss	1,783	—	1,783	100.00%
Transaction costs	1,187	789	398	50.44%
General and administrative expense	79,936	72,019	7,917	10.99%
Other Revenue:				
Development and management services	18,586	16,102	2,484	15.43%
Net Operating Income	\$1,206,773	\$1,170,673	\$36,100	3.08%

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Boston Properties Limited Partnership

	Total Property Portfolio			
	2016	2015	Increase/ (Decrease)	% Change
Net Income Attributable to Boston Properties Limited Partnership Common Unitholders	\$408,540	\$491,847	\$(83,307)	(16.94)%
Preferred distributions	7,796	7,854	(58)	(0.74)%
Net Income Attributable to Boston Properties Limited Partnership	416,336	499,701	(83,365)	(16.68)%
Net Income Attributable to Noncontrolling Interests:				
Noncontrolling interest—redeemable preferred units of the Operating Partnership	—	6	(6)	(100.00)%
Noncontrolling interests in property partnerships	53	139,712	(139,659)	(99.96)%
Net Income	416,389	639,419	(223,030)	(34.88)%
Gains on sales of real estate	82,775	294,807	(212,032)	(71.92)%
Income Before Gains on Sales of Real Estate	333,614	344,612	(10,998)	(3.19)%
Other Expenses:				
Losses from interest rate contracts	140	—	140	100.00%
Losses from early extinguishments of debt	371	—	371	100.00%
Interest expense	314,953	326,018	(11,065)	(3.39)%
Other Income:				
Gains (losses) from investments in securities	1,713	(1,146)	2,859	249.48%
Interest and other income	6,657	6,337	320	5.05%
Income from unconsolidated joint ventures	5,489	20,559	(15,070)	(73.30)%
Operating Income	635,219	644,880	(9,661)	(1.50)%
Other Expenses:				
Depreciation and amortization	507,234	469,087	38,147	8.13%
Impairment loss	1,783	—	1,783	100.00%
Transaction costs	1,187	789	398	50.44%
General and administrative expense	79,936	72,019	7,917	10.99%
Other Revenue:				
Development and management services	18,586	16,102	2,484	15.43%
Net Operating Income	\$1,206,773	\$1,170,673	\$36,100	3.08%

At September 30, 2016 and September 30, 2015, we owned or had interests in a portfolio of 174 and 171 properties, respectively (in each case, the “Total Property Portfolio”). As a result of changes within our Total Property Portfolio, the financial data shows significant changes in revenue and expenses from period-to-period. Accordingly, we do not believe that our period-to-period financial data with respect to the Total Property Portfolio is necessarily meaningful. Therefore, the comparison of operating results for the three and nine months ended September 30, 2016 and 2015 show separately the changes attributable to the properties that were owned by us and in-service throughout each period compared (the “Same Property Portfolio”) and the changes attributable to the properties included in the Placed In-Service, Acquired, Development or Redevelopment or Sold Portfolios.

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

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Net operating income, or NOI, is a non-GAAP financial measure, and it is not indicative of cash available to fund cash needs and should not be considered as an alternative to cash flows as a measure of liquidity. We consider NOI to be an appropriate supplemental performance measure because it helps both investors and management to understand the core operations of our properties. We use NOI internally as a performance measure and believe it provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets. Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspectives not immediately apparent from net income attributable to Boston Properties, Inc. common shareholders and 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, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level.

NOI excludes certain components, including interest and other income, development and management services income, general and administrative expenses, transaction costs, impairment loss, interest expense, depreciation and amortization expense, gains (losses) from investments in securities, losses from early extinguishments of debt, losses from interest rate contracts, income from unconsolidated joint ventures, gains on sales of real estate, noncontrolling interests and preferred dividends/distributions as internal reporting addresses these items on a corporate level. NOI presented by us may not be comparable to NOI reported by other REITs that define NOI differently. We believe that in order to facilitate a clear understanding of our operating results, NOI should be examined in conjunction with net income attributable to Boston Properties, Inc. common shareholders and net income attributable to Boston Properties Limited Partnership common unitholders as presented in our Consolidated Financial Statements. NOI should not be considered as an alternative to net income attributable to Boston Properties, Inc. common shareholders or net income attributable to Boston Properties Limited Partnership common unitholders.

The gains on sales of real estate and depreciation expense may differ between BXP and BPLP as a result of previously applied acquisition accounting by BXP for the issuance of common stock in connection with non-sponsor OP Unit redemptions by BPLP. This accounting resulted in a step-up of the real estate assets at BXP that was allocated to certain properties. The difference between the real estate assets of BXP as compared to BPLP for certain properties having an allocation of the real estate step-up will result in a corresponding difference in the gains on sales of real estate and depreciation expense when those properties are sold. For additional information see the Explanatory Note. Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 144 properties totaling approximately 38.6 million net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or prior to January 1, 2015 and owned and in-service through September 30, 2016. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or in development or redevelopment after January 1, 2015 or disposed of on or prior to September 30, 2016. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the nine months ended September 30, 2016 and 2015 with respect to the properties that were placed in-service, acquired, in development or redevelopment or sold.

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	Same Property Portfolio				Properties Placed In-Service Portfolio		Properties Acquired Portfolio		Properties in Development or Redevelopment Portfolio		Properties Portfolio	
	(dollars in thousands) 2016	2015	Increase/ (Decrease)	% Change	2016	2015	2016	2015	2016	2015	2016	2015
Rental Revenue:												
Rental Revenue	\$1,725,554	\$1,706,326	\$19,228	1.13 %	\$49,680	\$10,175	\$2,447	—	—	—	—	—
Termination Income	59,681	32,933	26,748	81.22 %	—	—	—	—	—	—	—	—
Total Rental Revenue	1,785,235	1,739,259	45,976	2.64 %	49,680	10,175	2,447	—	—	—	—	—
Real Estate Operating Expenses												
Net Operating Income, excluding residential and hotel	1,145,075	1,112,376	32,699	2.94 %	36,677	7,188	1,882	—	—	—	—	—
Residential Net Operating Income (1)	7,703	6,955	748	10.75 %	—	—	—	—	—	—	—	—
Hotel Net Operating Income (1)	10,189	10,911	(722)	(6.62)%	—	—	—	—	—	—	—	—
Net Operating Income (1)	\$1,162,967	\$1,130,242	\$32,725	2.90 %	\$36,677	\$7,188	\$1,882	—	—	—	—	—

For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 51. Residential Net Operating Income for the nine months ended September 30, 2016 and 2015 are comprised of Residential Revenue of \$12,509 and \$14,776 less Residential Expenses of \$5,429 and \$6,611, respectively. Hotel Net Operating Income for the nine months ended September 30, 2016 and 2015 are comprised of Hotel Revenue of \$33,919 and \$35,107 less Hotel Expenses of \$23,730 and \$24,196, respectively, per the Consolidated Statements of Operations.

