

BOSTON PROPERTIES INC

Form 10-Q

November 07, 2018

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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, 2018

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

For the transition period from _____ to _____

Commission File Number: 1-13087 (Boston Properties, Inc.)

Commission File Number: 0-50209 (Boston Properties Limited Partnership)

BOSTON PROPERTIES, INC.

BOSTON PROPERTIES LIMITED PARTNERSHIP

(Exact name of Registrants as specified in its charter)

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

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

Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103

(Address of principal executive offices) (Zip Code)

(617) 236-3300

(Registrants' telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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, smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Boston Properties, Inc.:

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Large accelerated filer ☒
 growth company ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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Boston Properties Limited Partnership:

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer

x Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Boston Properties, Inc. ☐ Boston Properties Limited Partnership ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

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

Boston Properties, Inc. Common Stock, par value \$0.01 per share 154,440,500

(Registrant) (Class) (Outstanding on November 2, 2018)

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2018 of Boston Properties, Inc. and Boston Properties Limited Partnership. Unless stated otherwise or the context otherwise requires, references to “BXP” mean Boston Properties, Inc., a Delaware corporation and real estate investment trust (“REIT”), and references to “BPLP” and the “Operating Partnership” mean Boston Properties Limited Partnership, a Delaware limited partnership. BPLP is the entity through which BXP conducts substantially all of its business and owns, either directly or through subsidiaries, substantially all of its assets. BXP is the sole general partner and also a limited partner of BPLP. As the sole general partner of BPLP, BXP has exclusive control of BPLP’s day-to-day management. Therefore, unless stated otherwise or the context requires, references to the “Company,” “we,” “us” and “our” mean collectively BXP, BPLP and those entities/subsidiaries consolidated by BXP.

As of September 30, 2018, BXP owned an approximate 89.7% ownership interest in BPLP. The remaining approximate 10.3% interest is owned by limited partners. The other limited partners of BPLP are (1) persons who contributed their direct or indirect interests in properties to BPLP in exchange for common units or preferred units of limited partnership interest in BPLP and/or (2) recipients of long term incentive plan units of BPLP pursuant to BXP’s Stock Option and Incentive Plans. Under the limited partnership agreement of BPLP, unitholders may present their common units of BPLP for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time, generally one year from issuance). Upon presentation of a common unit for redemption, BPLP must redeem the unit for cash equal to the then value of a share of BXP’s common stock. In lieu of a cash redemption by BPLP, however, BXP may elect to acquire any common units so tendered by issuing shares of BXP common stock in exchange for the common units. If BXP so elects, its common stock will be exchanged for common units on a one-for-one basis. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. BXP generally expects that it will elect to issue its common stock in connection with each such presentation for redemption rather than having BPLP pay cash. With each such exchange or redemption, BXP’s percentage ownership in BPLP will increase. In addition, whenever BXP issues shares of its common stock other than to acquire common units of BPLP, BXP must contribute any net proceeds it receives to BPLP and BPLP must issue to BXP an equivalent number of common units of BPLP. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

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

- enhances investors’ understanding of BXP and BPLP by enabling investors to view the business as a whole in the same manner as management views and operates the business;
 - eliminates duplicative disclosure and provides a more concise and readable presentation because a substantial portion of the disclosure applies to both BXP and BPLP; and
 - creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.
- The Company believes it is important to understand the few differences between BXP and BPLP in the context of how BXP and BPLP operate as a consolidated company. The financial results of BPLP are consolidated into the financial statements of BXP. BXP does not have any other significant assets, liabilities or operations, other than its investment in BPLP, nor does it have employees of its own. BPLP, not BXP, generally executes all significant business relationships other than transactions involving the securities of BXP. BPLP holds substantially all of the assets of BXP, including ownership interests in joint ventures. BPLP conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by BXP, which are contributed to the capital of BPLP in exchange for common or preferred units of partnership in BPLP, as applicable, BPLP generates all remaining capital required by the Company’s business. These sources include working capital, net cash provided by operating activities, borrowings under its credit facilities, the issuance of secured and unsecured debt and equity securities and proceeds received from the disposition of certain properties and interests in joint ventures. Shareholders’ equity, partners’ capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of BXP and BPLP. The limited partners of BPLP are accounted for as partners’ capital in BPLP’s financial statements and as noncontrolling interests in BXP’s financial statements. The noncontrolling interests in BPLP’s financial statements include the interests of unaffiliated partners in various consolidated

partnerships. The noncontrolling interests in BXP's financial statements include the same

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

In addition, the consolidated financial statements of BXP and BPLP differ in total real estate assets resulting from previously applied acquisition accounting by BXP for the issuance of common stock in connection with non-sponsor redemptions of common units of BPLP. This accounting resulted in a step-up of the real estate assets at BXP. This resulted in a difference between the net real estate of BXP as compared to BPLP of approximately \$308.7 million, or 1.9% at September 30, 2018 and a corresponding difference in depreciation expense and gains on sales of real estate upon the sale of certain properties having an allocation of the real estate step-up. The acquisition accounting was nullified on a prospective basis beginning in 2009 as a result of the Company's adoption of a new accounting standard requiring any future redemptions to be accounted for solely as an equity transaction.

