BOSTON PROPERTIES INC
Form 10-K
February 28, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission File Number: 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**04-2473675**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

Prudential Center, 800 Boylston Street, Suite 1900

Boston, Massachusetts	**02199-8103**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (617) 236-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange
Preferred Stock Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 30, 2013, the aggregate market value of the 151,108,041 shares of common stock held by non-affiliates of the Registrant was $15,937,365,185 based upon the last reported sale price of $105.47 per share on the New York Stock Exchange on June 28, 2013. (For this computation, the Registrant has excluded the market value of all shares of Common Stock reported as beneficially owned by executive officers and directors of the Registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.)

As of February 21, 2014, there were 153,006,302 shares of Common Stock outstanding.

Certain information contained in the Registrant s Proxy Statement relating to its Annual Meeting of Stockholders to be held May 20, 2014 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III. The Registrant intends to file such Proxy Statement with the Securities and Exchange Commission not later than 120 days after the end of its fiscal year ended December 31, 2013.

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. *Business*

General

As used herein, the terms we, us, our and the Company refer to Boston Properties, Inc., a Delaware corporation organized in 1997, individually or together with its subsidiaries, including Boston Properties Limited Partnership, a Delaware limited partnership, and our predecessors. We are a fully integrated, self-administered and self-managed real estate investment trust, or REIT, and one of the largest owners and developers of office properties in the United States.

Our properties have been concentrated in five markets Boston, New York, Princeton, San Francisco and Washington, DC. Beginning in fiscal 2014, Princeton will be reflected as the suburban component of the New York region. We conduct substantially all of our business through our subsidiary, Boston Properties Limited Partnership. At December 31, 2013, we owned or had interests in 175 properties, totaling approximately 44.4 million net rentable square feet, including nine properties under construction totaling approximately 2.9 million net rentable square feet. In addition, we had structured parking for approximately 45,234 vehicles containing approximately 15.4 million square feet. Our properties consisted of:

- 167 office properties, including 128 Class A office properties (including eight properties under construction) and 39 Office/Technical properties;
- one hotel;
- four retail properties; and
- three residential properties (one of which is under construction).

We own or control undeveloped land totaling approximately 503.6 acres, which could support approximately 12.4 million square feet of additional development.

We consider 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. We consider Office/Technical properties to be properties that support office, research and development, laboratory and other technical uses. Our definitions of Class A office and Office/Technical properties may be different than those used by other companies.

We are a full-service real estate company, with substantial in-house expertise and resources in acquisitions, development, financing, capital markets, construction management, property management, marketing, leasing, accounting, tax and legal services. As of December 31, 2013, we had approximately 760 employees. Our thirty-four senior officers have an average of twenty-nine years experience in the real estate industry, including an average of nineteen years of experience with us. Our principal executive office and Boston regional office are located at The Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199 and our telephone number is (617) 236-3300. In addition, we have regional offices at 599 Lexington Avenue, New York, New York 10022; Four Embarcadero Center, San Francisco, California 94111; and 2200 Pennsylvania Avenue NW, Washington, DC 20037.

Our Web site is located at http://www.bostonproperties.com. On our Web site, you can obtain a free copy of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. You may also obtain our reports by accessing the EDGAR database at the SEC s website at http://www.sec.gov, or we will furnish an electronic or paper copy of these reports free of charge upon written request to: Investor Relations, Boston Properties, Inc., The Prudential Center,

Table of Contents

800 Boylston Street, Suite 1900, Boston, Massachusetts 02199. The name Boston Properties and our logo (consisting of a stylized b) are registered service marks of Boston Properties Limited Partnership.

Boston Properties Limited Partnership

Boston Properties Limited Partnership, or BPLP or our Operating Partnership, is a Delaware limited partnership, and the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. We are the sole general partner and, as of February 21, 2014, the owner of approximately 89.5% of the economic interests in BPLP. Economic interest was calculated as the number of common partnership units of BPLP owned by the Company as a percentage of the sum of (1) the actual aggregate number of outstanding common partnership units of BPLP, (2) the number of common partnership units issuable upon conversion of outstanding preferred partnership units of BPLP and (3) the number of common units issuable upon conversion of all outstanding long term incentive plan units of BPLP, or LTIP Units, other than LTIP Units issued in the form of Outperformance Awards (OPP Awards) and Multi-Year Long-Term Incentive Plan Awards (MYLTIP Awards), assuming all conditions have been met for the conversion of the LTIP Units. Refer to Note 20 to the Consolidated Financial Statements. An LTIP Unit is generally the economic equivalent of a share of our restricted common stock, although LTIP Units issued in the form of OPP Awards or MYLTIP Awards are only entitled to receive one-tenth (1/10th) of the regular quarterly distributions (and no special distributions) prior to being earned. Our general and limited partnership interests in BPLP entitle us to share in cash distributions from, and in the profits and losses of, BPLP in proportion to our percentage interest and entitle us to vote on all matters requiring a vote of the limited partners. The other limited partners of BPLP are 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 recipients of LTIP Units pursuant to our Stock Option and Incentive Plan. 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 unit for redemption, BPLP must redeem the unit for cash equal to the then value of a share of our common stock. In lieu of cash redemption by BPLP, however, we may elect to acquire any common units so tendered by issuing shares of our common stock in exchange for the common units. If we so elect, our 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. We generally expect that we will elect to issue our common stock in connection with each such presentation for redemption rather than having BPLP pay cash. With each such exchange or redemption, our percentage ownership in BPLP will increase. In addition, whenever we issue shares of our common stock other than to acquire common units of BPLP, we must contribute any net proceeds we receive to BPLP and BPLP must issue to us an equivalent number of common units of BPLP. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

Preferred units of BPLP have the rights, preferences and other privileges as are set forth in an amendment to the limited partnership agreement of BPLP. As of December 31, 2013 and February 21, 2014, BPLP had three series of Preferred Units outstanding consisting of 666,116 Series Two Preferred Units, 360,126 Series Four Preferred Units and 80,000 Series B Preferred Units. The Series Two Preferred Units have a liquidation preference of $50.00 per unit (or an aggregate of approximately $33.3 million at December 31, 2013 and February 21, 2014). The Series Two Preferred Units are convertible, at the holder s election, into common units at a conversion price of $38.10 per common unit (equivalent to a ratio of 1.312336 common units per Series Two Preferred Unit). Distributions on the Series Two Preferred Units are payable quarterly and, unless the greater rate described in the next sentence applies, accrue at 6.0% per annum. If distributions on the number of common units of limited partnership interest, or OP Units, into which the Series Two Preferred Units are convertible are greater than distributions calculated using the rate described in the preceding sentence for the applicable quarterly period, then the greater distributions are payable instead. The holders of Series Two Preferred Units have the right to require our Operating Partnership to redeem their units for cash at the redemption price of $50.00 per unit on May 12, 2014. The holders also had the right to have their Series Two Preferred Units redeemed for cash as of May 12, 2009, May 12, 2010, May 12, 2011, May 14, 2012 and May 14, 2013, although no holder exercised such right. In May 2014, our Operating Partnership also has the right, subject to certain conditions, to call for redemption all of the outstanding Series Two Preferred Units for cash or to convert into OP Units any Series Two Preferred Units that have not been previously redeemed. In the event that our Operating Partnership calls the Series Two Preferred Units for redemption, the holders shall have the right to convert the Series Two Preferred Units to OP Units. Due to the holders redemption option existing outside our control, the Series Two Preferred Units are presented outside of permanent equity in our Consolidated Balance Sheets.

The Series Four Preferred Units have a liquidation preference of $50.00 per unit (or an aggregate of approximately $18.0 million at December 31, 2013 and February 21, 2014). The Series Four Preferred Units, which bear a preferred distribution equal to 2.00% per annum on a liquidation preference of $50.00 per unit, are not convertible into or exchangeable for any common equity of BPLP or us. In order to secure the performance of certain obligations by the holders, such Series Four Preferred Units are subject to forfeiture pursuant to the terms of a pledge agreement. The holders of Series Four Preferred Units have 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 our Operating Partnership to redeem all of their units for cash at the redemption price of $50.00 per unit. Our Operating Partnership also has 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. The Series Four Preferred Units that are subject to the security interest under the pledge agreement may not be redeemed until and unless such security interest is released. Due to the holders redemption option existing outside our control, the Series Four Preferred Units are presented outside of permanent equity in our Consolidated Balance Sheets.

The Series B Preferred Units have a liquidation preference of $2,500.00 per share (or an aggregate of approximately $193.6 million at December 31, 2013 and February 21, 2014, after deducting the underwriting discount and transaction expenses). The Series B Preferred Units were issued by our Operating Partnership on March 27, 2013 in connection with our issuance of 80,000 shares (8,000,000 depositary shares each representing 1/100th of a share) of 5.25% Series B Cumulative Redeemable Preferred Stock (the Series B Preferred Stock). We contributed the net proceeds from the offering to our Operating Partnership in exchange for Series B Preferred Units having terms and preferences generally mirroring those of the Series B Preferred Stock. We will pay 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. We may not redeem the Series B Preferred Stock prior to March 27, 2018, except in certain circumstances relating to the preservation of our REIT status. On or after March 27, 2018, at our option, we may redeem the Series B Preferred Stock for a cash redemption price of $2,500.00 per 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 the Company or its affiliates.

Transactions During 2013

Acquisitions

On February 6, 2013, we completed the acquisition of 535 Mission Street, a development site, in San Francisco, California for an aggregate purchase price of approximately $71.0 million in cash, including work completed and materials purchased to date. When completed, 535 Mission Street will consist of a 27-story, Class A office tower with approximately 307,000 net rentable square feet of office and retail space. The property is currently under development.

On March 26, 2013, a consolidated joint venture in which we have a 95% interest completed the acquisition of a land parcel in San Francisco, California that will support a 60-story, 1.4 million square foot office tower known as Transbay Tower. The purchase price for the land was approximately $192.0 million. On February 7, 2013, the partner in the joint venture issued a notice that it was electing under the joint venture agreement to reduce its nominal ownership interest in the venture from 50% to 5%. On February 26, 2013, we issued a notice to the partner electing to proceed with the venture on that basis. As a result, we have a 95% nominal interest in

and are consolidating the joint venture. The initial phase of the development consisting of building the project to grade is currently under development.

On March 29, 2013, we completed the acquisition of a parcel of land located in Reston, Virginia for a purchase price of approximately $27.0 million. The land parcel is commercially zoned for 250,000 square feet of office space.

On April 10, 2013, we acquired the Mountain View Research Park and Mountain View Technology Park properties from our Value-Added Fund (the Value-Added Fund) for an aggregate net purchase price of approximately $233.1 million. Mountain View Research Park is a 16-building complex of Office/Technical properties aggregating approximately 604,000 net rentable square feet. Mountain View Technology Park is a seven-building complex of Office/Technical properties aggregating approximately 135,000 net rentable square feet. Prior to the acquisition, our ownership interest in the properties was approximately 39.5%. As a result of the acquisition, we own 100% of the properties and account for them on a consolidated basis.