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Same Property Portfolio

Rental Revenue

Rental revenue from the Same Property Portfolio increased approximately \$19.2 million for the nine months ended September 30, 2016 compared to 2015. The increase was primarily the result of an increase in revenue from our leases of approximately \$21.9 million, partially offset by a decrease in other tenant recoveries and parking and other income of approximately \$2.7 million. Rental revenue from our leases increased approximately \$21.9 million as a result of our average revenue per square foot increasing by approximately \$1.31, contributing approximately \$34.0 million, partially offset by a decrease of approximately \$12.1 million due to a decrease in average occupancy from 92.2% to 91.4%.

Termination Income

Termination income increased by approximately \$26.7 million for the nine months ended September 30, 2016 compared to 2015.

Termination income for the nine months ended September 30, 2016 related to 30 tenants across the Same Property Portfolio and totaled approximately \$59.7 million, of which approximately \$58.8 million was from our New York region. On February 3, 2016, we entered into a lease termination agreement with a tenant for an approximately 85,000 square foot lease at our 250 West 55th Street property located in New York City. The lease was scheduled to expire on February 28, 2035. In consideration for the termination of the lease, the tenant paid us approximately \$45.0 million. In addition, during the nine months ended September 30, 2016, we received a fourth interim distribution from our unsecured creditor claim against Lehman Brothers, Inc. of approximately \$1.4 million, which leaves a remaining claim of approximately \$28.0 million (See Note 8 to the Consolidated Financial Statements). Recently, claims of similar priority to that of our remaining claim were quoted privately reflecting a value for our remaining claim of approximately \$1.5 million; however, there can be no assurance as to the timing or amount of additional proceeds, if any, that we may receive. The remaining approximately \$12.4 million of termination income from the New York region was primarily related to negotiated early releases with three other tenants.

Termination income for the nine months ended September 30, 2015 related to 28 tenants across the Same Property Portfolio and totaled approximately \$32.9 million, of which approximately \$19.3 million, \$3.9 million, \$1.2 million and \$0.4 million related to early terminations in our New York, San Francisco, Boston and Washington, DC regions, respectively. The termination income from the New York region was primarily due to our negotiated early termination of a tenant at 767 Fifth Avenue (the General Motors Building), a tenant at 601 Lexington Avenue and a tenant in Princeton, New Jersey each in order to accommodate leasing the space to other tenants. Approximately \$7.5 million of our termination income for the nine months ended September 30, 2015 was non-cash and resulted from the acceleration of “above-” and “below-market” lease revenue and straight-line rent adjustments.

In addition, on March 11, 2015 and September 9, 2015 we received the second and third interim distributions from our unsecured creditor claim against Lehman Brothers, Inc. totaling approximately \$8.1 million (See Note 8 to the Consolidated Financial Statements).

Real Estate Operating Expenses

Real estate operating expenses from the Same Property Portfolio increased approximately \$13.3 million for the nine months ended September 30, 2016 compared to 2015 due primarily to an increase of approximately \$15.4 million, or 5.3%, in real estate taxes, which we primarily experienced in the Washington, DC region and New York CBD properties partially offset by a decrease in other real estate operating expenses of approximately \$2.1 million, or 0.6% primarily in the Boston region and New York CBD properties.

Properties Placed In-Service Portfolio

The table below lists the properties placed in-service or partially placed in-service from January 1, 2015 through September 30, 2016. Rental revenue and real estate operating expenses from our Properties Placed In-Service Portfolio increased approximately \$39.5 million and \$10.0 million, respectively, for the nine months ended September 30, 2016 compared to 2015 as detailed below.

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Name	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Square Feet	Rental Revenue			Real Estate Operating Expenses			
				2016	2015	Change	2016	2015	Change	
(dollars in thousands)										
535 Mission Street	Fourth Quarter, 2014	Fourth Quarter, 2015	307,235	\$17,049	\$7,234	\$9,815	\$5,068	\$2,523	\$2,545	
690 Folsom Street	Fourth Quarter, 2014	Fourth Quarter, 2015	26,080	1,347	700	647	275	164	111	
The Point (1)	Third Quarter, 2015	Fourth Quarter, 2015	16,300	602	17	585	184	1	183	
601 Massachusetts Avenue	Third Quarter, 2015	Second Quarter, 2016	478,883	24,938	2,224	22,714	5,568	299	5,269	
804 Carnegie Center	Second Quarter, 2016	Second Quarter, 2016	130,000	2,576	—	2,576	1,066	—	1,066	
10 CityPoint	Second Quarter, 2016	Second Quarter, 2016	241,460	3,002	—	3,002	789	—	789	
Reservoir Place North	Second Quarter, 2016	N/A	73,000	(8)	—	(8)	34	—	34	
888 Boylston Street	Third Quarter, 2016	N/A	425,000	174	—	174	19	—	19	
				1,697,958	\$49,680	\$10,175	\$39,505	\$13,003	\$2,987	\$10,016

(1) This is a retail property.

Properties Acquired Portfolio

On April 22, 2016, we acquired 3625-3635 Peterson Way located in Santa Clara, California for a purchase price of approximately \$78.0 million in cash. 3625-3635 Peterson Way is an approximately 218,000 net rentable square foot office property. The property is 100% leased to a single tenant through March 2021. Following the lease expiration, we intend to develop the site into a Class A office campus containing an aggregate of approximately 632,000 net rentable square feet. During the nine months ended September 30, 2016, this building had revenue and real estate operating expenses of approximately \$2.4 million and \$0.6 million, respectively. We did not acquire any properties during the nine months ended September 30, 2015.

Properties in Development or Redevelopment Portfolio

The table below lists the properties we placed in development or redevelopment between January 1, 2015 and September 30, 2016. Rental revenue from our Properties in Development or Redevelopment Portfolio decreased approximately \$5.0 million for the nine months ended September 30, 2016 compared to 2015 and there was no change in the real estate operating expenses for the nine months ended September 30, 2016 compared to 2015, as detailed below.

Name	Rental Revenue			Real Estate Operating Expenses		
	2016	2015	Change	2016	2015	Change

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	Date commenced development / redevelopment	Square Feet	(dollars in thousands)						
Reservoir Place North	May 1, 2015	73,000	\$—	\$661	\$(661)	)	\$—	\$254	\$(254)
159 East 53rd Street (1)	August 19, 2016	220,000	10,707	15,033	(4,326)	)	6,100	5,846	254
		293,000	\$10,707	\$15,694	\$(4,987)	)	\$6,100	\$6,100	\$—

(1) This is the low-rise portion of 601 Lexington Avenue in New York City. Rental revenue includes approximately \$(0.9) million and \$(1.7) million of termination fees for the nine months ended September 30, 2016 and 2015, respectively. In addition, real estate operating expense for the nine months ended September 30, 2016 includes approximately \$0.7 million of demolition costs.