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

Item 1. Financial Statements (unaudited), which includes the following specific disclosures for BXP and BPLP:

- Note 3. Real Estate;
- Note 7. Noncontrolling Interests;
- Note 8. Stockholders' Equity / Partners' Capital;
- Note 9. Earnings Per Share / Common Unit; and
- Note 11. Segment Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations includes information specific to each entity, where applicable; and

Item 2. Liquidity and Capital Resources includes separate reconciliations of amounts to each entity's financial statements, where applicable.

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

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BOSTON PROPERTIES, INC. AND BOSTON PROPERTIES LIMITED PARTNERSHIP
FORM 10-Q
for the quarter ended September 30, 2018
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PART I. FINANCIAL INFORMATION

ITEM 1—Financial Statements.

BOSTON PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------|
| | (in thousands, except for share and par value amounts) | |
| ASSETS | | |
| Real estate, at cost (amounts related to variable interest entities (“VIEs”) of \$7,426,998 and \$7,172,718 at September 30, 2018 and December 31, 2017, respectively) | \$21,687,639 | \$21,096,642 |
| Less: accumulated depreciation (amounts related to VIEs of \$(942,678) and \$(854,172) at September 30, 2018 and December 31, 2017, respectively) | (4,838,496) | (4,589,634) |
| Total real estate | 16,849,143 | 16,507,008 |
| Cash and cash equivalents (amounts related to VIEs of \$284,053 and \$304,955 at September 30, 2018 and December 31, 2017, respectively) | 322,502 | 434,767 |
| Cash held in escrows (amounts related to VIEs of \$6,118 and \$6,135 at September 30, 2018 and December 31, 2017, respectively) | 101,282 | 70,602 |
| Investments in securities | 31,376 | 29,161 |
| Tenant and other receivables (amounts related to VIEs of \$42,193 and \$27,057 at September 30, 2018 and December 31, 2017, respectively) | 98,502 | 92,186 |
| Related party note receivable | 80,000 | — |
| Accrued rental income (amounts related to VIEs of \$269,794 and \$242,589 at September 30, 2018 and December 31, 2017, respectively) | 926,274 | 861,575 |
| Deferred charges, net (amounts related to VIEs of \$261,951 and \$281,678 at September 30, 2018 and December 31, 2017, respectively) | 669,545 | 679,038 |
| Prepaid expenses and other assets (amounts related to VIEs of \$62,325 and \$33,666 at September 30, 2018 and December 31, 2017, respectively) | 133,443 | 77,971 |
| Investments in unconsolidated joint ventures | 925,431 | 619,925 |
| Total assets | \$20,137,498 | \$19,372,233 |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Mortgage notes payable, net (amounts related to VIEs of \$2,931,852 and \$2,939,183 at September 30, 2018 and December 31, 2017, respectively) | \$2,967,548 | \$2,979,281 |
| Unsecured senior notes, net | 7,253,786 | 7,247,330 |
| Unsecured line of credit | 170,000 | 45,000 |
| Unsecured term loan, net | 498,368 | — |
| Accounts payable and accrued expenses (amounts related to VIEs of \$78,893 and \$106,683 at September 30, 2018 and December 31, 2017, respectively) | 315,462 | 331,500 |
| Dividends and distributions payable | 165,118 | 139,040 |
| Accrued interest payable (amounts related to VIEs of \$6,659 and \$6,907 at September 30, 2018 and December 31, 2017, respectively) | 92,809 | 83,646 |
| Other liabilities (amounts related to VIEs of \$200,306 and \$164,806 at September 30, 2018 and December 31, 2017, respectively) | 468,433 | 443,980 |
| Total liabilities | 11,931,524 | 11,269,777 |

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| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Commitments and contingencies | — | — |
| Equity: | | |
| Stockholders' equity attributable to Boston Properties, Inc.: | | |
| Excess stock, \$0.01 par value, 150,000,000 shares authorized, none issued or outstanding | — | — |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized; | | |
| 5.25% Series B cumulative redeemable preferred stock, \$0.01 par value, liquidation preference \$2,500 per share, 92,000 shares authorized, 80,000 shares issued and outstanding at September 30, 2018 and December 31, 2017 | 200,000 | 200,000 |
| Common stock, \$0.01 par value, 250,000,000 shares authorized, 154,519,139 and 154,404,186 issued and 154,440,239 and 154,325,286 outstanding at September 30, 2018 and December 31, 2017, respectively | 1,544 | 1,543 |
| Additional paid-in capital | 6,400,193 | 6,377,908 |
| Dividends in excess of earnings | (677,312) | (712,343) |
| Treasury common stock at cost, 78,900 shares at September 30, 2018 and December 31, 2017 | (2,722) | (2,722) |
| Accumulated other comprehensive loss | (45,137) | (50,429) |
| Total stockholders' equity attributable to Boston Properties, Inc. | 5,876,566 | 5,813,957 |
| Noncontrolling interests: | | |
| Common units of Boston Properties Limited Partnership | 618,380 | 604,739 |
| Property partnerships | 1,711,028 | 1,683,760 |
| Total equity | 8,205,974 | 8,102,456 |
| Total liabilities and equity | \$20,137,498 | \$19,372,233 |
| The accompanying notes are an integral part of these consolidated financial statements. | | |