On May 31, 2013, our two joint venture partners in 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building) located in New York City) transferred all of their interests in the joint venture to third parties. 767 Fifth Avenue (the General Motors Building) is a Class A office property totaling approximately 1.8 million net rentable square feet. In connection with the transfer, we and our new joint venture partners modified our relative decision making authority and consent rights with respect to the joint venture s assets and operations. These changes resulted in us having sufficient financial and operating control over 767 Venture, LLC such that, effective as of May 31, 2013, we account for the assets, liabilities and operations of 767 Venture, LLC on a consolidated basis in our financial statements instead of under the equity method of accounting.

Dispositions

On February 20, 2013, the foreclosure sale of our Montvale Center property was ratified by the court. As a result of the ratification, the mortgage loan totaling $25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate resulting in the recognition of a gain on forgiveness of debt totaling approximately $20.2 million.

On June 28, 2013, we completed the sale of our 303 Almaden Boulevard property located in San Jose, California for a sale price of $40.0 million. Net cash proceeds totaled approximately $39.3 million. 303 Almaden Boulevard is a Class A office property totaling approximately 158,000 net rentable square feet. Because we entered into the related purchase and sale agreement on March 28, 2013 and the carrying value of the property exceeded its net sale price, we recognized an impairment loss totaling approximately $3.2 million during the three months ended March 31, 2013. As a result, there was no loss on sale of real estate recognized during the year ended December 31, 2013. The sale of this asset caused us to reevaluate our strategy for development of our adjacent Almaden land parcel, which can accommodate an approximately 840,000 square feet office complex. Based on a shorter than expected hold period, we reduced the carrying value of the land parcel to its estimated fair market value and recognized an impairment loss of approximately $8.3 million during the three months ended March 31, 2013.

On August 22, 2013, we completed the sale of our 1301 New York Avenue property located in Washington, DC for a net contract sale price of approximately $121.7 million. After adjusting for outstanding lease and other transaction costs assumed by the buyer, the gross sale price was approximately $135.0 million. Net cash proceeds totaled approximately $121.5 million, resulting in a gain on sale of approximately $86.4 million. 1301 New York Avenue is a Class A office property totaling approximately 201,000 net rentable square feet.

On October 9, 2013, we completed the sale of a 45% ownership interest in our Times Square Tower property for a gross sale price of $684.0 million in cash. Net cash proceeds totaled approximately $673.1 million, after the payment of transaction costs. In connection with the sale, we formed a joint venture with the buyer and will provide customary property management and leasing services to the joint venture. Times Square Tower is an approximately 1,246,000 net rentable square foot Class A office tower located in New York City. The transaction did not qualify as a sale of real estate for financial reporting purposes because we continue to control the joint venture and will therefore continue to account for the entity on a consolidated basis in our financial statements. We have accounted for the transaction as an equity transaction and have recognized noncontrolling interest in our consolidated balance sheets totaling approximately $243.5 million, which is equal to 45% of the carrying value of the total equity of the property immediately prior to the transaction. The difference between the net cash proceeds received and the noncontrolling interest recognized, which difference totals approximately $429.6 million, has not been reflected as a gain on sale of real estate in our consolidated statements of operations and has instead been reflected as an increase to additional paid-in capital in our consolidated balance sheets.

On December 20, 2013, we completed the sale of our 10 & 20 Burlington Mall Road property located in Burlington, Massachusetts for a sale price of approximately $30.0 million. Net cash proceeds totaled approximately $29.4 million, resulting in a gain on sale of approximately $20.5 million. 10 & 20 Burlington Mall Road consists of two Class A office properties aggregating approximately 152,000 net rentable square feet.

On December 20, 2013, we completed the sale of our One Preserve Parkway property located in Rockville, Maryland for a sale price of approximately $61.3 million. Net cash proceeds totaled approximately $59.9 million, resulting in a gain on sale of approximately $5.9 million. One Preserve Parkway is a Class A office property totaling approximately 184,000 net rentable square feet.

Developments

As of December 31, 2013, we had nine properties under construction comprised of eight office properties and one residential property, which aggregate approximately 2.9 million square feet. We estimate the total investment to complete these projects, in the aggregate, is approximately $2.5 billion of which we had already invested approximately $1.8 billion as of December 31, 2013. The investment through December 31, 2013 and estimated total investment for our properties under construction as of December 31, 2013 are detailed below (in thousands):

Construction Properties	**Estimated Stabilization Date**	**Location**	**Investment to Date(1)**	**Estimated Total Investment(1)**
Office				
Annapolis Junction Building Seven (50% ownership)	First Quarter, 2015	Annapolis, MD	$ 11,580	$ 17,500
680 Folsom Street	Third Quarter, 2015	San Francisco, CA	279,923	340,000
250 West 55th Street	Fourth Quarter, 2015	New York, NY	840,317	1,050,000
804 Carnegie Center	First Quarter, 2016	Princeton, NJ	1,970	40,410
535 Mission Street	Third Quarter, 2016	San Francisco, CA	113,275	215,000
601 Massachusetts Avenue	Fourth Quarter, 2017	Washington, DC	155,310	360,760
Transbay Tower (95% ownership)(2)	N/A	San Francisco, CA	244,082	340,000
Total Office Properties under Construction			$ 1,646,457	$ 2,363,670
Residential				
The Avant at Reston Town Center (359 units)	Fourth Quarter, 2015	Reston, VA	$ 109,194	$ 137,250
Total Properties under Construction			$ 1,755,651	$ 2,500,920

(1) Represents our share. Includes net revenue during lease up period and approximately $53.9 million of construction cost and leasing commission accruals.
(2) The Estimated Total Investment represents only the cost to build to grade.

Table of Contents

On March 22, 2013, we completed and fully placed in-service Two Patriots Park, a Class A office redevelopment project with approximately 256,000 net rentable square feet located in Reston, Virginia. As of December 31, 2013, this property was 100% leased.

On April 1, 2013, we commenced construction on the initial phase of our Transbay Tower development project in San Francisco, California, which consists of building the project to grade.

On April 25, 2013, we commenced construction of our 601 Massachusetts Avenue, a Class A office development project totaling approximately 478,000 net rentable square feet located in Washington, DC.

On June 14, 2013, we completed and fully placed in-service Seventeen Cambridge Center, a Class A office project with approximately 195,000 net rentable square feet located in Cambridge, Massachusetts. As of December 31, 2013, this property was 100% leased.

On July 1, 2013, we completed and fully placed in-service our Cambridge Center Connector, a Class A office project with approximately 43,000 net rentable square feet located in Cambridge, Massachusetts. As of December 31, 2013, this property was 100% leased.

On October 29, 2013, we entered into a lease agreement as landlord with a third-party tenant for a build-to-suit project with approximately 130,000 net rentable square feet of Class A office space located in Princeton, New Jersey.

As of December 31, 2013, we have placed in-service approximately 63% of The Avant at Reston Town Center development project comprised of 359 apartment units and retail space aggregating approximately 355,000 square feet located in Reston, Virginia. The retail space totaling approximately 26,000 net rentable square feet is 100% leased and the residential units are approximately 17% leased as of February 21, 2014. On February 10, 2014, this project was fully placed in-service.

As of December 31, 2013, we have placed in-service approximately 6% of our 250 West 55th Street development project. When completed, this project will consist of approximately 989,000 net rentable square feet of Class A office space and is approximately 61% leased as of February 21, 2014.

As of December 31, 2013, we have placed in-service approximately 1% of our 680 Folsom Street development project. When completed, this project will consist of approximately 524,509 net rentable square feet of Class A office space and is approximately 96% leased as of February 21, 2014.

Secured Debt Transactions

On February 5, 2013, we used available cash to repay the mortgage loan collateralized by our Kingstowne One property located in Alexandria, Virginia totaling approximately $17.0 million. The mortgage loan bore interest at a fixed rate of 5.96% per annum and was scheduled to mature on May 5, 2013. There was no prepayment penalty.

On February 20, 2013, the foreclosure sale of our Montvale Center property was ratified by the court. As a result of the ratification, the mortgage loan totaling $25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate resulting in the recognition of a gain on forgiveness of debt totaling approximately $20.2 million.

On April 1, 2013, we used available cash to repay the mortgage loan collateralized by our 140 Kendrick Street property located in Needham, Massachusetts totaling approximately $47.6 million. The mortgage loan bore interest at a fixed rate of 7.51% per annum and was scheduled to mature on July 1, 2013. There was no prepayment penalty. We recognized a gain on early extinguishment of debt totaling approximately $0.3 million

Table of Contents

related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting.

On May 31, 2013, in conjunction with the consolidation of our 767 Venture, LLC joint venture (the entity that owns 767 Fifth Avenue (the General Motors Building)), we recorded mortgage loans collateralized by the property aggregating $1.3 billion and mezzanine loans aggregating $306.0 million. The mortgage loans require interest-only payments at a weighted-average fixed interest rate of 5.95% per annum and mature on October 7, 2017. The mezzanine loans require interest-only payments at a weighted-average fixed interest rate of 6.02% per annum and mature on October 7, 2017. The mortgage loans and mezzanine loans were recorded at their fair values aggregating approximately $1.5 billion and $311.7 million, respectively, using weighted-average effective interest rates of approximately 2.44% and 5.53% per annum, respectively. In addition, in conjunction with the consolidation, we recorded loans payable to the joint venture s partners totaling $450.0 million and related accrued interest payable totaling approximately $175.8 million. The member loans bear interest at a fixed rate of 11.0% per annum and mature on June 9, 2017. We have eliminated in consolidation our member loan totaling $270.0 million and our share of the related accrued interest payable of approximately $114.5 million at December 31, 2013. The remaining notes payable to the outside joint venture partners and related accrued interest payable totaling $180.0 million and approximately $76.4 million as of December 31, 2013 have been reflected as Outside Members Notes Payable and within Accrued Interest Payable, respectively, on our Consolidated Balance Sheets. The related interest expense from the Outside Members Notes Payable totaling approximately $16.0 million for the period from May 31, 2013 through December 31, 2013 is fully allocated to the outside joint venture partners as an adjustment to Noncontrolling Interests in Property Partnerships in our Consolidated Statements of Operations.

Unsecured Senior Notes

On April 11, 2013, our Operating Partnership completed a public offering of $500.0 million in aggregate principal amount of its 3.125% senior unsecured notes due 2023. The notes were priced at 99.379% of the principal amount to yield an effective rate (including financing fees) of 3.279% to maturity. The notes will mature on September 1, 2023, unless earlier redeemed. The aggregate net proceeds from the offering were approximately $492.5 million after deducting underwriting discounts and transaction expenses.