In addition, during the nine months ended September 30, 2016, we incurred approximately \$0.6 million of demolition costs related to our Cambridge Residential / 88 Ames Street development project.

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Properties Sold Portfolio

The table below lists the properties we sold between January 1, 2015 and September 30, 2016. Rental revenue and real estate and operating expenses from our Properties Sold Portfolio decreased approximately \$37.0 million and \$14.6 million, respectively, for the nine months ended September 30, 2016 compared to 2015 as detailed below.

Name	Date Sold	Property Type	Square Feet	Rental Revenue			Real Estate Operating Expenses		
				2016	2015	Change	2016	2015	Change
(dollars in thousands)									
Class A Office									
505 9th Street, N.W. (1)	September 18, 2015	Office	322,000	\$—	\$18,072	\$(18,072)	\$—	\$6,334	\$(6,334)
Innovation Place (2)	December 17, 2015	Office	574,000	—	1,892	(1,892)	—	1,970	(1,970)
415 Main Street	February 1, 2016	Office	231,000	1,675	15,505	(13,830)	412	4,726	(4,314)
			1,127,000	1,675	35,469	(33,794)	412	13,030	(12,618)
Residential Residences on The Avenue (3)	March 17, 2015	Residential	323,050	—	3,230	(3,230)	—	2,020	(2,020)
			1,450,050	\$1,675	\$38,699	\$(37,024)	\$412	\$15,050	\$(14,638)

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

(2) This is a 26-acre site with one occupied and three vacant office buildings.

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

Residential Net Operating Income

Net operating income for our residential same properties increased by approximately \$0.7 million for the nine months ended September 30, 2016 compared to 2015.

The following reflects our occupancy and rate information for The Lofts at Atlantic Wharf and The Avant at Reston Town Center for the nine months ended September 30, 2016 and 2015.

	The Lofts at Atlantic Wharf			The Avant at Reston Town Center		
	2016	2015	Percentage Change	2016	2015	Percentage Change
Average Monthly Rental Rate (1)	\$4,150	\$4,027	3.1 %	\$2,375	\$2,257	5.2 %
Average Rental Rate Per Occupied Square Foot	\$4.59	\$4.49	2.2 %	\$2.61	\$2.44	7.0 %
Average Physical Occupancy (2)	96.3 %	96.8 %	(0.5)%	94.2 %	89.5 %	5.3 %
Average Economic Occupancy (3)	97.3 %	97.6 %	(0.3)%	94.1 %	87.6 %	7.4 %

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

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

(3) Average Economic Occupancy is defined as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue is determined by valuing average occupied units at contract rates and average vacant units at Market Rents. Vacancy loss is determined by valuing vacant units at current Market Rents. By measuring vacant units at their Market Rents, Average Economic Occupancy takes into account the fact that units of different sizes and locations within a residential property have different economic impacts on a residential

property's total possible gross revenue. Market Rents used by us in calculating Economic Occupancy are based on the current market rates set by the managers of our residential properties based on their experience in renting their residential property's units and publicly available market data. Trends in market rents for a region as reported by others could vary. Market Rents for a period are based on the average Market Rents during that period and do not reflect any impact for cash concessions.

Hotel Net Operating Income

Net operating income for the Boston Marriott Cambridge hotel property decreased by approximately \$0.7 million for the nine months ended September 30, 2016 compared to 2015. We expect our hotel to contribute between \$13 million and \$14 million to net operating income for 2016 and between \$13 million and \$15 million for 2017.

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The following reflects our occupancy and rate information for the Boston Marriott Cambridge hotel for the nine months ended September 30, 2016 and 2015.

	2016	2015	Percentage Change
Occupancy	82.2 %	84.1 %	(2.3)%
Average daily rate	\$269.10	\$271.88	(1.0)%
Revenue per available room, REVPAR	\$221.28	\$294.63	(24.9)%

Other Operating Income and Expense Items**Development and Management Services**

Development and management services income increased an aggregate of approximately \$2.5 million for the nine months ended September 30, 2016 compared to 2015. Development income increased by approximately \$1.5 million and management service income increased by approximately \$1.0 million. The increase in development income is primarily due to increases in development fees from our Boston and New York joint ventures, as well as an increase in our San Francisco third-party developments fees, partially offset by a decrease in development fees from our Washington, DC third-party developments and joint ventures. In addition, we also had a decrease in the fees that we earned on tenant improvement buildouts, due to the completion of several large tenant buildouts, in our Washington, DC region. Management service income increased primarily due to service income that we have received from our tenants and property management fees we earned from our Colorado Center joint venture, which we acquired on July 1, 2016, in Santa Monica, California. We expect our development and management services income to contribute between \$24 million and \$25 million for 2016 and between \$24 million and \$28 million for 2017.

General and Administrative

General and administrative expenses increased approximately \$7.9 million for the nine months ended September 30, 2016 compared to 2015 due primarily to an approximately \$9.1 million increase in overall compensation expense partially offset by a decrease in other general and administrative expenses of approximately \$1.2 million. The increase in compensation expense was primarily due to the following items: (1) approximately \$2.8 million related to the difference between the unrecognized expense remaining from the 2013 MYLTIP Units compared to the expense that was recognized during the nine months ended September 30, 2016 for the newly issued 2016 MYLTIP Units (See Note 9 to the Consolidated Financial Statements), (2) an approximately \$2.8 million increase in the value of BXP's deferred compensation plan and (3) an approximately \$0.5 million increase in health care costs.

Based on currently budgeted amounts, we expect general and administrative expenses to be between \$104 million and \$107 million for 2016, which would be greater than the \$96.3 million for 2015. This estimate assumes a cost-of-living adjustment, projected increase in the value of BXP's deferred compensation plan and the impact of the issuance of 2016 MYLTIP Units as a long-term compensation plan in February 2016. The projected increased expense associated with the long-term compensation plan is due to the difference between the unrecognized expense remaining from the 2013 MYLTIP Units compared to the expense that would be recognized during the first year of the new long-term compensation plan. In addition, we expect general and administrative expenses to be between \$108 million and \$114 million for 2017.

Wages directly related to the development and leasing of rental properties are capitalized and included in real estate assets or deferred charges on our Consolidated Balance Sheets and amortized over the useful lives of the applicable asset. Capitalized wages for the nine months ended September 30, 2016 and 2015 were approximately \$13.0 million and \$11.7 million, respectively. These costs are not included in the general and administrative expenses discussed above.

Transaction Costs

Transaction costs increased approximately \$0.4 million for the nine months ended September 30, 2016 compared to 2015. Transaction costs for the nine months ended September 30, 2016 are primarily related to the acquisition of 3625-3635 Peterson Way in Santa Clara, California, which was completed on April 22, 2016, and the acquisition of a 49.8% interest in an existing joint venture that owns and operates Colorado Center in Santa Monica, California on July 1, 2016 (See Notes 3 and 4 to the Consolidated Financial Statements). In general, transaction costs relate to the

formation of new and pending joint ventures, pending and completed asset sales and the pursuit of other transactions, including acquisitions.