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

| | Three months ended September 30, 2018 | | 2017 | | Nine months ended September 30, 2018 | | 2017 | |
|----------------------------------------------------------------------------------------------|----------------------------------------------|-----------|-------------|-------------|--------------------------------------------|--|------|--|
| | (in thousands, except for per share amounts) | | | | | | | |
| Revenue | | | | | | | | |
| Rental | | | | | | | | |
| Base rent | \$525,875 | \$513,269 | \$1,561,821 | \$1,537,373 | | | | |
| Recoveries from tenants | 102,424 | 94,476 | 292,801 | 272,803 | | | | |
| Parking and other | 26,552 | 26,092 | 79,590 | 78,164 | | | | |
| Total rental revenue | 654,851 | 633,837 | 1,934,212 | 1,888,340 | | | | |
| Hotel revenue | 13,664 | 13,064 | 37,373 | 33,859 | | | | |
| Development and management services | 15,253 | 10,811 | 32,963 | 24,648 | | | | |
| Direct reimbursements of payroll and related costs from management services contracts | 2,516 | — | 7,371 | — | | | | |
| Total revenue | 686,284 | 657,712 | 2,011,919 | 1,946,847 | | | | |
| Expenses | | | | | | | | |
| Operating | | | | | | | | |
| Rental | 247,989 | 237,341 | 726,108 | 696,082 | | | | |
| Hotel | 8,828 | 8,447 | 25,642 | 23,942 | | | | |
| General and administrative | 29,677 | 25,792 | 94,039 | 84,319 | | | | |
| Payroll and related costs from management services contracts | 2,516 | — | 7,371 | — | | | | |
| Transaction costs | 914 | 239 | 1,409 | 572 | | | | |
| Depreciation and amortization | 157,996 | 152,164 | 480,210 | 463,288 | | | | |
| Total expenses | 447,920 | 423,983 | 1,334,779 | 1,268,203 | | | | |
| Operating income | 238,364 | 233,729 | 677,140 | 678,644 | | | | |
| Other income (expense) | | | | | | | | |
| Income (loss) from unconsolidated joint ventures | (4,313 |) 843 | (3,083 |) 7,035 | | | | |
| Gains on sales of real estate | 7,863 | 2,891 | 122,552 | 6,791 | | | | |
| Interest and other income | 2,822 | 1,329 | 7,049 | 3,447 | | | | |
| Gains from investments in securities | 1,075 | 944 | 1,454 | 2,716 | | | | |
| Gains from early extinguishments of debt | — | — | — | 14,354 | | | | |
| Interest expense | (95,366 |) (92,032 |) (277,790 |) (282,709 |) | | | |
| Net income | 150,445 | 147,704 | 527,322 | 430,278 | | | | |
| Net income attributable to noncontrolling interests | | | | | | | | |
| Noncontrolling interests in property partnerships | (14,850 |) (14,340 |) (46,484 |) (33,967 |) | | | |
| Noncontrolling interest—common units of Boston Properties Limited Partnership | (13,852 |) (13,402 |) (49,128 |) (40,350 |) | | | |
| Net income attributable to Boston Properties, Inc. | 121,743 | 119,962 | 431,710 | 355,961 | | | | |
| Preferred dividends | (2,625 |) (2,625 |) (7,875 |) (7,875 |) | | | |
| Net income attributable to Boston Properties, Inc. common shareholders | \$119,118 | \$117,337 | \$423,835 | \$348,086 | | | | |
| Basic earnings per common share attributable to Boston Properties, Inc. common shareholders: | | | | | | | | |
| Net income | \$0.77 | \$0.76 | \$2.74 | \$2.26 | | | | |
| Weighted average number of common shares outstanding | 154,440 | 154,355 | 154,414 | 154,132 | | | | |

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Diluted earnings per common share attributable to Boston

Properties, Inc. common shareholders:

| | | | | |
|----------------------------------------------------------------------------|---------|---------|---------|---------|
| Net income | \$0.77 | \$0.76 | \$2.74 | \$2.26 |
| Weighted average number of common and common equivalent shares outstanding | 154,678 | 154,483 | 154,652 | 154,344 |