On June 27, 2013, our Operating Partnership completed a public offering of $700.0 million in aggregate principal amount of its 3.800% senior unsecured notes due 2024. The notes were priced at 99.694% of the principal amount to yield an effective rate (including financing fees) of 3.916% to maturity. The notes will mature on February 1, 2024, unless earlier redeemed. The aggregate net proceeds from the offering were approximately $691.9 million after deducting the underwriting discount and transaction expenses.

Unsecured Exchangeable Senior Notes

On April 15, 2013, we announced that holders of our Operating Partnership s 3.75% Exchangeable Senior Notes due 2036 (the Notes) had the right to surrender their Notes for purchase by our Operating Partnership (the Put Right) on May 18, 2013. On April 15, 2013, we also announced that our Operating Partnership issued a notice of redemption to the holders of the Notes to redeem, on May 18, 2013 (the Redemption Date), all of the Notes outstanding on the Redemption Date. In connection with the notice of redemption, holders of the Notes had the right to exchange their Notes on or prior to May 16, 2013. Notes with respect to which the Put Right was not exercised and that were not surrendered for exchange on or prior to May 16, 2013, were redeemed by our Operating Partnership at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest thereon to, but excluding, the Redemption Date. Based on final information provided to our Operating Partnership by the trustee for the Notes, no Notes were validly tendered and accepted for purchase in the Put Right. Pursuant to the notice of redemption, an aggregate principal amount of $990,000 of the Notes was redeemed on May 18, 2013. The remaining aggregate principal amount of $449,010,000 of the Notes was surrendered for exchange and, in addition to the repayment of the principal in cash, we issued an aggregate of

419,116 shares of our common stock in exchange for the Notes. We recognized a loss on early extinguishment of debt totaling approximately $0.1 million consisting of transaction costs.

Unsecured Line of Credit

On July 26, 2013, our Operating Partnership amended and restated the revolving credit agreement governing its Unsecured Line of Credit, which, among other things, (1) increased the total commitment from $750.0 million to $1.0 billion, (2) extended the maturity date from June 24, 2014 to July 26, 2018 and (3) reduced the per annum variable interest rates and other fees. Our Operating Partnership may increase the total commitment to $1.5 billion, subject to syndication of the increase and other conditions. At our Operating Partnership s option, loans outstanding under the Unsecured Line of Credit will bear interest at a rate per annum equal to (1), in the case of loans denominated in Dollars, Euro or Sterling, LIBOR or, in the case of loans denominated in Canadian Dollars, CDOR, in each case, plus a margin ranging from 0.925% to 1.70% based on our Operating Partnership s credit rating or (2) an alternate base rate equal to the greatest of (a) the Administrative Agent s prime rate, (b) the Federal Funds rate plus 0.5% or (c) LIBOR for a one month period plus 1.00%, in each case, plus a margin ranging from 0.0% to 0.70% based on our Operating Partnership s credit rating. The Unsecured Line of Credit also contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to our Operating Partnership at a reduced interest rate. In addition, our Operating Partnership is also obligated to pay (1) in quarterly installments a facility fee on the total commitment at a rate per annum ranging from 0.125% to 0.35% based on our Operating Partnership s credit rating and (2) an annual fee on the undrawn amount of each letter of credit equal to the LIBOR margin. Based on our Operating Partnership s current credit rating, the LIBOR and CDOR margin is 1.00%, the alternate base rate margin is 0.0% and the facility fee is 0.15%. At December 31, 2013, there were no amounts outstanding on the Unsecured Line of Credit.

Equity Transactions

On March 27, 2013, we completed an underwritten public offering of 80,000 shares (8,000,000 depositary shares, each representing 1/100th of a share) of our newly designated 5.25% Series B Cumulative Redeemable Preferred Stock, at a price of $2,500.00 per share ($25.00 per depositary share). The net proceeds from this offering were approximately $194 million, after deducting the underwriting discount and transaction expenses. We contributed the net proceeds from the offering to our Operating Partnership in exchange for 80,000 Series B Preferred Units having terms and preferences generally mirroring those of the Series B Preferred Stock.

On August 29, 2013, our Operating Partnership redeemed approximately 861,400 Series Four Preferred Units for cash at the redemption price of $50.00 per unit plus accrued and unpaid distributions through the redemption date.

During the year ended December 31, 2013, we acquired an aggregate of 929,441 common units of limited partnership interest, including 26,402 common units issued upon the conversion of LTIP units and 432,914 issued upon the conversion of Series Two preferred units, presented by the holders for redemption, in exchange for an equal number of shares of common stock.

Special Dividend

On December 2, 2013, we announced that our Board of Directors declared a special cash dividend of $2.25 per common share payable on January 29, 2014 to shareholders of record as of the close of business on December 31, 2013. The decision to declare a special dividend was primarily a result of the sale of a 45% interest in our Times Square Tower property in October 2013. The Board of Directors did not make any change in our policy with respect to regular quarterly dividends. Holders of common units of limited partnership interest in our Operating Partnership, as of the close of business on December 31, 2013, received the same distribution on January 29, 2014. Holders of Series Two Preferred Units of limited partnership interest will participate in the special cash dividend (separately from their regular February 2014 distribution) on an as-converted basis in

Table of Contents

connection with their regular May 2014 distribution payment as provided in our Operating Partnership s partnership agreement.

Investments in Unconsolidated Joint Ventures

On February 28, 2013, a joint venture in which we have a 50% interest completed and fully placed in-service Annapolis Junction Building Six, a Class A office property with approximately 119,000 net rentable square feet located in Annapolis, Maryland. As of December 31, 2013, this property was approximately 49% leased.

On March 31, 2013, a joint venture in which we have a 30% interest completed and fully placed in-service 500 North Capitol Street, NW, a Class A office redevelopment project with approximately 231,000 net rentable square feet located in Washington, DC. As of December 31, 2013, this property was approximately 85% leased.

On April 4, 2013, a joint venture in which we have a 50% interest obtained construction financing collateralized by its Annapolis Junction Building Seven development project located in Annapolis, Maryland totaling $22.0 million. The construction financing bears interest at a variable rate equal to LIBOR plus 1.65% per annum and matures on April 4, 2016, with two, one-year extension options, subject to certain conditions.

On April 10, 2013, we acquired the Mountain View Research Park and Mountain View Technology Park properties from our Value-Added Fund for an aggregate net purchase price of approximately $233.1 million. In conjunction with the acquisition, the Value-Added Fund repaid the mortgage loans collateralized by the Mountain View Research Park and Mountain View Technology Park properties totaling approximately $90.0 million and $20.0 million, respectively, as well as the outstanding loans payable to our Operating Partnership totaling approximately $8.6 million and $3.7 million, respectively. The Mountain View Research Park and Mountain View Technology Park mortgage loans bore interest at variable rates equal to LIBOR plus 2.00% per annum and LIBOR plus 2.50% per annum, respectively and were scheduled to mature on May 31, 2014 and November 22, 2014, respectively. The joint venture recognized a loss on early extinguishment of debt totaling approximately $0.4 million, of which our share was approximately $0.2 million, consisting of the write-off of unamortized deferred financing costs. Prior to the acquisition, our ownership interest in the properties was approximately 39.5%. As a result of the acquisition, we own 100% of the properties and are accounting for them on a consolidated basis. We had previously recognized an impairment loss on our investment in the unconsolidated joint venture. As a result, we recognized a gain on our investment of approximately $26.5 million, which is included within gains on consolidation of joint ventures in our consolidated statements of operations.

On May 30, 2013, a joint venture in which we have a 60% interest completed the sale of its 125 West 55th Street property located in New York City for a sale price of $470.0 million, including the assumption by the buyer of the mortgage loan collateralized by the property totaling approximately $198.6 million. The mortgage loan bore interest at a fixed rate of 6.09% per annum and was scheduled to mature on March 10, 2020. Net cash proceeds totaled approximately $253.7 million, of which our share was approximately $152.2 million, after the payment of transaction costs. 125 West 55th Street is a Class A office property totaling approximately 588,000 net rentable square feet. We had previously recognized an impairment loss on our investment in the unconsolidated joint venture. As a result, we recognized a gain on sale of real estate totaling approximately $43.2 million, which is included within income from unconsolidated joint ventures in our consolidated statements of operations.

On May 31, 2013, our two joint venture partners in 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building) located in New York City) transferred all of their interests in the joint venture to third parties. In connection with the transfer, we and our new joint venture partners modified our relative decision making authority and consent rights with respect to the joint venture s assets and operations.

These changes resulted in us having sufficient financial and operating control over 767 Venture, LLC such that we now account for the assets, liabilities and operations of 767 Venture, LLC on a consolidated basis in our financial statements instead of under the equity method of accounting. Upon consolidation, we recognized a non-cash gain on our investment of approximately $359.5 million, which is included within gains on consolidation of joint ventures in our consolidated statements of operations.

On May 31, 2013, a joint venture in which we have a 30% interest refinanced its construction loan collateralized by 500 North Capitol Street, NW located in Washington, DC. The construction loan totaling approximately $90.6 million bore interest at a variable rate equal to LIBOR plus 1.65% per annum and was scheduled to mature on October 14, 2014. The joint venture recognized a loss on early extinguishment of debt totaling approximately $1.0 million, of which our share was approximately $0.3 million, consisting of the write-off of unamortized deferred financing costs. The new mortgage loan totaling $105.0 million requires interest only payments at a fixed interest rate of 4.15% per annum and matures on June 6, 2023.

On June 5, 2013, a joint venture in which we have a 60% interest refinanced its mortgage loans collateralized by 540 Madison Avenue located in New York City. The mortgage loans aggregating approximately $118.0 million bore interest at a weighted-average fixed rate of 5.20% per annum and were scheduled to mature on July 11, 2013. The joint venture recognized a loss on early extinguishment of debt totaling approximately $0.3 million, of which our share was approximately $0.2 million, related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting. The new mortgage loan totaling $120.0 million requires interest only payments at a variable rate equal to LIBOR plus 1.50% per annum and matures on June 5, 2018.

On July 19, 2013, a joint venture in which we have a 50% interest completed the sale of its Eighth Avenue and 46th Street project located in New York City for an imputed sale price of $45.0 million. The Eighth Avenue and 46th Street project is comprised of an assemblage of land parcels and air-rights. Net cash proceeds to us totaled approximately $21.8 million, after the payment of transaction costs. The joint venture had previously recognized an impairment loss on the property. As a result, the joint venture recognized a gain on sale of real estate totaling approximately $12.6 million, of which our share was approximately $11.3 million. Our share of the gain on sale of real estate is reflective of our share of the net proceeds from the sale price and is included within income from unconsolidated joint ventures in our consolidated statements of operations.

On September 26, 2013, a joint venture in which we have a 50% interest entered into a lease agreement for its Annapolis Junction Building Seven development project. Annapolis Junction Building Seven when completed will consist of a Class A office property with approximately 125,000 net rentable square feet located in Annapolis, Maryland.