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Impairment Loss

On September 27, 2016, we executed a letter of intent for the sale of the remaining parcel of land at our Washingtonian North property located in Gaithersburg, Maryland. The letter of intent caused us to reevaluate our strategy for the land and based on a shorter than expected hold period, we reduced the carrying value of the land to the estimated net sales price and recognized an impairment loss of approximately \$1.8 million during the nine months ended September 30, 2016.

Depreciation and Amortization

Depreciation expense may differ between BXP and BPLP as a result of previously applied acquisition accounting by BXP for the issuance of common stock in connection with non-sponsor OP Unit redemptions by BPLP. This accounting resulted in a step-up of the real estate assets at BXP that was allocated to certain properties. The difference between the real estate assets of BXP as compared to BPLP for certain properties having an allocation of the real estate step-up will result in a corresponding difference in depreciation expense. For additional information see the Explanatory Note.

Boston Properties, Inc.

Depreciation and amortization increased approximately \$41.3 million for the nine months ended September 30, 2016 compared to 2015, as detailed below.

Portfolio	Depreciation and Amortization for the nine months ended September 30,		
	2016	2015	Change
	(in thousands)		
Same Property Portfolio (1)	\$450,730	\$460,478	\$(9,748)
Properties Placed in-Service Portfolio	11,119	2,763	8,356
Properties Acquired Portfolio	1,719	—	1,719
Properties in Development or Redevelopment Portfolio (2)	52,695	2,351	50,344
Properties Sold Portfolio	108	9,490	(9,382)
	\$516,371	\$475,082	\$41,289

The decrease is due to the fact that during the nine months ended September 30, 2015, we accelerated depreciation and amortization at 767 Fifth Avenue (the General Motors Building) in New York City due to a lease termination. This acceleration was partially offset by an increase in depreciation and amortization at 250 West 55th Street in New York City due to the commencement of several new leases and therefore the leased percentage increased from (1) approximately 81% at September 30, 2015 to approximately 85% at September 30, 2016. Leasehold improvements and leasing commissions are depreciated and amortized over their respective lease terms. In addition, during the nine months ended September 30, 2016, we commenced the repositioning of 1330 Connecticut Avenue in Washington, DC and therefore accelerated depreciation and amortization on the portion of the building that is being repositioned.

On August 19, 2016, the consolidated entity in which we have a 55% interest and that owns 601 Lexington Avenue located in New York City commenced the redevelopment of the six-story low-rise office and retail building component of the complex. The redeveloped portion of the low-rise building will contain approximately 195,000 (2) net rentable square feet of Class A office space and approximately 25,000 net rentable square feet of retail space. We recorded approximately \$50.8 million, including \$3.2 million related to the step-up of real estate assets, of accelerated depreciation expense for the portion of the complex to be demolished.

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Boston Properties Limited Partnership

Depreciation and amortization increased approximately \$38.1 million for the nine months ended September 30, 2016 compared to 2015, as detailed below.

Portfolio	Depreciation and Amortization for the nine months ended September 30,		
	2016	2015	Change
	(in thousands)		
Same Property Portfolio (1)	\$444,775	\$454,483	\$(9,708)
Properties Placed in-Service Portfolio	11,119	2,763	8,356
Properties Acquired Portfolio	1,719	—	1,719
Properties in Development or Redevelopment Portfolio (2)	49,513	2,351	47,162
Properties Sold Portfolio	108	9,490	(9,382)
	\$507,234	\$469,087	\$38,147

(1) Refer to footnote 1 of the BXP depreciation and amortization table above for an explanation of the change in the Same Property Portfolio depreciation and amortization.

On August 19, 2016, the consolidated entity in which we have a 55% interest and that owns 601 Lexington Avenue located in New York City commenced the redevelopment of the six-story low-rise office and retail building component of the complex. The redeveloped portion of the low-rise building will contain approximately 195,000 net rentable square feet of Class A office space and approximately 25,000 net rentable square feet of retail space.

(2) We recorded approximately \$47.6 million of accelerated depreciation expense for the portion of the complex to be demolished.

Other Income and Expense Items

Income from Unconsolidated Joint Ventures

For the nine months ended September 30, 2016 compared to 2015, income from unconsolidated joint ventures decreased by approximately \$15.1 million due primarily to an approximately \$12.5 million decrease in our share of net income from 901 New York Avenue in Washington, DC. During the nine months ended September 30, 2015, we received a distribution of approximately \$24.5 million, which was generated from the excess loan proceeds from the joint venture's refinancing of its mortgage loan to a new 10-year mortgage loan totaling \$225.0 million. Our allocation of income and distributions for the nine months ended September 30, 2015 was not proportionate to our nominal ownership interest as a result of the achievement of specified investment return thresholds, as provided for in the joint venture agreement. In addition, we had an approximately \$2.6 million decrease in our share of net income from our Annapolis Junction joint venture. The decrease in our share of net income from the Annapolis Junction joint venture is primarily due to an increase in interest expense and depreciation and amortization expense as a result of Annapolis Junction Building Seven and Building Eight no longer being in development. These two buildings have construction loans and, therefore, the venture capitalized the interest and did not expense it during the development period. These decreases were partially offset by the acquisition of Colorado Center located in Santa Monica, California (Refer to Note 4 to the Consolidated Financial Statements).

Interest and Other Income

Interest and other income increased approximately \$0.3 million for the nine months ended September 30, 2016 compared to 2015 due primarily to a purchase rebate program in which we participated, partially offset by a decrease in interest income.

Gains (Losses) from Investments in Securities

Gains (losses) from investments in securities for the nine months ended September 30, 2016 and 2015 related to investments that we have made to reduce our market risk relating to a deferred compensation plan that we maintain for BXP's officers. Under this deferred compensation plan, each officer who is eligible to participate is permitted to defer a portion of the officer's current income on a pre-tax basis and receive a tax-deferred return on these deferrals based on the performance of specific investments selected by the officer. In order to reduce our market risk relating to this plan,

we typically acquire, in a separate account that is not restricted as to its use, similar or identical investments as those selected by each officer. This enables us to generally match our liabilities to BXP's officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The performance of these investments is recorded as gains (losses) from investments in securities. During the nine months ended September 30, 2016 and 2015, we recognized gains (losses) of approximately \$1.7 million and \$(1.1) million, respectively, on these investments. By comparison, our general and administrative expense

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increased (decreased) by approximately \$1.7 million and \$(1.1) million during the nine months ended September 30, 2016 and 2015, respectively, as a result of increases (decreases) in our liability under our deferred compensation plan that were associated with the performance of the specific investments selected by our officers participating in the plan.