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, 2018 2017 | | Nine months ended September 30, 2018 2017 | |
|----------------------------------------------------------------------------|-------------------------------------------------------|------------|------------------------------------------------------|------------|
| | (in thousands) | | | |
| Net income | \$ 150,445 | \$ 147,704 | \$ 527,322 | \$ 430,278 |
| Other comprehensive income (loss): | | | | |
| Effective portion of interest rate contracts | 1,325 | — | 1,325 | (6,133) |
| Amortization of interest rate contracts (1) | 1,666 | 1,665 | 4,998 | 4,368 |
| Other comprehensive income (loss) | 2,991 | 1,665 | 6,323 | (1,765) |
| Comprehensive income | 153,436 | 149,369 | 533,645 | 428,513 |
| Net income attributable to noncontrolling interests | (28,702) | (27,742) | (95,612) | (74,317) |
| Other comprehensive (income) loss attributable to noncontrolling interests | (433) | (300) | (1,031) | 2,220 |
| Comprehensive income attributable to Boston Properties, Inc. | \$ 124,301 | \$ 121,327 | \$ 437,002 | \$ 356,416 |

(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 | |
|----------------------------------------------------------------------|--------------|----------|------------|--------------|--------------|------------|--------------------|----------------|--------------|
| | Shares | Amount | Stock | Paid-in | Excess of | Stock, | Other | Interests | Total |
| | | | | Capital | Earnings | at cost | Comprehensive Loss | | |
| Equity, December 31, 2017 | 154,325 | \$ 1,543 | \$ 200,000 | \$ 6,377,908 | \$ (712,343) | \$ (2,722) | \$ (50,429) | \$ 2,288,499 | \$ 8,102,456 |
| Cumulative effect of a change in accounting principle | — | — | — | — | 4,933 | — | — | 563 | 5,496 |
| Redemption of operating partnership units to common stock | 60 | 1 | — | 2,111 | — | — | — | (2,112) | — |
| Allocated net income for the year | — | — | — | — | 431,710 | — | — | 95,612 | 527,322 |
| Dividends/distributions declared | — | — | — | — | (401,612) | — | — | (45,730) | (447,342) |
| Shares issued pursuant to stock purchase plan | 6 | — | — | 797 | — | — | — | — | 797 |
| Net activity from stock option and incentive plan | 49 | — | — | 1,354 | — | — | — | 29,216 | 30,570 |
| Contributions from noncontrolling interests in property partnerships | — | — | — | — | — | — | — | 37,148 | 37,148 |
| Distributions to noncontrolling interests in property partnerships | — | — | — | — | — | — | — | (56,796) | (56,796) |
| Effective portion of interest rate contracts | — | — | — | — | — | — | 1,190 | 135 | 1,325 |
| Amortization of interest rate contracts | — | — | — | — | — | — | 4,102 | 896 | 4,998 |
| Reallocation of noncontrolling interest | — | — | — | 18,023 | — | — | — | (18,023) | — |
| Equity, September 30, 2018 | 154,440 | \$ 1,544 | \$ 200,000 | \$ 6,400,193 | \$ (677,312) | \$ (2,722) | \$ (45,137) | \$ 2,329,408 | \$ 8,205,974 |
| Equity, December 31, 2016 | 153,790 | \$ 1,538 | \$ 200,000 | \$ 6,333,424 | \$ (693,694) | \$ (2,722) | \$ (52,251) | \$ 2,145,629 | \$ 7,931,924 |
| Redemption of operating partnership units to common stock | 492 | 5 | — | 16,807 | — | — | — | (16,812) | — |
| Allocated net income for the year | — | — | — | — | 355,961 | — | — | 74,317 | 430,278 |
| | — | — | — | — | (354,734) | — | — | (40,292) | (395,026) |

| | | | | | | | | | |
|----------------------------------------------------------------------|---------|----------|------------|--------------|--------------|------------|-------------|--------------|--------------|
| Dividends/distributions declared | | | | | | | | | |
| Shares issued pursuant to stock purchase plan | 6 | — | — | 795 | — | — | — | — | 795 |
| Net activity from stock option and incentive plan | 34 | — | — | 2,920 | — | — | — | 26,271 | 29,191 |
| Cumulative effect of a change in accounting principle | — | — | — | — | (272 |) | — | (1,763 |) (2,035 |
| Contributions from noncontrolling interests in property partnerships | — | — | — | — | — | — | — | 147,772 | 147,772 |
| Distributions to noncontrolling interests in property partnerships | — | — | — | — | — | — | — | (41,439 |) (41,439 |
| Effective portion of interest rate contracts | — | — | — | — | — | — | (3,304 |) (2,829 |) (6,133 |
| Amortization of interest rate contracts | — | — | — | — | — | — | 3,759 | 609 | 4,368 |
| Reallocation of noncontrolling interest | — | — | — | 16,986 | — | — | — | (16,986 |) — |
| Equity, September 30, 2017 | 154,322 | \$ 1,543 | \$ 200,000 | \$ 6,370,932 | \$ (692,739) | \$ (2,722) | \$ (51,796) | \$ 2,274,477 | \$ 8,099,695 |