On October 29, 2013, a joint venture in which we have a 50% interest exercised an option to extend the maturity date to November 17, 2014 of the construction financing collateralized by its Annapolis Junction Building Six property. The construction financing totaling approximately $14.0 million bears interest at a variable rate equal to LIBOR plus 1.65% per annum and was scheduled to mature on November 17, 2013. Annapolis Junction Building Six is a Class A office property with approximately 119,000 net rentable square feet located in Annapolis, Maryland.

Stock Option and Incentive Plan

On January 28, 2013, our Compensation Committee approved a new equity-based, multi-year, long-term incentive program (the 2013 MYLTIP) in lieu of an Outperformance Plan as a performance-based component of our overall compensation program. Under the Financial Accounting Standards Board s Accounting Standards Codification (ASC) 718 Compensation Stock Compensation, the 2013 MYLTIP has an aggregate value of approximately $8.1 million, which amount will generally be amortized into earnings over the five-year plan period under the graded vesting method.

Table of Contents

On February 1, 2013, we issued 35,087 shares of restricted common stock and our Operating Partnership issued 153,006 LTIP units and 201,373 non-qualified stock options under the 2012 Plan to certain of our employees.

Succession Planning

On March 11, 2013, we announced that Owen D. Thomas would succeed Mortimer B. Zuckerman as our Chief Executive Officer, effective April 2, 2013. Mr. Zuckerman will continue to serve as Executive Chairman for a transition period and thereafter is expected to continue to serve as the Non-Executive Chairman of the Board. In connection with succession planning, Mr. Zuckerman entered into a Transition Benefits Agreement with us. If Mr. Zuckerman remains employed by us through July 1, 2014, he will be entitled to receive on January 1, 2015 a lump sum cash payment of $6.7 million and an equity award with a targeted value of approximately $11.1 million. The cash payment and equity award vest one-third on each of March 10, 2013, October 1, 2013 and July 1, 2014, subject to acceleration in certain circumstances. As a result, we recognized approximately $13.8 million of compensation expense during the year ended December 31, 2013. We expect to recognize the remaining approximately $4.0 million of compensation expense over the remaining vesting period and, accordingly, expect to expense approximately $2.0 million in each of the 1st and 2nd quarters of 2014. In addition, the agreement provides that if Mr. Zuckerman terminates his employment with us for any reason, voluntarily or involuntarily, he will become fully vested in any outstanding equity awards with time-based vesting. As a result, during the year ended December 31, 2013, we accelerated the remaining approximately $12.9 million of stock-based compensation expense associated with Mr. Zuckerman s unvested long-term equity awards.

On April 2, 2013, we issued 24,231 LTIP units, 38,926 2013 MYLTIP Units and 50,847 non-qualified stock options under the 2012 Plan to Owen D. Thomas, our new Chief Executive Officer, pursuant to his employment agreement.

Business and Growth Strategies

Business Strategies

Our primary business objective is to maximize return on investment so as to provide our investors with the greatest possible total return in all points of the economic cycle. Our strategies to achieve this objective are:

- to target a few carefully selected geographic markets, including Boston, New York, San Francisco and Washington, DC, and to be one of the leading, if not the leading, owners, developers and managers in each of those markets with a full-service office in each market providing property management, leasing, development, construction and legal expertise. We select markets and submarkets with a diverse economic base and a deep pool of prospective tenants in various industries and where tenants have demonstrated a preference for high-quality office buildings and other facilities;

- to emphasize markets and submarkets within those markets where the lack of available sites and the difficulty of receiving the necessary approvals for development and the necessary financing constitute high barriers to the creation of new supply, and where skill, financial strength and diligence are required to successfully develop, finance and manage high-quality office, research and development space, as well as selected retail and residential space;

to take on complex, technically challenging development projects, leveraging the skills of our management team to successfully develop, acquire or reposition properties that other organizations may not have the capacity or resources to pursue;

to own and develop high-quality real estate designed to meet the demands of today s tenants who require sophisticated telecommunications and related infrastructure, support services and amenities, and to manage those facilities so as to become the landlord of choice for both existing and prospective clients;

- to opportunistically acquire assets which increase our penetration in the markets in which we have chosen to concentrate, as well as potential new markets, which exhibit an opportunity to improve or preserve returns through repositioning (through a combination of capital improvements and shift in marketing strategy), changes in management focus and leasing;

- to explore joint venture opportunities primarily with existing property owners located in desirable locations, who seek to benefit from the depth of development and management expertise we are able to provide and our access to capital, and/or to explore joint venture opportunities with strategic institutional partners, leveraging our skills as owners, operators and developers of Class A office space and mixed-use complexes;

- to pursue on a selective basis the sale of properties or interests therein, including core properties, to either (1) take advantage of the demand for our premier properties and realize the value we have created or (2) pare from our portfolio of properties that we believe have slower future growth potential;

- to seek third-party development contracts, which can be a significant source of revenue and enable us to retain and utilize our existing development and construction management staff, especially when our internal development is less active or when new development is less-warranted due to market conditions; and

- to enhance our capital structure through our access to a variety of sources of capital and proactively manage our debt expirations.

Growth Strategies

External Growth Strategies

We believe that our development experience and our organizational depth position us to continue to selectively develop a range of property types, including high-rise urban developments, mixed-use developments (including residential), low-rise suburban office properties and research and laboratory space, within budget and on schedule. We believe we are also well positioned to achieve external growth through acquisitions. Other factors that contribute to our competitive position include:

- our control of sites (including sites under contract or option to acquire) in our markets that could support approximately 12.4 million additional square feet of new office, retail, and residential development;

- our reputation gained through 44 years of successful operations and the stability and strength of our existing portfolio of properties;

- our relationships with leading national corporations, universities and public institutions seeking new facilities and development services;

- our relationships with nationally recognized financial institutions that provide capital to the real estate industry;

- our track record and reputation for executing acquisitions efficiently provide comfort to domestic and foreign institutions, private investors and corporations who seek to sell commercial real estate in our market areas;

our ability to act quickly on due diligence and financing; and

our relationships with institutional buyers and sellers of high-quality real estate assets.

Opportunities to execute our external growth strategy fall into three categories:

Development in selected submarkets. We believe the additional development of well-positioned office buildings and mixed use complexes could be justified in many of our submarkets. We believe in acquiring land after taking into consideration timing factors relating to economic cycles and in response to market conditions that allow for its development at the appropriate time. While we purposely concentrate in markets with high barriers-to-entry, we have demonstrated throughout our 44-year history, an ability to make carefully timed land acquisitions in submarkets where we can become one of the market leaders in establishing rent and other business terms. We believe that there are opportunities at key locations in our existing and other markets for a well-capitalized developer to acquire land with development potential.

In the past, we have been particularly successful at acquiring sites or options to purchase sites that need governmental approvals for development. Because of our development expertise, knowledge of the governmental approval process and reputation for quality development with local government regulatory bodies, we generally have been able to secure the permits necessary to allow development and to profit from the resulting increase in land value. We seek complex projects where we can add value through the efforts of our experienced and skilled management team leading to attractive returns on investment.

Our strong regional relationships and recognized development expertise have enabled us to capitalize on unique build-to-suit opportunities. We intend to seek and expect to continue to be presented with such opportunities in the near term allowing us to earn relatively significant returns on these development opportunities through multiple business cycles.

Acquisition of assets and portfolios of assets from institutions or individuals. We believe that due to our size, management strength and reputation, we are well positioned to acquire portfolios of assets or individual properties from institutions or individuals if valuations meet our criteria. In addition, we believe that our market knowledge and our liquidity and access to capital may provide us with a competitive advantage when pursuing acquisitions. There may be enhanced opportunities to purchase assets with near-term financing maturities or possibly provide debt on assets at enhanced yields given the limited availability of traditional sources of debt. Opportunities to acquire properties may also come through the purchase of first mortgage or mezzanine debt. We may also acquire properties for cash, but we are also particularly well-positioned to appeal to sellers wishing to contribute on a tax-deferred basis their ownership of property for equity in a diversified real estate operating company that offers liquidity through access to the public equity markets in addition to a quarterly distribution. Our ability to offer common and preferred units of limited partnership in BPLP to sellers who would otherwise recognize a taxable gain upon a sale of assets or our common stock may facilitate this type of transaction on a tax-efficient basis. In addition, we may consider mergers with and acquisitions of compatible real estate firms.

Acquisition of underperforming assets and portfolios of assets. We believe that because of our in-depth market knowledge and development experience in each of our markets, our national reputation with brokers, financial institutions and others involved in the real estate market and our access to competitively-priced capital, we are well-positioned to identify and acquire existing, underperforming properties for competitive prices and to add significant additional value to such properties through our effective marketing strategies, repositioning/redevelopment expertise and a responsive property management program. We have developed this strategy and program for our existing portfolio, where we provide high-quality property management services using our own employees in order to encourage tenants to renew, expand and relocate in our properties. We are able to achieve speed and transaction cost efficiency in replacing departing tenants through the use of in-house and third-party vendors services for marketing, including calls and presentations to prospective tenants, print advertisements, lease negotiation and construction of tenant improvements. Our tenants benefit from cost efficiencies produced by our experienced work force, which is attentive to preventive maintenance and energy management.

Internal Growth Strategies

We believe that opportunities will exist to increase cash flow from our existing properties because they are of high quality and in desirable locations within markets where, in general, the creation of new supply is limited

Table of Contents

by the lack of available sites and the difficulty of obtaining the necessary approvals for development on vacant land and financing. Our strategy for maximizing the benefits from these opportunities is three-fold: (1) to provide high-quality property management services using our employees in order to encourage tenants to renew, expand and relocate in our properties, (2) to achieve speed and transaction cost efficiency in replacing departing tenants through the use of in-house services for marketing, lease negotiation and construction of tenant improvements and (3) to work with new or existing tenants with space expansion or contraction needs maximizing the cash flow from our assets. We expect to continue our internal growth as a result of our ability to:

Cultivate existing submarkets and long-term relationships with credit tenants. In choosing locations for our properties, we have paid particular attention to transportation and commuting patterns, physical environment, adjacency to established business centers, proximity to sources of business growth and other local factors.

The average lease term of our in-place leases, including unconsolidated joint ventures, was approximately 6.6 years at December 31, 2013 and we continue to cultivate long-term leasing relationships with a diverse base of high-quality, financially stable tenants. Based on leases in place at December 31, 2013, leases with respect to approximately 6.2% of the total square feet in our portfolio, including unconsolidated joint ventures, will expire in calendar year 2014.

Directly manage properties to maximize the potential for tenant retention. We provide property management services ourselves, rather than contracting for this service, to maintain awareness of and responsiveness to tenant needs. We and our properties also benefit from cost efficiencies produced by an experienced work force attentive to preventive maintenance and energy management and from our continuing programs to assure that our property management personnel at all levels remain aware of their important role in tenant relations.

Replace tenants quickly at best available market terms and lowest possible transaction costs. We believe that we are well-positioned to attract new tenants and achieve relatively high rental rates as a result of our well-located, well- designed and well-maintained properties, our reputation for high-quality building services and responsiveness to tenants, and our ability to offer expansion and relocation alternatives within our submarkets.