Interest Expense

Interest expense decreased approximately \$11.1 million for the nine months ended September 30, 2016 compared to 2015 as detailed below:

Component	Change in interest expense for the nine months ended September 30, 2016 compared to September 30, 2015 (in thousands)
Increases to interest expense due to:	
Issuance of \$1.0 billion in aggregate principal of 3.650% senior notes due 2026 on January 20, 2016	\$ 25,612
Issuance of \$1.0 billion in aggregate principal of 2.750% senior notes due 2026 on August 17, 2016	3,410
Increase in interest expense for the Outside Members' Notes Payable for 767 Fifth Avenue (the General Motors Building) (1)	2,611
Total increases to interest expense	31,633
Decreases to interest expense due to:	
Defeasance of the mortgage loan collateralized by 100 & 200 Clarendon Street on December 15, 2015	(24,595)
Repayment of mortgage financings (2)	(9,992)
Sale of 505 9th Street, N.W. on September 18, 2015	(4,934)
Increase in capitalized interest (3)	(3,038)
Other interest expense (excluding senior notes)	(139)
Total decreases to interest expense	(42,698)
Total change in interest expense	\$ (11,065)

(1) The related interest expense from the Outside Members' Notes Payable totaled approximately \$25.4 million and \$22.8 million for the nine months ended September 30, 2016 and 2015, respectively. These amounts are allocated to the outside joint venture partners as an adjustment to Noncontrolling Interests in Property Partnerships in our Consolidated Statements of Operations.

(2) Includes the repayment of Kingstowne Two and Kingstowne Retail, Fountain Square, Embarcadero Center Four and 599 Lexington Avenue.

(3) The increase was primarily due to the commencement and continuation of several development projects. For a list of development projects refer to "Liquidity and Capital Resources" within "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations."

Interest expense directly related to the development of rental properties is capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. As portions of properties are placed in-service, we cease capitalizing interest on that portion and interest is then expensed. Interest capitalized for the nine months ended September 30, 2016 and 2015 was approximately \$29.0 million and \$25.9 million, respectively. These costs are not included in the interest expense referenced above.

We estimate interest expense will be approximately \$403 million to \$407 million for 2016. This amount is net of approximately \$37 million to \$42 million of capitalized interest. These estimates assume that we do not complete a financing during the remainder of 2016. In addition, we estimate interest expense will be approximately \$378 million to \$391 million for 2017. This amount is net of approximately \$50 million to \$60 million of capitalized interest. These estimates assume that we complete the refinancing of the \$1.6 billion of mortgage/mezzanine loans secured by direct and indirect interests in 767 Fifth Avenue (the General Motors Building) in New York City at market rates. If we elect to increase our indebtedness, then our interest expense will increase. In addition, if we refinance, prepay or repurchase existing indebtedness prior to its maturity, we may incur prepayment penalties, realize the acceleration of amortized costs, and our actual interest expense may differ materially from the estimates above.

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At September 30, 2016, our variable rate debt consisted of BPLP's \$1.0 billion Unsecured Line of Credit, of which no amount was outstanding at September 30, 2016. For a summary of our consolidated debt as of September 30, 2016 and September 30, 2015 refer to the heading "Liquidity and Capital Resources—Capitalization—Debt Financing" within "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations."

Losses from Early Extinguishments of Debt

On September 1, 2016, we used a portion of the net proceeds from BPLP's offering of senior unsecured notes and available cash to repay the mortgage loan collateralized by our 599 Lexington Avenue property located in New York City totaling \$750.0 million. The mortgage loan bore interest at a fixed rate of 5.57% per annum (5.41% per annum GAAP interest rate) and was scheduled to mature on March 1, 2017. There was no prepayment penalty. We recognized a gain from early extinguishment of debt totaling approximately \$0.4 million consisting of the acceleration of the remaining balance related to the effective portion of a previous interest rate hedging program included within accumulated other comprehensive loss, offset by the write-off of unamortized deferred financing costs.

On September 1, 2016, we used a portion of the net proceeds from BPLP's offering of senior unsecured notes and available cash to repay the mortgage loan collateralized by our Embarcadero Center Four property located in San Francisco, California totaling approximately \$344.8 million. The mortgage loan bore interest at a fixed rate of 6.10% per annum (7.02% per annum GAAP interest rate) and was scheduled to mature on December 1, 2016. There was no prepayment penalty. We recognized a loss from early extinguishment of debt totaling approximately \$0.7 million consisting of the write-off of unamortized deferred financing costs and the acceleration of the remaining balance related to the effective portion of a previous interest rate hedging program included within accumulated other comprehensive loss.

Losses from Interest Rate Contracts

On August 17, 2016, in conjunction with BPLP's offering of senior unsecured notes, we terminated 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. We cash-settled the contracts and made cash payments to the counterparties aggregating approximately \$49.3 million. We recognized approximately \$0.1 million of losses on interest rate contracts during the nine months ended September 30, 2016 related to the partial ineffectiveness of the interest rate contracts. We will reclassify into earnings over the 10-year term of the 2.750% senior unsecured notes due 2026 as an increase to interest expense approximately \$49.2 million (or approximately \$4.9 million per year) of the amounts recorded on our consolidated balance sheets within accumulated other comprehensive loss, which represents the effective portion of the applicable interest rate contracts.

Gains on Sales of Real Estate

The gains on sales of real estate may differ between BXP and BPLP as a result of previously applied acquisition accounting by BXP for the issuance of common stock in connection with non-sponsor OP Unit redemptions by BPLP. This accounting resulted in a step-up of the real estate assets at BXP that was allocated to certain properties. The difference between the real estate assets of BXP as compared to BPLP for certain properties having an allocation of the real estate step-up will result in a corresponding difference in the gains on sales of real estate when those properties are sold. For additional information see the Explanatory Note.

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Boston Properties, Inc.

Gains on sales of real estate decreased approximately \$214.0 million for the nine months ended September 30, 2016 compared to 2015, respectively, as detailed below.

Name	Date sold	Property Type	Square Feet	Sale Price	Cash Proceeds	Gain on Sale of Real Estate
(dollars in millions)						
2016						
415 Main Street	February 1, 2016	Office	231,000	\$ 105.4	\$ 104.9	\$ 60.8
Broad Run Business Park	August 16, 2016	Land	N/A	18.0	17.9	13.0
				\$ 123.4	\$ 122.8	\$ 73.8 (1)
2015						
Washingtonian North	February 19, 2015	Land	N/A	\$ 8.7	\$ 8.3	\$ 3.7
Residences on The Avenue (2)	March 17, 2015	Residential	323,050	196.0	192.5	91.4
505 9th Street (3)	September 15, 2015	Office	322,000	318.0	194.6	199.5
				\$ 522.7	\$ 395.4	\$ 294.6

Excludes approximately \$6.8 million of a gain on sale of real estate recognized during the nine months ended (1) September 30, 2016 related to a previously deferred gain amount from the 2014 sale of Patriots Park located in Reston, Virginia.