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, | |
|-----------------------------------------------------------------------------------|--------------------------------------------|------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$527,322 | \$430,278 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 480,210 | 463,288 |
| Non-cash compensation expense | 31,700 | 27,260 |
| Loss (income) from unconsolidated joint ventures | 3,083 | (7,035) |
| Distributions of net cash flow from operations of unconsolidated joint ventures | 3,988 | 8,563 |
| Gains from investments in securities | (1,454) | (2,716) |
| Gains from early extinguishments of debt | — | (14,354) |
| Non-cash portion of interest expense | 15,922 | (6,667) |
| Gains on sales of real estate | (122,552) | (6,791) |
| Change in assets and liabilities: | | |
| Tenant and other receivables, net | 1,578 | 12,528 |
| Accrued rental income, net | (41,519) | (36,012) |
| Prepaid expenses and other assets | (51,938) | (13,633) |
| Accounts payable and accrued expenses | 6,354 | 7,861 |
| Accrued interest payable | 8,860 | (144,833) |
| Other liabilities | (1,561) | (65,073) |
| Tenant leasing costs | (89,366) | (67,699) |
| Total adjustments | 243,305 | 154,687 |
| Net cash provided by operating activities | 770,627 | 584,965 |
| Cash flows from investing activities: | | |
| Acquisition of real estate | — | (15,953) |
| Construction in progress | (530,389) | (452,283) |
| Building and other capital improvements | (140,969) | (162,395) |
| Tenant improvements | (129,450) | (152,749) |
| Proceeds from sales of real estate | 175,577 | 29,810 |
| Capital contributions to unconsolidated joint ventures | (314,075) | (89,874) |
| Capital distributions from unconsolidated joint ventures | — | 251,000 |
| Issuance of related party note receivable | (80,000) | — |
| Investments in securities, net | (761) | (1,451) |
| Net cash used in investing activities | (1,020,067) | (593,895) |

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

| | For the nine months ended September 30, 2018 2017 (in thousands) | |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------|
| Cash flows from financing activities: | | |
| Proceeds from mortgage notes payable | — | 2,300,000 |
| Repayments of mortgage notes payable | (14,677) | (1,313,890) |
| Borrowings on unsecured line of credit | 580,000 | 470,000 |
| Repayments of unsecured line of credit | (455,000) | (470,000) |
| Proceeds from unsecured term loan | 500,000 | — |
| Repayments of mezzanine notes payable | — | (306,000) |
| Repayments of outside members' notes payable | — | (70,424) |
| Payments on capital lease obligations | — | (463) |
| Payments on real estate financing transactions | (960) | (1,306) |
| Deposit on mortgage note payable interest rate lock | — | (23,200) |
| Return of deposit on mortgage note payable interest rate lock | — | 23,200 |
| Deferred financing costs | (263) | (44,083) |
| Debt prepayment and extinguishment costs | — | (90) |
| Net proceeds from equity transactions | (333) | 241 |
| Dividends and distributions | (421,264) | (394,900) |
| Contributions from noncontrolling interests in property partnerships | 37,148 | 38,196 |
| Distributions to noncontrolling interests in property partnerships | (56,796) | (41,605) |
| Net cash provided by financing activities | 167,855 | 165,676 |
| Net increase (decrease) in cash and cash equivalents and cash held in escrows | (81,585) | 156,746 |
| Cash and cash equivalents and cash held in escrows, beginning of period | 505,369 | 420,088 |
| Cash and cash equivalents and cash held in escrows, end of period | \$423,784 | \$576,834 |
| Reconciliation of cash and cash equivalents and cash held in escrows: | | |
| Cash and cash equivalents, beginning of period | \$434,767 | \$356,914 |
| Cash held in escrows, beginning of period | 70,602 | 63,174 |
| Cash and cash equivalents and cash held in escrows, beginning of period | \$505,369 | \$420,088 |
| Cash and cash equivalents, end of period | \$322,502 | \$493,055 |
| Cash held in escrows, end of period | 101,282 | 83,779 |
| Cash and cash equivalents and cash held in escrows, end of period | \$423,784 | \$576,834 |
| Supplemental disclosures: | | |
| Cash paid for interest | \$303,203 | \$477,189 |
| Interest capitalized | \$51,594 | \$43,286 |
| Non-cash investing and financing activities: | | |
| Write-off of fully depreciated real estate | \$(100,118) | \$(103,972) |
| Additions to real estate included in accounts payable and accrued expenses | \$(11,746) | \$36,609 |
| Real estate acquired through capital lease | \$— | \$28,962 |
| Outside members' notes payable contributed to noncontrolling interests in property partnerships | \$— | \$109,576 |
| Dividends and distributions declared but not paid | \$165,118 | \$130,434 |

| | | |
|-----------------------------------------------------------------------------------------|----------|----------|
| Conversions of noncontrolling interests to stockholders' equity | \$2,112 | \$16,812 |
| Issuance of restricted securities to employees | \$37,342 | \$35,711 |
| The accompanying notes are an integral part of these consolidated financial statements. | | |