Extend terms of existing leases to existing tenants prior to expiration. We have also successfully structured early tenant renewals, which have reduced the cost associated with lease downtime while securing the tenancy of our highest quality credit-worthy tenants on a long-term basis and enhancing relationships.

Policies with Respect to Certain Activities

The discussion below sets forth certain additional information regarding our investment, financing and other policies. These policies have been determined by our Board of Directors and, in general, may be amended or revised from time to time by our Board of Directors.

Investment Policies

Investments in Real Estate or Interests in Real Estate

Our investment objectives are to provide quarterly cash dividends to our securityholders and to achieve long-term capital appreciation through increases in the value of Boston Properties, Inc. We have not established a specific policy regarding the relative priority of these investment objectives.

We expect to continue to pursue our investment objectives primarily through the ownership of our current properties, development projects and other acquired properties. We currently intend to continue to invest primarily in developments of properties and acquisitions of existing improved properties or properties in need of redevelopment, and acquisitions of land that we believe have development potential, primarily in our existing markets of Boston, New York, San Francisco and Washington, DC, but also potentially in new markets. Future investment or development activities will not be limited to a specified percentage of our assets. We intend to engage in such future investment or development activities in a manner that is consistent with the maintenance of our status as a REIT for federal income tax purposes. In addition, we may purchase or lease income-producing commercial and other types of properties for long-term investment, expand and improve the real estate presently owned or other properties purchased, or sell such real estate properties, in whole or in part, when circumstances warrant. We do not have a policy that restricts the amount or percentage of assets that will be invested in any specific property, however, our investments may be restricted by our debt covenants.

We may also continue to participate with third parties in property ownership, through joint ventures or other types of co-ownership, including third parties with expertise in mixed-use opportunities. These investments may permit us to own interests in larger assets without unduly restricting diversification and, therefore, add flexibility in structuring our portfolio.

Equity investments may be subject to existing mortgage financing and other indebtedness or such financing or indebtedness as may be incurred in connection with acquiring or refinancing these investments. Debt service on such financing or indebtedness will have a priority over any distributions with respect to our common stock. Investments are also subject to our policy not to be treated as an investment company under the Investment Company Act of 1940, as amended (the 1940 Act).

Investments in Real Estate Mortgages

While our current portfolio consists primarily of, and our business objectives emphasize, equity investments in commercial real estate, we may, at the discretion of the Board of Directors, invest in mortgages and other types of real estate interests consistent with our qualification as a REIT. Investments in real estate mortgages run the risk that one or more borrowers may default under such mortgages and that the collateral securing such mortgages may not be sufficient to enable us to recoup our full investment. We may invest in participating, convertible or traditional mortgages if we conclude that we may benefit from the cash flow, or any appreciation in value of the property or as an entrance to the fee ownership.

Securities of or Interests in Entities Primarily Engaged in Real Estate Activities

Subject to the percentage of ownership limitations and gross income and asset tests necessary for our REIT qualification, we also may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

Dispositions

Our decision to dispose or partially dispose of properties is based upon the periodic review of our portfolio and the determination by the Board of Directors that such action would be in our best interests. Any decision to dispose of a property will be authorized by the Board of Directors or a committee thereof. Some holders of limited partnership interests in BPLP, including Mortimer B. Zuckerman, could incur adverse tax consequences upon the sale of certain of our properties that differ from the tax consequences to us. Consequently, holders of limited partnership interests in BPLP may have different objectives regarding the appropriate pricing and timing of any such sale. Such different tax treatment derives in most cases from the fact that we acquired these properties in exchange for partnership interests in contribution transactions structured to allow the prior owners to defer taxable gain. Generally this deferral continues so long as we do not dispose of the properties in a taxable transaction. Unless a sale by us of these properties is structured as a like-kind exchange under Section 1031 of the Internal Revenue Code or in a manner that otherwise allows deferral to continue, recognition of the deferred tax gain allocable to these prior owners is generally triggered by a sale. Some of our assets are subject to tax protection agreements, which may limit our ability to dispose of the assets or require us to pay damages to the prior owners in the event of a taxable sale.

Table of Contents

Financing Policies

The agreement of limited partnership of BPLP and our certificate of incorporation and bylaws do not limit the amount or percentage of indebtedness that we may incur. We do not have a policy limiting the amount of indebtedness that we may incur. However, our mortgages, credit facilities and unsecured debt securities contain customary restrictions, requirements and other limitations on our ability to incur indebtedness. We have not established any limit on the number or amount of mortgages that may be placed on any single property or on our portfolio as a whole.

Our Board of Directors will consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the incurrence of indebtedness, including the purchase price of properties to be acquired with debt financing, the estimated market value of our properties upon refinancing, the entering into agreements such as interest rate swaps, caps, floors and other interest rate hedging contracts and the ability of particular properties and BPLP as a whole to generate cash flow to cover expected debt service.

Policies with Respect to Other Activities

As the sole general partner of BPLP, we have the authority to issue additional common and preferred units of limited partnership interest of BPLP. We have in the past, and may in the future, issue common or preferred units of limited partnership interest of BPLP to persons who contribute their direct or indirect interests in properties to us in exchange for such common or preferred units of limited partnership interest in BPLP. We have not engaged in trading, underwriting or agency distribution or sale of securities of issuers other than BPLP and we do not intend to do so. At all times, we intend to make investments in such a manner as to maintain our qualification as a REIT, unless because of circumstances or changes in the Internal Revenue Code of 1986, as amended (or the Treasury Regulations), our Board of Directors determines that it is no longer in our best interest to qualify as a REIT. We may make loans to third parties, including, without limitation, to joint ventures in which we participate or in connection with the disposition of a property. We intend to make investments in such a way that we will not be treated as an investment company under the 1940 Act. Our policies with respect to these and other activities may be reviewed and modified or amended from time to time by the Board of Directors.

Sustainability

As one of the largest owners and developers of office properties in the United States, we actively work to promote our growth and operations in a sustainable and responsible manner across our four regions. We focus our sustainability initiatives on the design and construction of our new developments, the operation of our existing buildings and our internal corporate practices. Our sustainability initiatives are centered on energy efficiency, waste reduction and water preservation, as well as making a positive impact on the communities in which we conduct business. Through these efforts we demonstrate that operating and developing commercial real estate can be conducted with a conscious regard for the environment while mutually benefiting our tenants, investors, employees and the communities in which we operate. We provide disclosure on our website to increase the transparency of our sustainability program, which we periodically update with current or additional information. You may access our sustainability report on our website at http://www.bostonproperties.com under the heading Sustainability.

Competition

We compete in the leasing of office, retail and residential space with a considerable number of other real estate companies, some of which may have greater marketing and financial resources than are available to us. In addition, our hotel property competes for guests with other hotels, some of which may have greater marketing and financial resources than are available to us and to the manager of our one hotel, Marriott International, Inc.

Principal factors of competition in our primary business of owning, acquiring and developing office properties are the quality of properties, leasing terms (including rent and other charges and allowances for tenant improvements), attractiveness and convenience of location, the quality and breadth of tenant services provided, and reputation as an owner and operator of quality office properties in the relevant market. Additionally, our ability to compete depends upon, among other factors, trends of the national and local economies, investment alternatives, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, taxes, utilities, governmental regulations, legislation and population trends.

In addition, although not part of our core strategy, we are currently developing one residential property and operate two residential properties and may in the future decide to acquire or develop additional residential properties. As an owner and operator of apartments, we will also face competition for prospective residents from other operators whose properties may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the resident seeks. We will also compete against condominiums and single-family homes that are for sale or rent. Because we have limited experience with residential properties, we expect to retain third parties to manage our residential properties.

Our Hotel Property

We operate our hotel property through a taxable REIT subsidiary. The taxable REIT subsidiary, a wholly-owned subsidiary of BPLP, is the lessee pursuant to a lease for the hotel property. As lessor, BPLP is entitled to a percentage of gross receipts from the hotel property. The hotel lease allows economic benefits of ownership to flow to us. Marriott International, Inc. continues to manage the hotel property under the Marriott name and under terms of the existing management agreements. Marriott has been engaged under a separate long-term incentive management agreement to operate and manage the hotel on behalf of the taxable REIT subsidiary. In connection with these arrangements, Marriott has agreed to operate and maintain our hotel in accordance with its system-wide standard for comparable hotels and to provide the hotel with the benefits of its central reservation system and other chain-wide programs and services. Under a management agreement for the hotel, Marriott acts as the taxable REIT subsidiary s agent to supervise, direct and control the management and operation of the hotel and receives as compensation base management fees that are calculated as a percentage of the hotel s gross revenues, and supplemental incentive fees if the hotel exceeds negotiated profitability breakpoints. In addition, the taxable REIT subsidiary compensates Marriott, on the basis of a formula applied to the hotel s gross revenues, for certain system-wide services provided by Marriott, including central reservations, marketing and training. During 2013, 2012 and 2011, Marriott received an aggregate of approximately $1.2 million, $2.0 million and $2.5 million, respectively, from our taxable REIT subsidiary.

Seasonality

Our hotel property traditionally has experienced significant seasonality in its operating income, with the percentage of net operating income by quarter over the year ended December 31, 2013 shown below.

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
11%	32%	34%	23%

Corporate Governance

Boston Properties is currently governed by an eleven member Board of Directors. The current members of our Board of Directors are Mortimer B. Zuckerman, Zoë Baird Budinger, Carol B. Einiger, Dr. Jacob A. Frenkel, Joel I. Klein, Douglas T. Linde, Matthew J. Lustig, Alan J. Patricof, Owen D. Thomas, Martin Turchin and David

Table of Contents

A. Twardock. All directors stand for election for one-year terms expiring at the next succeeding annual meeting of stockholders.

Our Board of Directors has Audit, Compensation and Nominating and Corporate Governance Committees. The membership of each of these committees is described below.

Name of Director	Audit	Compensation	Nominating and Corporate Governance
Zoë Baird Budinger	X		
Carol B. Einiger		X	
Dr. Jacob A. Frenkel		X	X*
Joel I. Klein	X		X
Alan J. Patricof	X*		X
David A. Twardock	X	X*	

X=Committee member, *=Chair

Our Board of Directors has adopted charters for each of its Audit, Compensation and Nominating and Corporate Governance Committees. A copy of each of these charters is available on our website at http://www.bostonproperties.com under the heading Corporate Governance and subheading Committees and Charters.

Our Board of Directors has adopted Corporate Governance Guidelines, a copy of which is available on our website at http://www.bostonproperties.com under the heading Corporate Governance and subheading Governance Guidelines.

Our Board of Directors has adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees. A copy of this code is available on our website at http://www.bostonproperties.com under the heading Corporate Governance and subheading Code of Conduct and Ethics. We intend to disclose on this website any amendment to, or waiver of, any provisions of this Code applicable to our directors and executive officers that would otherwise be required to be disclosed under the rules of the SEC or the New York Stock Exchange.