This property has 335 apartment units and approximately 50,000 net rentable square feet of retail space. We have agreed to provide net operating income support of up to \$6.0 million should the property's net operating income fail (2) to achieve certain thresholds. As of September 30, 2016, we have a remaining obligation of approximately \$3.7 million. This amount has been recorded as a reduction to the gain on sale. This property is subject to a ground lease that expires on February 1, 2068.

This property was owned by a consolidated entity in which we had a 50% interest. The buyer assumed the mortgage loan which had a balance of \$117.0 million. Approximately \$101.1 million of the gain on sale of real (3) estate was allocated to the outside partners and is included within Noncontrolling Interests in Property Partnerships in our Consolidated Statements of Operations.

Boston Properties Limited Partnership

Gains on sales of real estate decreased approximately \$212.0 million for the nine months ended September 30, 2016 compared to 2015, respectively, as detailed below.

Name	Date sold	Property Type	Square Feet	Sale Price	Cash Proceeds	Gain on Sale of Real Estate
(dollars in millions)						
2016						
415 Main Street	February 1, 2016	Office	231,000	\$ 105.4	\$ 104.9	\$ 63.0
Broad Run Business Park	August 16, 2016	Land	N/A	18.0	17.9	13.0
				\$ 123.4	\$ 122.8	\$ 76.0 (1)
2015						
Washingtonian North	February 19, 2015	Land	N/A	\$ 8.7	\$ 8.3	\$ 3.7
Residences on The Avenue (2)	March 17, 2015	Residential	323,050	196.0	192.5	91.4
505 9th Street (3)	September 15, 2015	Office	322,000	318.0	194.6	199.7

\$522.7 \$ 395.4 \$294.8

Excludes approximately \$6.8 million of a gain on sale of real estate recognized during the nine months ended (1) September 30, 2016 related to a previously deferred gain amount from the 2014 sale of Patriots Park located in Reston, Virginia.

This property has 335 apartment units and approximately 50,000 net rentable square feet of retail space. We have agreed to provide net operating income support of up to \$6.0 million should the property's net operating income fail (2) to achieve certain thresholds. As of September 30, 2016, we have a remaining obligation of approximately \$3.7 million. This amount has been recorded as a reduction to the gain on sale. This property is subject to a ground lease that expires on February 1, 2068.

This property was owned by a consolidated entity in which we had a 50% interest. The buyer assumed the (3) mortgage loan which had a balance of \$117.0 million. Approximately \$101.1 million of the gain on sale of real estate was allocated to the outside partners and is included within Noncontrolling Interests in Property Partnerships in our Consolidated Statements of Operations.

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Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships decreased by approximately \$139.7 million for the nine months ended September 30, 2016 compared to 2015 as detailed below.

Property	Noncontrolling Interests in Property Partnerships for the nine months ended September 30,		
	2016	2015	Change
	(in thousands)		
505 9th Street (1)	\$—	\$103,507	\$(103,507)
Fountain Square (2)	—	5,121	(5,121)
Salesforce Tower	(3)	—	(3)
767 Fifth Avenue (the General Motors Building) (3)	(15,477)	(13,946)	(1,531)
Times Square Tower	20,110	20,025	85
601 Lexington Avenue (4)	(14,221)	(14,985)	(29,206)
100 Federal Street	2,683	3,005	(322)
Atlantic Wharf Office	6,961	7,015	(54)
	\$53	\$139,712	\$(139,659)

(1) On September 18, 2015, we sold this property and approximately \$101.1 million of the gain was allocated to the outside partners (See Note 9 to the Consolidated Financial Statements).

(2) On September 15, 2015, we acquired our partners' nominal 50% interest (See Note 9 to the Consolidated Financial Statements).

The net loss allocation is primarily due to the partners' share of the interest expense for the outside members' notes payable which was \$25.4 million and \$22.8 million for the nine months ended September 30, 2016 and 2015, respectively.

(4) On August 19, 2016, the consolidated entity in which we have a 55% interest and that owns this property commenced the redevelopment of the six-story low-rise office and retail building component of the complex. The redeveloped portion of the low-rise building will contain approximately 195,000 net rentable square feet of Class A office space and approximately 25,000 net rentable square feet of retail space. We will capitalize incremental costs during the redevelopment. BXP and BPLP recognized approximately \$50.8 million and \$47.6 million, respectively, of depreciation expense associated with the acceleration of depreciation on the assets being removed from service and demolished as part of the redevelopment of the property. Approximately \$21.4 million of those amounts was allocated to the outside partners.

Noncontrolling interest - Common Units of the Operating Partnership

For BXP, noncontrolling interest—common units of the Operating Partnership decreased by approximately \$8.8 million for the nine months ended September 30, 2016 compared to 2015 due primarily to a decrease in allocable income, which was the result of recognizing a greater gain on sales of real estate amount during 2015, partially offset by a decrease in the noncontrolling interest's ownership percentage. Due to our UPREIT ownership structure, there is no corresponding line item on BPLP's financial statements.

Results of Operations for the Three Months Ended September 30, 2016 and 2015

Net income attributable to Boston Properties, Inc. common shareholders and net income attributable to Boston Properties Limited Partnership common unitholders decreased approximately \$107.3 million and \$116.3 million for the three months ended September 30, 2016 compared to 2015, respectively, as detailed in the following tables and for the reasons discussed below under the heading "Comparison of the three months ended September 30, 2016 to the three months ended September 30, 2015" within "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations."

Below are reconciliations of Net Income Attributable to Boston Properties, Inc. Common Shareholders to NOI and Net Income Attributable to Boston Properties Limited Partnership Common Unitholders to NOI for the three months ended September 30, 2016 and 2015. For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 51.

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Boston Properties, Inc.

	Total Property Portfolio			
	2016	2015	Increase/ (Decrease)	% Change
	(in thousands)			
Net Income Attributable to Boston Properties, Inc. Common Shareholders	\$76,753	\$184,082	\$(107,329)	(58.30)%
Preferred dividends	2,589	2,647	(58)	(2.19)%
Net Income Attributable to Boston Properties, Inc.	79,342	186,729	(107,387)	(57.51)%
Net Income Attributable to Noncontrolling Interests:				
Noncontrolling interest—common units of the Operating Partnership	9,387	21,302	(11,915)	(55.93)%
Noncontrolling interests in property partnerships	(17,225)	115,240	(132,465)	(114.95)%
Net Income	71,504	323,271	(251,767)	(77.88)%
Gains on sales of real estate	12,983	199,479	(186,496)	(93.49)%
Income Before Gains on Sales of Real Estate	58,521	123,792	(65,271)	(52.73)%
Other Expenses:				
Losses from interest rate contracts	140	—	140	100.00%
Losses from early extinguishments of debt	371	—	371	100.00%
Interest expense	104,641	108,727	(4,086)	(3.76)%
Other Income:				
Gains (losses) from investments in securities	976	(1,515)	2,491	164.42%
Interest and other income	3,628	3,637	(9)	(0.25)%
Income from unconsolidated joint ventures	1,464	2,647	(1,183)	(44.69)%
Operating Income	157,605	227,750	(70,145)	(30.80)%
Other Expenses:				
Depreciation and amortization	203,748	153,015	50,733	33.16%
Impairment loss	1,783	—	1,783	100.00%
Transaction costs	249	254	(5)	(1.97)%
General and administrative expense	25,165	20,944	4,221	20.15%
Other Revenue:				
Development and management services	6,364	5,912	452	7.65%
Net Operating Income	\$382,186	\$396,051	\$(13,865)	(3.50)%