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------|
| | (in thousands, except for unit amounts) | |
| ASSETS | | |
| Real estate, at cost (amounts related to variable interest entities (“VIEs”) of \$7,426,998 and \$7,172,718 at September 30, 2018 and December 31, 2017, respectively) | \$ 21,281,726 | \$ 20,685,164 |
| Less: accumulated depreciation (amounts related to VIEs of \$(942,678) and \$(854,172) at September 30, 2018 and December 31, 2017, respectively) | (4,741,280) | (4,496,959) |
| Total real estate | 16,540,446 | 16,188,205 |
| Cash and cash equivalents (amounts related to VIEs of \$284,053 and \$304,955 at September 30, 2018 and December 31, 2017, respectively) | 322,502 | 434,767 |
| Cash held in escrows (amounts related to VIEs of \$6,118 and \$6,135 at September 30, 2018 and December 31, 2017, respectively) | 101,282 | 70,602 |
| Investments in securities | 31,376 | 29,161 |
| Tenant and other receivables (amounts related to VIEs of \$42,193 and \$27,057 at September 30, 2018 and December 31, 2017, respectively) | 98,502 | 92,186 |
| Related party note receivable | 80,000 | — |
| Accrued rental income (amounts related to VIEs of \$269,794 and \$242,589 at September 30, 2018 and December 31, 2017, respectively) | 926,274 | 861,575 |
| Deferred charges, net (amounts related to VIEs of \$261,951 and \$281,678 at September 30, 2018 and December 31, 2017, respectively) | 669,545 | 679,038 |
| Prepaid expenses and other assets (amounts related to VIEs of \$62,325 and \$33,666 at September 30, 2018 and December 31, 2017, respectively) | 133,443 | 77,971 |
| Investments in unconsolidated joint ventures | 925,431 | 619,925 |
| Total assets | \$ 19,828,801 | \$ 19,053,430 |
| LIABILITIES AND CAPITAL | | |
| Liabilities: | | |
| Mortgage notes payable, net (amounts related to VIEs of \$2,931,852 and \$2,939,183 at September 30, 2018 and December 31, 2017, respectively) | \$ 2,967,548 | \$ 2,979,281 |
| Unsecured senior notes, net | 7,253,786 | 7,247,330 |
| Unsecured line of credit | 170,000 | 45,000 |
| Unsecured term loan, net | 498,368 | — |
| Accounts payable and accrued expenses (amounts related to VIEs of \$78,893 and \$106,683 at September 30, 2018 and December 31, 2017, respectively) | 315,462 | 331,500 |
| Distributions payable | 165,118 | 139,040 |
| Accrued interest payable (amounts related to VIEs of \$6,659 and \$6,907 at September 30, 2018 and December 31, 2017, respectively) | 92,809 | 83,646 |
| Other liabilities (amounts related to VIEs of \$200,306 and \$164,806 at September 30, 2018 and December 31, 2017, respectively) | 468,433 | 443,980 |
| Total liabilities | 11,931,524 | 11,269,777 |
| Commitments and contingencies | — | — |
| Noncontrolling interests: | | |
| Redeemable partnership units—16,804,929 and 16,810,378 common units and 992,321 and 818,343 long term incentive units outstanding at redemption value at September 30, | 2,190,664 | 2,292,263 |

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2018 and December 31, 2017, respectively

Capital:

| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| 5.25% Series B cumulative redeemable preferred units, liquidation preference \$2,500 per unit, 80,000 units issued and outstanding at September 30, 2018 and December 31, 2017 | 193,623 | 193,623 |
| Boston Properties Limited Partnership partners' capital—1,722,375 and 1,719,540 general partner units and 152,717,864 and 152,605,746 limited partner units outstanding at September 30, 2018 and December 31, 2017, respectively | 3,801,962 | 3,614,007 |
| Noncontrolling interests in property partnerships | 1,711,028 | 1,683,760 |
| Total capital | 5,706,613 | 5,491,390 |
| Total liabilities and capital | \$19,828,801 | \$19,053,430 |