Our Board of Directors has established an ethics reporting system that employees may use to anonymously report possible violations of the Code of Business Conduct and Ethics, including concerns regarding questionable accounting, internal accounting controls or auditing matters, by telephone or over the internet.

Our Board of Directors has adopted a Policy on Company Political Spending, a copy of which is available on our website at http://www.bostonproperties.com under the heading Corporate Governance and subheading Policy on Political Spending.

Supplemental U.S. Federal Income Tax Considerations

As of January 1, 2013, (1) the maximum tax rate on qualified dividend income for individuals is 20%, (2) the maximum tax rate on long-term capital gain for individuals is 20%, (3) the highest marginal individual income tax rate is 39.6%, and (4) the backup withholding rate remains at

28%.

In addition, the effective date for U.S. withholding taxes that may apply, in certain circumstances, under the Foreign Account Tax Compliance Act, has been extended. In particular, withholding on interest and dividends now applies starting June 30, 2014, and withholding on gross proceeds from the sale of our stock or our Operating Partnership s notes now applies starting December 31, 2016.

Table of Contents

Item 1A. Risk Factors.

Set forth below are the risks that we believe are material to our investors. We refer to the shares of our common stock and the units of limited partnership interest in BPLP together as our securities, and the investors who own shares or units, or both, as our securityholders. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements beginning on page 51.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our securityholders will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);
- competition from other office, hotel, retail and residential buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office, hotel, retail or residential space;
- changes in interest rates and availability of financing;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- changes in space utilization by our tenants due to technology, economic conditions and business culture;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;
- declines in the financial condition of our tenants and our ability to collect rents from our tenants; and
- decreases in the underlying value of our real estate.

We are dependent upon the economic climates of our markets Boston, New York, San Francisco and Washington, DC.

Substantially all of our revenue is derived from properties located in four markets: Boston, New York, San Francisco and Washington, DC. A downturn in the economies of these markets, or the impact that a downturn in the overall national economy may have upon these economies, could result in reduced demand for office space. Because our portfolio consists primarily of office buildings (as compared to a more diversified real estate portfolio), a decrease in demand for office space in turn could adversely affect our results of operations. Additionally, there are submarkets within our markets that are dependent upon a limited number of industries. For example, in our Washington, DC market we focus on leasing office properties to governmental agencies and contractors, as well as legal firms. A reduction in spending by the federal government could result in reduced demand for office space and adversely effect our results of operations. In addition, in our New York market we have historically leased properties to financial, legal and other professional firms. A significant downturn in one or more of these sectors could adversely affect our results of operations.

Table of Contents

In addition, a significant economic downturn over a period of time could result in an event or change in circumstances that results in an impairment in the value of our properties or our investments in unconsolidated joint ventures. An impairment loss is recognized if the carrying amount of the asset (1) is not recoverable over its expected holding period and (2) exceeds its fair value. There can be no assurance that we will not take charges in the future related to the impairment of our assets or investments. Any future impairment could have a material adverse effect on our results of operations in the period in which the charge is taken.

Our investment in property development may be more costly than anticipated.

We intend to continue to develop and substantially renovate office and residential properties. Our current and future development and construction activities may be exposed to the following risks:

- we may be unable to proceed with the development of properties because we cannot obtain financing on favorable terms or at all;
- we may incur construction costs for a development project that exceed our original estimates due to increases in interest rates and increased materials, labor, leasing or other costs, which could make completion of the project less profitable because market rents may not increase sufficiently to compensate for the increase in construction costs;
- we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;
- we may abandon development opportunities after we begin to explore them and as a result we may lose deposits or fail to recover expenses already incurred;
- we may expend funds on and devote management s time to projects which we do not complete;
- we may be unable to complete construction and/or leasing of a property on schedule; and
- we may suspend development projects after construction has begun due to changes in economic conditions or other factors, and this may result in the write-off of costs, payment of additional costs or increases in overall costs when the development project is restarted.

Investment returns from our developed properties may be less than anticipated.

Our developed properties may be exposed to the following risks:

- we may lease developed properties at rental rates that are less than the rates projected at the time we decide to undertake the development;

operating expenses may be greater than projected at the time of development, resulting in our investment being less profitable than we expected; and

occupancy rates and rents at newly developed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investments being less profitable than we expected or not profitable at all.

We face risks associated with the development of mixed-use commercial properties.

We operate, are currently developing, and may in the future develop, properties either alone or through joint ventures with other persons that are known as mixed-use developments. This means that in addition to the development of office space, the project may also include space for residential, retail, hotel or other commercial purposes. We have limited experience in developing and managing non-office and non-retail real estate. As a result, if a development project includes a non-office or non-retail use, we may seek to develop that component ourselves, sell the rights to that component to a third-party developer with experience in that use or we may seek to partner with such a developer. If we do not sell the rights or partner with such a developer, or if we choose to develop the other component ourselves, we would be exposed not only to those risks typically associated with the development of commercial real estate generally, but also to specific risks associated with the development and ownership of non-office and non-retail real estate. In addition, even if we sell the rights to develop the other component or elect to participate in the development through a joint venture, we may be exposed to the risks associated with the failure of the other party to complete the development as expected. These include the risk that the other party would default on its obligations necessitating that we complete the other component ourselves (including providing any necessary financing). In the case of residential properties, these risks include competition for prospective residents from other operators whose properties may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the resident seeks. We will also compete against condominiums and single-family homes that are for sale or rent. Because we have limited experience with residential properties, we expect to retain third parties to manage our residential properties. If we decide to not sell or participate in a joint venture and instead hire a third party manager, we would be dependent on them and their key personnel who provide services to us and we may not find a suitable replacement if the management agreement is terminated, or if key personnel leave or otherwise become unavailable to us.

We face risks associated with the use of debt to fund acquisitions and developments, including refinancing risk.

We are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to need to refinance at least a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of our existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital, our cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due. In addition, we may rely on debt to fund a portion of our new investments such as our acquisition and development activity. There is a risk that we may be unable to finance these activities on favorable terms or at all. This risk is currently heightened because of tightened underwriting standards. These conditions, which increase the cost and reduce the availability of debt, may continue or worsen in the future.

We have agreements with a number of limited partners of BPLP who contributed properties in exchange for partnership interests that require BPLP to maintain for specified periods of time secured debt on certain of our assets and/or allocate partnership debt to such limited partners to enable them to continue to defer recognition of their taxable gain with respect to the contributed property. These tax protection and debt allocation agreements may restrict our ability to repay or refinance debt.

Adverse economic and geopolitical conditions and dislocations in the credit markets could have a material adverse effect on our results of operations, financial condition and ability to pay distributions to you.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole, by the local economic conditions in the markets in which our properties are located, including the continuing impact of high unemployment, and by international economic conditions. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, financial condition and ability to pay distributions as a result of the following, among other potential consequences:

- the financial condition of our tenants, many of which are financial, legal and other professional firms, may be adversely affected, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

- significant job losses in the financial and professional services industries may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;

21

our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;

reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans;

the value and liquidity of our short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold our cash deposits or the institutions or assets in which we have made short-term investments, a dislocation of the markets for our short-term investments, increased volatility in market rates for such investments or other factors;

one or more lenders under our line of credit could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all; and

to the extent we enter into derivative financial instruments, one or more counterparties to our derivative financial instruments could default on their obligations to us, or could fail, increasing the risk that we may not realize the benefits of these instruments.

An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt or sell assets on favorable terms or at all.

As of February 21, 2014, we had no outstanding indebtedness, excluding our unconsolidated joint ventures, that bears interest at variable rates, but we may incur such indebtedness in the future. If interest rates increase, then so would the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our securityholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures or significantly increase our future interest expense. From time to time, we enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under guidance included in ASC 815 Derivatives and Hedging . In addition, an increase in interest rates could decrease the amounts third-parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions.

Covenants in our debt agreements could adversely affect our financial condition.

The mortgages on our properties contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. Our unsecured credit facility, unsecured debt securities and certain secured loans contain customary restrictions, requirements and other limitations on our ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios and minimum ratios of unencumbered assets to unsecured debt, which we must maintain. Our continued ability to borrow under our credit facilities is subject to compliance with our financial and other covenants. In addition, our failure to comply with such covenants could cause a default under the applicable debt agreement, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or be available only on unattractive terms. Additionally, in the future our ability to satisfy current or prospective lenders insurance requirements may be adversely affected if lenders generally insist upon greater insurance coverage against acts of terrorism or losses resulting from earthquakes than is available to us in the marketplace or on commercially reasonable terms.

Table of Contents

We rely on debt financing, including borrowings under our unsecured credit facility, issuances of unsecured debt securities and debt secured by individual properties, to finance our existing portfolio, our acquisition and development activities and for working capital. If we are unable to obtain debt financing from these or other sources, or to refinance existing indebtedness upon maturity, our financial condition and results of operations would likely be adversely affected. If we breach covenants in our debt agreements, the lenders can declare a default and, if the debt is secured, can take possession of the property securing the defaulted loan. In addition, our unsecured debt agreements contain specific cross-default provisions with respect to specified other indebtedness, giving the unsecured lenders the right to declare a default if we are in default under other loans in some circumstances. Defaults under our debt agreements could materially and adversely affect our financial condition and results of operations.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock or debt securities.

On February 21, 2014, our total consolidated debt was approximately $10.6 billion (i.e., excluding unconsolidated joint venture debt). Consolidated debt to total consolidated market capitalization ratio, defined as total consolidated debt as a percentage of the market value of our outstanding equity securities plus our total consolidated debt, is a measure of leverage commonly used by analysts in the REIT sector. Our total consolidated market capitalization was approximately $30.0 million at February 21, 2014. Total consolidated market capitalization was calculated using the closing stock price of $112.10 per common share and the following: (1) 153,006,302 shares of our common stock, (2) 15,582,151 outstanding common units of limited partnership interest in Boston Properties Limited Partnership (excluding common units held by us), (3) an aggregate of 874,168 common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in Boston Properties Limited Partnership, (4) an aggregate of 1,571,467 common units issuable upon conversion of all outstanding LTIP Units, assuming all conditions have been met for the conversion of the LTIP Units, (5) 360,126 Series Four Preferred Units of partnership interest multiplied by the fixed liquidation preference of $50 per unit, (6) 80,000 shares (8,000,000 depositary shares, each representing 1/100th of a share), of our 5.25% Series B Cumulative Redeemable Preferred Stock, at a price of $2,500 per share ($25 per depositary share) and (7) our consolidated debt totaling approximately $10.6 billion. The calculation of total consolidated market capitalization does not include 396,150 2012 OPP Units, 316,325 2013 MYLTIP Units and 485,459 2014 MYLTIP Units because, unlike other LTIP Units, they are not earned until certain return thresholds are achieved. Our total consolidated debt, which excludes debt collateralized by our unconsolidated joint ventures, at February 21, 2014 represented approximately 35.31% of our total consolidated market capitalization. This percentage will fluctuate with changes in the market price of our common stock and does not necessarily reflect our capacity to incur additional debt to finance our activities or our ability to manage our existing debt obligations. However, for a company like ours, whose assets are primarily income-producing real estate, the consolidated debt to total consolidated market capitalization ratio may provide investors with an alternate indication of leverage, so long as it is evaluated along with other financial ratios and the various components of our outstanding indebtedness.