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Boston Properties Limited Partnership

	Total Property Portfolio			
	2016	2015	Increase/ (Decrease)	% Change
	(in thousands)			
Net Income Attributable to Boston Properties Limited Partnership Common Unitholders	\$91,306	\$207,626	\$(116,320)	(56.02)%
Preferred distributions	2,589	2,647	(58)	(2.19)%
Net Income Attributable to Boston Properties Limited Partnership	93,895	210,273	(116,378)	(55.35)%
Net Income Attributable to Noncontrolling Interests:				
Noncontrolling interests in property partnerships	(17,225)	115,240	(132,465)	(114.95)%
Net Income	76,670	325,513	(248,843)	(76.45)%
Gains on sales of real estate	12,983	199,723	(186,740)	(93.50)%
Income Before Gains on Sales of Real Estate	63,687	125,790	(62,103)	(49.37)%
Other Expenses:				
Losses from interest rate contracts	140	—	140	100.00%
Losses from early extinguishments of debt	371	—	371	100.00%
Interest expense	104,641	108,727	(4,086)	(3.76)%
Other Income:				
Gains (losses) from investments in securities	976	(1,515)	2,491	164.42%
Interest and other income	3,628	3,637	(9)	(0.25)%
Income from unconsolidated joint ventures	1,464	2,647	(1,183)	(44.69)%
Operating Income	162,771	229,748	(66,977)	(29.15)%
Other Expenses:				
Depreciation and amortization	198,582	151,017	47,565	31.50%
Impairment loss	1,783	—	1,783	100.00%
Transaction costs	249	254	(5)	(1.97)%
General and administrative expense	25,165	20,944	4,221	20.15%
Other Revenue:				
Development and management services	6,364	5,912	452	7.65%
Net Operating Income	\$382,186	\$396,051	\$(13,865)	(3.50)%

Comparison of the three months ended September 30, 2016 to the three months ended September 30, 2015.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 144 properties totaling approximately 38.6 million net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or prior to July 1, 2015 and owned and in service through September 30, 2016. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or in development or redevelopment after July 1, 2015 or disposed of on or prior to September 30, 2016. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the three months ended September 30, 2016 and 2015 with respect to the properties that were placed in-service, acquired, in development or redevelopment or sold.

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	Same Property Portfolio				Properties Placed In-Service Portfolio		Properties Acquired Portfolio	Properties in Development or Redevelopment Portfolio		Properties Sold Portfolio	
	2016	2015	Increase/ (Decrease)	% Change	2016	2015	2016	2016	2015	2015	2015
(dollars in thousands)											
Rental Revenue:											
Rental Revenue	\$579,942	\$575,219	\$4,723	0.82 %	\$19,900	\$6,029	\$1,354	\$-1,112	\$5,656	\$-10,749	\$6,029
Termination Income	836	10,133	(9,297)	(91.75)%	—	—	—	—(1,006)	(544)	—	(1,006)
Total Rental Revenue	580,778	585,352	(4,574)	(0.78)%	19,900	6,029	1,354	—106	5,112	—10,749	6,029
Real Estate Operating Expenses											
Operating Expenses	218,906	211,390	7,516	3.56 %	5,017	1,520	281	—2,133	2,009	—3,343	2,009
Net Operating Income (Loss), excluding residential and hotel											
Net Operating Income (Loss), excluding residential and hotel	361,872	373,962	(12,090)	(3.23)%	14,883	4,509	1,073	—(2,027)	3,103	—7,406	3,103
Residential Net Operating Income (1)											
Residential Net Operating Income (1)	2,772	2,577	195	7.57 %	—	—	—	—(623)	—	—	2,577
Hotel Net Operating Income (1)											
Hotel Net Operating Income (1)	4,236	4,494	(258)	(5.74)%	—	—	—	—	—	—	4,494
Net Operating Income (1)											
Net Operating Income (1)	\$368,880	\$381,033	\$(12,153)	(3.19)%	\$14,883	\$4,509	\$1,073	\$-(2,650)	\$3,103	\$-7,406	\$4,509

For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 51. Residential Net Operating Income for the three months ended September 30, 2016 and 2015 are comprised of Residential Revenue of \$4,372 and \$4,111 less Residential Expenses of \$2,223 and \$1,534, respectively. Hotel Net Operating Income for the three months ended September 30, 2016 and 2015 are comprised of Hotel Revenue of \$12,354 and \$12,619 less Hotel Expenses of \$8,118 and \$8,125, respectively, per the Consolidated Statements of Operations.

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Same Property Portfolio

Rental Revenue

Rental revenue from the Same Property Portfolio increased approximately \$4.7 million for the three months ended September 30, 2016 compared to 2015. The increase was primarily the result of an increase of approximately \$5.7 million in revenue from our leases partially offset by a decrease in other tenant recoveries and parking and other income of approximately \$1.0 million. Rental revenue from our leases increased approximately \$5.7 million as a result of our average revenue per square foot increasing by approximately \$1.33, contributing approximately \$11.4 million, partially offset by a decrease of approximately \$5.7 million due to a decrease in average occupancy from 92.4% to 91.2%.

Termination Income

Termination income decreased by approximately \$9.3 million for the three months ended September 30, 2016 compared to 2015.

Termination income for the three months ended September 30, 2016 related to nine tenants across the Same Property Portfolio and totaled approximately \$0.8 million.

Termination income for the three months ended September 30, 2015 related to thirteen tenants across the Same Property Portfolio and totaled approximately \$10.1 million, of which approximately \$5.1 million and \$1.3 million related to early terminations in our New York and San Francisco regions, respectively, and \$0.1 million related to early terminations in the Boston and Washington, DC regions. The termination income from the New York region was primarily due to our negotiated early termination of a tenant at 767 Fifth Avenue (the General Motors Building), a tenant at 601 Lexington Avenue and a tenant in Princeton, New Jersey each in order to accommodate leasing the space to other tenants. Approximately \$2.5 million of our termination income for the three months ended September 30, 2015 was non-cash and resulted from the acceleration of “above-” and “below-market” lease revenue and straight-line rent adjustments.

In addition, on September 9, 2015 we received the third interim distribution from our unsecured creditor claim against Lehman Brothers, Inc. totaling approximately \$3.6 million (See Note 8 to the Consolidated Financial Statements).