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three months ended September 30, 2018 | | 2017 | | Nine months ended September 30, 2018 | | 2017 | |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------|-------------|-------------|--------------------------------------------|--|------|--|
| | (in thousands, except for per unit amounts) | | | | | | | |
| Revenue | | | | | | | | |
| Rental | | | | | | | | |
| Base rent | \$525,875 | \$513,269 | \$1,561,821 | \$1,537,373 | | | | |
| Recoveries from tenants | 102,424 | 94,476 | 292,801 | 272,803 | | | | |
| Parking and other | 26,552 | 26,092 | 79,590 | 78,164 | | | | |
| Total rental revenue | 654,851 | 633,837 | 1,934,212 | 1,888,340 | | | | |
| Hotel revenue | 13,664 | 13,064 | 37,373 | 33,859 | | | | |
| Development and management services | 15,253 | 10,811 | 32,963 | 24,648 | | | | |
| Direct reimbursements of payroll and related costs from management services contracts | 2,516 | — | 7,371 | — | | | | |
| Total revenue | 686,284 | 657,712 | 2,011,919 | 1,946,847 | | | | |
| Expenses | | | | | | | | |
| Operating | | | | | | | | |
| Rental | 247,989 | 237,341 | 726,108 | 696,082 | | | | |
| Hotel | 8,828 | 8,447 | 25,642 | 23,942 | | | | |
| General and administrative | 29,677 | 25,792 | 94,039 | 84,319 | | | | |
| Payroll and related costs from management services contracts | 2,516 | — | 7,371 | — | | | | |
| Transaction costs | 914 | 239 | 1,409 | 572 | | | | |
| Depreciation and amortization | 156,056 | 150,210 | 474,383 | 457,102 | | | | |
| Total expenses | 445,980 | 422,029 | 1,328,952 | 1,262,017 | | | | |
| Operating income | 240,304 | 235,683 | 682,967 | 684,830 | | | | |
| Other income (expense) | | | | | | | | |
| Income (loss) from unconsolidated joint ventures | (4,313 |) 843 | (3,083 |) 7,035 | | | | |
| Gains on sales of real estate | 9,154 | 2,891 | 126,831 | 7,368 | | | | |
| Interest and other income | 2,822 | 1,329 | 7,049 | 3,447 | | | | |
| Gains from investments in securities | 1,075 | 944 | 1,454 | 2,716 | | | | |
| Gains from early extinguishments of debt | — | — | — | 14,354 | | | | |
| Interest expense | (95,366 |) (92,032 |) (277,790 |) (282,709 |) | | | |
| Net income | 153,676 | 149,658 | 537,428 | 437,041 | | | | |
| Net income attributable to noncontrolling interests | | | | | | | | |
| Noncontrolling interests in property partnerships | (14,850 |) (14,340 |) (46,484 |) (33,967 |) | | | |
| Net income attributable to Boston Properties Limited Partnership | 138,826 | 135,318 | 490,944 | 403,074 | | | | |
| Preferred distributions | (2,625 |) (2,625 |) (7,875 |) (7,875 |) | | | |
| Net income attributable to Boston Properties Limited Partnership common unitholders | \$136,201 | \$132,693 | \$483,069 | \$395,199 | | | | |
| Basic earnings per common unit attributable to Boston Properties Limited Partnership common unitholders: | | | | | | | | |
| Net income | \$0.79 | \$0.77 | \$2.81 | \$2.30 | | | | |
| Weighted average number of common units outstanding | 171,928 | 171,691 | 171,904 | 171,649 | | | | |
| Diluted earnings per common unit attributable to Boston Properties Limited Partnership common unitholders: | | | | | | | | |
| Net income | \$0.79 | \$0.77 | \$2.81 | \$2.30 | | | | |

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| | | | | |
|---------------------------------------------------------------------------|---------|---------|---------|---------|
| Weighted average number of common and common equivalent units outstanding | 172,166 | 171,819 | 172,142 | 171,861 |
|---------------------------------------------------------------------------|---------|---------|---------|---------|

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, 2018 2017 | | Nine months ended September 30, 2018 2017 | |
|----------------------------------------------------------------------------|-------------------------------------------------------|-----------|------------------------------------------------------|-----------|
| | (in thousands) | | | |
| Net income | \$153,676 | \$149,658 | \$537,428 | \$437,041 |
| Other comprehensive income (loss): | | | | |
| Effective portion of interest rate contracts | 1,325 | — | 1,325 | (6,133) |
| Amortization of interest rate contracts (1) | 1,666 | 1,665 | 4,998 | 4,368 |
| Other comprehensive income (loss) | 2,991 | 1,665 | 6,323 | (1,765) |
| Comprehensive income | 156,667 | 151,323 | 543,751 | 435,276 |
| Comprehensive income attributable to noncontrolling interests | (14,994) | (14,484) | (46,916) | (31,695) |
| Comprehensive income attributable to Boston Properties Limited Partnership | \$141,673 | \$136,839 | \$496,835 | \$403,581 |

(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, 2018 AND 2017
(Unaudited and in thousands)

| | Total Partners' Capital |
|------------------------------------------------------------------------|-------------------------------|
| Balance at December 31, 2017 | \$3,807,630 |
| Cumulative effect of a change in accounting principle | 4,933 |
| Contributions | 2,039 |
| Net income allocable to general and limited partner units | 441,816 |
| Distributions | (401,612) |
| Other comprehensive income | 5,292 |
| Unearned compensation | 112 |
| Conversion of redeemable partnership units | 2,112 |
| Adjustment to reflect redeemable partnership units at redemption value | 133,263 |
| Balance at September 30, 2018 | \$3,995,585 |
| Balance at December 31, 2016 | \$3,811,717 |
| Contributions | 4,937 |
| Net income allocable to general and limited partner units | 362,724 |
| Distributions | (354,734) |
| Other comprehensive income | 455 |
| Cumulative effect of a change in accounting principle | (272) |
| Unearned compensation | (1,222) |
| Conversion of redeemable partnership units | 16,812 |
| Adjustment to reflect redeemable partnership units at redemption value | 103,556 |
| Balance at September 30, 2017 | \$3,943,973 |