Our degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. Our senior unsecured debt is currently rated investment grade by the three major rating agencies. However, there can be no assurance that we will be able to maintain this rating, and in the event our senior debt is downgraded from its current rating, we would likely incur higher borrowing costs and/or difficulty in obtaining additional financing. Our degree of leverage could also make us more vulnerable to a downturn in business or the economy generally. There is a risk that changes in our debt to market capitalization ratio, which is in part a function of our stock price, or our ratio of indebtedness to other measures of asset value used by financial analysts may have an adverse effect on the market price of our equity or debt securities.

We face risks associated with property acquisitions.

We have acquired in the past and intend to continue to pursue the acquisition of properties and portfolios of properties, including large portfolios that could increase our size and result in alterations to our capital structure. Our acquisition activities and their success are subject to the following risks:

- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;
- we may be unable to obtain or assume financing for acquisitions on favorable terms or at all;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning, redeveloping or maintaining acquired properties may be greater than our estimates;
- the acquisition agreement will likely contain conditions to closing, including completion of due diligence investigations to our satisfaction or other conditions that are not within our control, which may not be satisfied;
- acquired properties may be located in new markets, either within or outside the United States, where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures;
- we may acquire real estate through the acquisition of the ownership entity subjecting us to the risks of that entity; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and this could have an adverse effect on our results of operations and financial condition.

We have acquired in the past and in the future may acquire properties through the acquisition of first mortgage or mezzanine debt. Investments in these loans must be carefully structured to ensure that we satisfy the various asset and income requirements applicable to REITs. If we fail to structure any such acquisition properly, we could fail to qualify as a REIT. In addition, acquisitions of first mortgage or mezzanine loans subject us to the risks associated with the borrower s default, including potential bankruptcy, and there may be significant delays and costs associated with the process of foreclosure on collateral securing or supporting these investments. There can be no assurance that we would recover any or all of our investment in the event of such a default or bankruptcy.

We have acquired in the past and in the future may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in BPLP. This acquisition structure has the effect, among others, of reducing the amount of tax depreciation we can deduct over the tax life of the acquired properties, and typically requires that we agree to protect the contributors ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell an asset at a time, or on terms, that would be favorable absent such restrictions.

Any future international activities will be subject to special risks and we may not be able to effectively manage our international business.

We have underwritten, and in the future may acquire, properties, portfolios of properties or interests in real-estate related entities on a strategic or selective basis in international markets that are new to us. If we acquire properties or platforms located in these markets, we will face risks associated with a lack of market knowledge and understanding of the local economy, forging new business relationships in the area and unfamiliarity with local laws and government and permitting procedures. In addition, our international operations will be subject to the usual risks of doing business abroad such as possible revisions in tax treaties or other laws and regulations, including those governing the taxation of our international income, restrictions on the transfer of funds and uncertainty over terrorist activities. We cannot predict the likelihood that any of these developments may occur. Further, we may in the future enter into agreements with non-U.S. entities that are governed by the laws of, and are subject to dispute resolution in the courts of, another country or region. We cannot accurately predict whether such a forum would provide us with an effective and efficient means of resolving disputes that may arise.

Investments in international markets may also subject us to risks associated with funding increasing headcount, integrating new offices, and establishing effective controls and procedures to regulate the operations of new offices and to monitor compliance with U.S. laws and regulations such as the Foreign Corrupt Practices Act and similar foreign laws and regulations.

We may be subject to risks from potential fluctuations in exchange rates between the U.S. dollar and the currencies of the other countries in which we invest.

If we invest in countries where the U.S. dollar is not the national currency, we will be subject to international currency risks from the potential fluctuations in exchange rates between the U.S. dollar and the currencies of those other countries. A significant depreciation in the value of the currency of one or more countries where we have a significant investment may materially affect our results of operations. We may attempt to mitigate any such effects by borrowing in the currency of the country in which we are investing and, under certain circumstances, by hedging exchange rate fluctuations; however, access to capital may be more restricted, or unavailable on favorable terms or at all, in certain locations. For leases denominated in international currencies, we may use derivative financial instruments to manage the international currency exchange risk. We cannot assure you, however, that our efforts will successfully neutralize all international currency risks.

Acquired properties may expose us to unknown liability.

We may acquire properties subject to liabilities and without any recourse, or with only limited recourse, against the prior owners or other third parties with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle or contest it, which could adversely affect our results of operations and cash flow. Unknown liabilities with respect to acquired properties might include:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by tenants, vendors or other persons against the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Competition for acquisitions may result in increased prices for properties.

We plan to continue to acquire properties as we are presented with attractive opportunities. We may face competition for acquisition opportunities with other investors, and this competition may adversely affect us by subjecting us to the following risks:

- we may be unable to acquire a desired property because of competition from other well-capitalized real estate investors, including publicly traded and private REITs, institutional investment funds and other real estate investors; and

- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price.

Table of Contents

Our use of joint ventures may limit our flexibility with jointly owned investments.

In appropriate circumstances, we intend to develop, acquire and recapitalize properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. We currently have joint ventures that are and are not consolidated within our financial statements. Our share of the aggregate revenue from all of our joint ventures represented approximately 14.9% of our total revenue (the sum of our total consolidated revenue and our share of such joint venture revenue) for the year ended December 31, 2013. Our participation in joint ventures is subject to the risks that:

- we could become engaged in a dispute with any of our joint venture partners that might affect our ability to develop or operate a property and could lead to the sale of either parties ownership interest or the property;
- some of our joint ventures are subject to debt and in the current credit markets the refinancing of such debt may require equity capital calls;
- our joint venture partners may default on their obligations necessitating that we fulfill their obligation ourselves;
- our joint venture partners may have different objectives than we have regarding the appropriate timing and terms of any sale or refinancing of properties;
- our joint venture partners may be structured differently than us for tax purposes and this could create conflicts of interest;
- our joint venture partners may have competing interests in our markets that could create conflicts of interest; and
- our joint ventures may be unable to repay any amounts that we may loan to them.

Our properties face significant competition.

We face significant competition from developers, owners and operators of office and residential properties and other commercial real estate, including sublease space available from our tenants. Substantially all of our properties face competition from similar properties in the same market. This competition may affect our ability to attract and retain tenants and may reduce the rents we are able to charge. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to lease available space at lower rates than the space in our properties.

We face potential difficulties or delays renewing leases or re-leasing space.

We derive most of our income from rent received from our tenants. If a tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments. Also, when our tenants decide not to renew their leases or terminate early, we may not be able to re-let the space. Even if tenants decide to renew or lease new space, the terms of renewals or new leases, including the cost of required renovations or concessions to tenants, may be less favorable to us than current lease terms. As a result, our cash flow could decrease and our ability to make distributions to our securityholders could be adversely affected.

We face potential adverse effects from major tenants bankruptcies or insolvencies.

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by our properties. Our tenants could file for bankruptcy protection or become insolvent in the future. We cannot evict a tenant solely because of its bankruptcy. On the other hand, a bankrupt tenant may reject and terminate its lease with us. In such case, our claim against the bankrupt tenant for unpaid and future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease, and, even so, our claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect our cash flow and results of operations.

Table of Contents

We may have difficulty selling our properties, which may limit our flexibility.

Properties like the ones that we own could be difficult to sell. This may limit our ability to change our portfolio promptly in response to changes in economic or other conditions. In addition, federal tax laws limit our ability to sell properties and this may affect our ability to sell properties without adversely affecting returns to our securityholders. These restrictions reduce our ability to respond to changes in the performance of our investments and could adversely affect our financial condition and results of operations.

Our ability to dispose of some of our properties is constrained by their tax attributes. Properties which we developed and have owned for a significant period of time or which we acquired through tax deferred contribution transactions in exchange for partnership interests in BPLP often have low tax bases. Furthermore, as a REIT, we may be subject to a 100% prohibited transactions tax on the gain from dispositions of property if we are deemed to hold the property primarily for sale to customers in the ordinary course of business, unless the disposition qualifies under a safe harbor exception for properties that have been held for at least two years and with respect to which certain other requirements are met. The potential application of the prohibited transactions tax could cause us to forego potential dispositions of property or other opportunities that might otherwise be attractive to us, or to undertake such dispositions or other opportunities through a taxable REIT subsidiary, which would generally result in income taxes being incurred. If we dispose of these properties outright in taxable transactions, we may be required to distribute a significant amount of the taxable gain to our securityholders under the requirements of the Internal Revenue Code for REITs, which in turn would impact our future cash flow and may increase our leverage. In some cases, without incurring additional costs we may be restricted from disposing of properties contributed in exchange for our partnership interests under tax protection agreements with contributors. To dispose of low basis or tax-protected properties efficiently we from time to time use like-kind exchanges, which qualify for non-recognition of taxable gain, but can be difficult to consummate and result in the property for which the disposed assets are exchanged inheriting their low tax bases and other tax attributes (including tax protection covenants).

Because we own a hotel property, we face the risks associated with the hospitality industry.

The following factors, among others, are common to the hotel industry, and may reduce the receipts generated by our hotel property:

- our hotel property competes for guests with other hotels, a number of which have greater marketing and financial resources than our hotel-operating business partners;
- if there is an increase in operating costs resulting from inflation and other factors, our hotel-operating business partners may not be able to offset such increase by increasing room rates;
- our hotel property is subject to the fluctuating and seasonal demands of business travelers and tourism; and
- our hotel property is subject to general and local economic and social conditions that may affect demand for travel in general, including war and terrorism.

In addition, because our hotel property is located in Cambridge, Massachusetts, it is subject to the Cambridge market s fluctuations in demand, increases in operating costs and increased competition from additions in supply.

We face risks associated with short-term liquid investments.

We continue to have significant cash balances that we invest in a variety of short-term investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. From time to time, these investments may include (either directly or indirectly):

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;

- taxable municipal securities;
- obligations (including certificates of deposit) of banks and thrifts;
- commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;
- repurchase agreements collateralized by corporate and asset-backed obligations;
- both registered and unregistered money market funds; and
- other highly rated short-term securities.

Investments in these securities and funds are not insured against loss of principal. Under certain circumstances we may be required to redeem all or part of our investment, and our right to redeem some or all of our investment may be delayed or suspended. In addition, there is no guarantee that our investments in these securities or funds will be redeemable at par value. A decline in the value of our investment or a delay or suspension of our right to redeem may have a material adverse effect on our results of operations or financial condition.

Failure to qualify as a real estate investment trust would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of dividends.