Real Estate Operating Expenses

Real estate operating expenses from the Same Property Portfolio increased approximately \$7.5 million, or 3.6% for the three months ended September 30, 2016 compared to 2015 due primarily to increases in real estate taxes and repairs and maintenance of approximately \$4.8 million, or 4.7% and \$2.8 million, or 9.1%, respectively, which was partially offset by a decrease in other real estate operating expenses across the regions of approximately \$0.1 million, or 0.1%. The increases in real estate taxes and repairs and maintenance, were primarily experienced in the New York CBD properties.

Properties Placed In-Service Portfolio

The table below lists the properties placed in-service or partially placed in-service from July 1, 2015 through September 30, 2016. Rental revenue and real estate operating expenses from our Properties Placed In-Service Portfolio increased approximately \$13.9 million and \$3.5 million, respectively, for the three months ended September 30, 2016 compared to 2015 as detailed below.

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Name	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Square Feet	Rental Revenue			Real Estate Operating Expenses		
				2016	2015	Change	2016	2015	Change
(dollars in thousands)									
535 Mission Street	Fourth Quarter, 2014	Fourth Quarter, 2015	307,235	\$6,146	\$3,526	\$2,620	\$1,779	\$1,153	\$626
690 Folsom Street	Fourth Quarter, 2014	Fourth Quarter, 2015	26,080	516	262	254	90	67	23
The Point (1)	Third Quarter, 2015	Fourth Quarter, 2015	16,300	202	17	185	53	1	52
601 Massachusetts Avenue	Third Quarter, 2015	Second Quarter, 2016	478,883	8,638	2,224	6,414	1,938	299	1,639
804 Carnegie Center	Second Quarter, 2016	Second Quarter, 2016	130,000	1,413	—	1,413	364	—	364
10 CityPoint	Second Quarter, 2016	Second Quarter, 2016	241,460	2,811	—	2,811	740	—	740
Reservoir Place North	Second Quarter, 2016	N/A	73,000	—	—	—	34	—	34
888 Boylston Street	Third Quarter, 2016	N/A	425,000	174	—	174	19	—	19
			1,697,958	\$19,900	\$6,029	\$13,871	\$5,017	\$1,520	\$3,497

(1) This is a retail property.

Properties Acquired Portfolio

On April 22, 2016, we acquired 3625-3635 Peterson Way located in Santa Clara, California for a purchase price of approximately \$78.0 million in cash. 3625-3635 Peterson Way is an approximately 218,000 net rentable square foot office property. The property is 100% leased to a single tenant through March 2021. Following the lease expiration, we intend to develop the site into a Class A office campus containing an aggregate of approximately 632,000 net rentable square feet. During the three months ended September 30, 2016, this building had revenue and real estate operating expenses of approximately \$1.4 million and \$0.3 million, respectively. We did not acquire any properties during the three months ended September 30, 2015.

Properties in Development or Redevelopment Portfolio

On August 19, 2016, the consolidated entity in which we have a 55% interest and that owns 601 Lexington Avenue located in New York City commenced the redevelopment of the six-story low-rise office and retail building component of the complex. The redeveloped portion of the low-rise building will contain approximately 195,000 net rentable square feet of Class A office space and approximately 25,000 net rentable square feet of retail space. For the three months ended September 30, 2016 and 2015, this building had revenue of approximately \$0.1 million and \$5.1 million, which included approximately \$(1.0) million and \$(0.5) million of termination fees, respectively. In addition, real estate operating expenses for the three months ended September 30, 2016 and 2015 were approximately \$2.1 million and \$2.0 million, respectively. Included in the real estate operating expenses for the three months ended September 30, 2016 were approximately \$0.7 million of demolition costs.

In addition, during the three months ended September 30, 2016, we incurred approximately \$0.6 million of demolition costs related to our Cambridge Residential / 88 Ames Street development project.

Properties Sold Portfolio

The table below lists the properties we sold between July 1, 2015 and September 30, 2016. Rental revenue and real estate operating expenses from our Properties Sold Portfolio decreased approximately \$10.7 million and \$3.3 million, respectively, for the three months ended September 30, 2016 compared to 2015 as detailed below.

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Name	Date Sold	Property Type	Square Feet	Rental Revenue		Real Estate Operating Expenses	
				2015	Change	2015	Change
(dollars in thousands)							
Office							
505 9th Street, N.W. (1)	September 18, 2015	Office	322,000	\$-5,139	\$(5,139)	\$-1,159	\$(1,159)
Innovation Place (2)	December 17, 2015	Office	574,000	—586	(586)	—683	(683)
415 Main Street	February 1, 2016	Office	231,000	—5,024	(5,024)	—1,501	(1,501)
			1,127,000	\$-10,749	\$(10,749)	\$-3,343	\$(3,343)

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

(2) This is a 26-acre site with one occupied and three vacant office buildings.

Residential Net Operating Income

Net operating income for our residential same properties increased by approximately \$0.2 million for the three months ended September 30, 2016 compared to 2015.

The following reflects our occupancy and rate information for The Lofts at Atlantic Wharf and The Avant at Reston Town Center for the three months ended September 30, 2016 and 2015.

	The Lofts at Atlantic Wharf			The Avant at Reston Town Center		
	2016	2015	Percentage Change	2016	2015	Percentage Change
Average Monthly Rental Rate (1)	\$4,146	\$4,054	2.3 %	\$2,429	\$2,264	7.3 %
Average Rental Rate Per Occupied Square Foot	\$4.63	\$4.53	2.2 %	\$2.68	\$2.45	9.4 %
Average Physical Occupancy (2)	97.3 %	95.4 %	2.0 %	95.6 %	94.4 %	1.3 %
Average Economic Occupancy (3)	97.7 %	97.1 %	0.6 %	95.6 %	93.9 %	1.8 %

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

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

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

Hotel Net Operating Income

Net operating income for the Boston Marriott Cambridge hotel property decreased by approximately \$0.3 million for the three months ended September 30, 2016 compared to 2015.

The following reflects our occupancy and rate information for the Boston Marriott Cambridge hotel for the three months ended September 30, 2016 and 2015.

	2016	2015	Percentage Change
Occupancy	87.2 %	86.8 %	0.5 %
Average daily rate	\$279.03	\$288.43	(3.3)%
Revenue per available room, REVPAR	\$243.19	\$250.41	(2.9)%

Operating Income and Expense Items

Development and Management Services

Development and management services income increased an aggregate of approximately \$0.5 million for the three months ended September 30, 2016 compared to 2015. Development income increased by approximately \$0.2 million and management service income increased by approximately \$0.3 million. The increase in development income is primarily due to an increase in development fees partially offset by a decrease in fees earned on tenant improvement buildouts. The increase in development fees is from our Boston and New York joint ventures as well as an increase in

our San Francisco third-party developments fees. Management service income increased primarily due to