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, | |
|-----------------------------------------------------------------------------------|--------------------------------------------|------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$537,428 | \$437,041 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 474,383 | 457,102 |
| Non-cash compensation expense | 31,700 | 27,260 |
| Loss (income) from unconsolidated joint ventures | 3,083 | (7,035) |
| Distributions of net cash flow from operations of unconsolidated joint ventures | 3,988 | 8,563 |
| Gains from investments in securities | (1,454) | (2,716) |
| Gains from early extinguishments of debt | — | (14,354) |
| Non-cash portion of interest expense | 15,922 | (6,667) |
| Gains on sales of real estate | (126,831) | (7,368) |
| Change in assets and liabilities: | | |
| Tenant and other receivables, net | 1,578 | 12,528 |
| Accrued rental income, net | (41,519) | (36,012) |
| Prepaid expenses and other assets | (51,938) | (13,633) |
| Accounts payable and accrued expenses | 6,354 | 7,861 |
| Accrued interest payable | 8,860 | (144,833) |
| Other liabilities | (1,561) | (65,073) |
| Tenant leasing costs | (89,366) | (67,699) |
| Total adjustments | 233,199 | 147,924 |
| Net cash provided by operating activities | 770,627 | 584,965 |
| Cash flows from investing activities: | | |
| Acquisition of real estate | — | (15,953) |
| Construction in progress | (530,389) | (452,283) |
| Building and other capital improvements | (140,969) | (162,395) |
| Tenant improvements | (129,450) | (152,749) |
| Proceeds from sales of real estate | 175,577 | 29,810 |
| Capital contributions to unconsolidated joint ventures | (314,075) | (89,874) |
| Capital distributions from unconsolidated joint ventures | — | 251,000 |
| Issuance of related party note receivable | (80,000) | — |
| Investments in securities, net | (761) | (1,451) |
| Net cash used in investing activities | (1,020,067) | (593,895) |

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

| | For the nine months ended September 30, 2018 2017 (in thousands) | |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------|
| Cash flows from financing activities: | | |
| Proceeds from mortgage notes payable | — | 2,300,000 |
| Repayments of mortgage notes payable | (14,677) | (1,313,890) |
| Borrowings on unsecured line of credit | 580,000 | 470,000 |
| Repayments of unsecured line of credit | (455,000) | (470,000) |
| Proceeds from unsecured term loan | 500,000 | — |
| Repayments of mezzanine notes payable | — | (306,000) |
| Repayments of outside members' notes payable | — | (70,424) |
| Payments on capital lease obligations | — | (463) |
| Payments on real estate financing transaction | (960) | (1,306) |
| Deposit on mortgage note payable interest rate lock | — | (23,200) |
| Return of deposit on mortgage note payable interest rate lock | — | 23,200 |
| Deferred financing costs | (263) | (44,083) |
| Debt prepayment and extinguishment costs | — | (90) |
| Net proceeds from equity transactions | (333) | 241 |
| Distributions | (421,264) | (394,900) |
| Contributions from noncontrolling interests in property partnerships | 37,148 | 38,196 |
| Distributions to noncontrolling interests in property partnerships | (56,796) | (41,605) |
| Net cash provided by financing activities | 167,855 | 165,676 |
| Net increase (decrease) in cash and cash equivalents and cash held in escrows | (81,585) | 156,746 |
| Cash and cash equivalents and cash held in escrows, beginning of period | 505,369 | 420,088 |
| Cash and cash equivalents and cash held in escrows, end of period | \$423,784 | \$576,834 |
| Reconciliation of cash and cash equivalents and cash held in escrows: | | |
| Cash and cash equivalents, beginning of period | \$434,767 | \$356,914 |
| Cash held in escrows, beginning of period | 70,602 | 63,174 |
| Cash and cash equivalents and cash held in escrows, beginning of period | \$505,369 | \$420,088 |
| Cash and cash equivalents, end of period | \$322,502 | \$493,055 |
| Cash held in escrows, end of period | 101,282 | 83,779 |
| Cash and cash equivalents and cash held in escrows, end of period | \$423,784 | \$576,834 |
| Supplemental disclosures: | | |
| Cash paid for interest | \$303,203 | \$477,189 |
| Interest capitalized | \$51,594 | \$43,286 |
| Non-cash investing and financing activities: | | |
| Write-off of fully depreciated real estate | \$(100,118) | \$(102,795) |
| Additions to real estate included in accounts payable and accrued expenses | \$(11,746) | \$36,609 |
| Real estate acquired through capital lease | \$— | \$28,962 |
| Outside members' notes payable contributed to noncontrolling interests in property partnerships | \$— | \$109,576 |
| Distributions declared but not paid | \$165,118 | |