If we fail to qualify as a REIT for federal income tax purposes, we will be taxed as a corporation unless certain relief provisions apply. We believe that we are organized and qualified as a REIT and intend to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot assure you that we are qualified as such, or that we will remain qualified as such in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code as to which there are only limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of such qualification.

In addition, we currently hold certain of our properties through subsidiaries that have elected to be taxed as REITs and we may in the future determine that it is in our best interests to hold one or more of our other properties through one or more subsidiaries that elect to be taxed as REITs. If any of these subsidiaries fails to qualify as a REIT for federal income tax purposes, then we may also fail to qualify as a REIT for federal income tax purposes.

If we fail to qualify as a REIT then, unless certain relief provisions apply, we will face serious tax consequences that will substantially reduce the funds available for payment of dividends for each of the years involved because:

- we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT and the relief provisions do not apply, we will no longer be required to pay dividends. As a result of all these factors, our failure to qualify as a REIT could impair our ability to raise capital and expand our business, and it would adversely affect the value of our common stock. If we fail to qualify as a REIT but are eligible for certain relief provisions, then we may retain our status as a REIT but may be required to pay a penalty tax, which could be substantial.

In order to maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions.

In order to maintain our REIT status, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements, even if the then-prevailing market conditions are not favorable for these borrowings. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which dividends paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. We may need short-term debt or long-term debt or proceeds from asset sales, creation of joint ventures or sales of common stock to fund required distributions as a result of differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. The inability of our cash flows to cover our distribution requirements could have an adverse impact on our ability to raise short- and long-term debt or sell equity securities in order to fund distributions required to maintain our REIT status.

Limits on changes in control may discourage takeover attempts beneficial to stockholders.

Provisions in our Charter and bylaws, our shareholder rights agreement and the limited partnership agreement of BPLP, as well as provisions of the Internal Revenue Code and Delaware corporate law, may:

- delay or prevent a change of control over us or a tender offer, even if such action might be beneficial to our stockholders; and

- limit our stockholders opportunity to receive a potential premium for their shares of common stock over then-prevailing market prices.

Stock Ownership Limit

To facilitate maintenance of our qualification as a REIT and to otherwise address concerns relating to concentration of stock ownership, our Charter generally prohibits ownership, directly, indirectly or beneficially, by any single stockholder of more than 6.6% of the number of outstanding shares of any class or series of our common stock. We refer to this limitation as the ownership limit. Our Board of Directors may waive, in its sole discretion, or modify the ownership limit with respect to one or more persons if it is satisfied that ownership in excess of this limit will not jeopardize our status as a REIT for federal income tax purposes. In addition, under our Charter each of Mortimer B. Zuckerman and the respective families and affiliates of Mortimer B. Zuckerman and Edward H. Linde, as well as, in general, pension plans and mutual funds, may actually and beneficially own up to 15% of the number of outstanding shares of any class or series of our equity common stock. Shares owned in violation of the ownership limit will be subject to the loss of rights to distributions and voting and other penalties. The ownership limit may have the effect of inhibiting or impeding a change in control.

BPLP s Partnership Agreement

We have agreed in the limited partnership agreement of BPLP not to engage in specified extraordinary transactions, including, among others, business combinations, unless limited partners of BPLP other than us receive, or have the opportunity to receive, either (1) the same consideration for their partnership interests as holders of our common stock in the transaction or (2) limited partnership units that, among other things, would entitle the holders, upon redemption of these units, to receive shares of common equity of a publicly traded company or the same consideration as holders of our common stock received in the transaction. If these limited partners would not receive such consideration, we cannot engage in the transaction unless limited partners

Table of Contents

holding at least 75% of the common units of limited partnership interest, other than those held by Boston Properties, Inc. or its affiliates, consent to the transaction. In addition, we have agreed in the limited partnership agreement of BPLP that we will not complete specified extraordinary transactions, including among others, business combinations, in which we receive the approval of our common stockholders unless (1) limited partners holding at least 75% of the common units of limited partnership interest, other than those held by Boston Properties, Inc. or its affiliates, consent to the transaction or (2) the limited partners of BPLP are also allowed to vote and the transaction would have been approved had these limited partners been able to vote as common stockholders on the transaction. Therefore, if our common stockholders approve a specified extraordinary transaction, the partnership agreement requires the following before we can complete the transaction:

- holders of partnership interests in BPLP, including Boston Properties, Inc., must vote on the matter;

- Boston Properties, Inc. must vote its partnership interests in the same proportion as our stockholders voted on the transaction; and

- the result of the vote of holders of partnership interests in BPLP must be such that had such vote been a vote of stockholders, the business combination would have been approved.

As a result of these provisions, a potential acquirer may be deterred from making an acquisition proposal, and we may be prohibited by contract from engaging in a proposed extraordinary transaction, including a proposed business combination, even though our stockholders approve of the transaction.

Shareholder Rights Plan

We have a shareholder rights plan. Under the terms of this plan, we can in effect prevent a person or group from acquiring more than 15% of the outstanding shares of our common stock because, unless we approve of the acquisition, after the person acquires more than 15% of our outstanding common stock, all other stockholders will have the right to purchase securities from us at a price that is less than their then fair market value. This would substantially reduce the value and influence of the stock owned by the acquiring person. Our Board of Directors can prevent the plan from operating by approving the transaction in advance, which gives us significant power to approve or disapprove of the efforts of a person or group to acquire a large interest in our company.

Changes in market conditions could adversely affect the market price of our common stock.

As with other publicly traded equity securities, the value of our common stock depends on various market conditions that may change from time to time. Among the market conditions that may affect the value of our common stock are the following:

- the extent of investor interest in our securities;

- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

our underlying asset value;

investor confidence in the stock and bond markets, generally;

national economic conditions;

changes in tax laws;

our financial performance;

changes in our credit ratings; and

general stock and bond market conditions.

The market value of our common stock is based primarily upon the market s perception of our growth potential and our current and potential future earnings and cash dividends. Consequently, our common stock may trade at prices that are greater or less than our net asset value per share of common stock. If our future earnings or cash dividends are less than expected, it is likely that the market price of our common stock will diminish.

Further issuances of equity securities may be dilutive to current securityholders.

The interests of our existing securityholders could be diluted if additional equity securities are issued to finance future developments, acquisitions, or repay indebtedness. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity.

The number of shares available for future sale could adversely affect the market price of our stock.

In connection with and subsequent to our initial public offering, we have completed many private placement transactions in which shares of stock of Boston Properties, Inc. or partnership interests in BPLP were issued to owners of properties we acquired or to institutional investors. This common stock, or common stock issuable in exchange for such partnership interests in BPLP, may be sold in the public securities markets over time under registration rights we granted to these investors. Additional common stock issuable under our employee benefit and other incentive plans, including as a result of the grant of stock options and restricted equity securities, may also be sold in the market at some time in the future. Future sales of our common stock in the market could adversely affect the price of our common stock. We cannot predict the effect the perception in the market that such sales may occur will have on the market price of our common stock.

We may change our policies without obtaining the approval of our stockholders.

Our operating and financial policies, including our policies with respect to acquisitions of real estate, growth, operations, indebtedness, capitalization and dividends, are exclusively determined by our Board of Directors. Accordingly, our securityholders do not control these policies.

Our success depends on key personnel whose continued service is not guaranteed.

We depend on the efforts of key personnel, particularly Mortimer B. Zuckerman, Executive Chairman, Owen D. Thomas, our Chief Executive Officer, Douglas T. Linde, our President, and Raymond A. Ritchey, Executive Vice President, National Director of Acquisitions and Development. Among the reasons that Messrs. Zuckerman, Thomas, Linde and Ritchey are important to our success is that each has a national reputation, which attracts business and investment opportunities and assists us in negotiations with lenders, joint venture partners and other investors. If we lost their services, our relationships with lenders, potential tenants and industry personnel could diminish. Mr. Zuckerman has substantial outside business interests that could interfere with his ability to devote his full time to our business and affairs.

Our Chief Financial Officer and Regional Managers also have strong reputations. Their reputations aid us in identifying opportunities, having opportunities brought to us, and negotiating with tenants and build-to-suit prospects. While we believe that we could find replacements for these key personnel, the loss of their services could materially and adversely affect our operations because of diminished relationships with lenders, prospective tenants and industry personnel.

Conflicts of interest exist with holders of interests in BPLP.

Sales of properties and repayment of related indebtedness will have different effects on holders of interests in BPLP than on our stockholders.

Some holders of interests in BPLP, including Mr. Zuckerman, could incur adverse tax consequences upon the sale of certain of our properties and on the repayment of related debt which differ from the tax consequences to us and our stockholders. Consequently, these holders of partnership interests in BPLP may have different objectives regarding the appropriate pricing and timing of any such sale or repayment of debt. While we have exclusive authority under the limited partnership agreement of BPLP to determine when to refinance or repay debt or whether, when, and on what terms to sell a property, subject, in the case of certain properties, to the contractual commitments described below, any such decision would require the approval of our Board of Directors. While the Board of Directors has a policy with respect to these matters, as directors and executive officers, Messrs. Zuckerman and D. Linde could exercise their influence in a manner inconsistent with the interests of some, or a majority, of our stockholders, including in a manner which could prevent completion of a sale of a property or the repayment of indebtedness.

Agreement not to sell some properties.

We have entered into agreements with respect to some properties that we have acquired in exchange for partnership interests in BPLP. Pursuant to those agreements, we have agreed not to sell or otherwise transfer some of our properties, prior to specified dates, in any transaction that would trigger taxable income and we are responsible for the reimbursement of certain tax-related costs to the prior owners if the subject properties are sold in a taxable sale. In general, our obligations to the prior owners are limited in time and only apply to actual damages suffered. As of December 31, 2013, there were a total of three properties subject to these restrictions. In the aggregate, all properties subject to the restrictions accounted for approximately 11% of our total revenue (the sum of our total consolidated revenue and our share of joint venture revenue) for the year ended December 31, 2013.

BPLP has also entered into agreements providing prior owners of properties with the right to guarantee specific amounts of indebtedness and, in the event that the specific indebtedness they guarantee is repaid or reduced, additional and/or substitute indebtedness. These agreements may hinder actions that we may otherwise desire to take to repay or refinance guaranteed indebtedness because we would be required to make payments to the beneficiaries of such agreements if we violate these agreements.

Mr. Zuckerman will continue to engage in other activities.

Mr. Zuckerman has a broad and varied range of investment interests. He could acquire an interest in a company which is not currently involved in real estate investment activities but which may acquire real property in the future. However, pursuant to his employment agreement, Mr. Zuckerman will not, in general, have management control over such companies and, therefore, he may not be able to prevent one or more of such companies from engaging in activities that are in competition with our activities.

Compliance or failure to comply with the Americans with Disabilities Act or other safety regulations and requirements could result in substantial costs.

The Americans with Disabilities Act generally requires that public buildings, including office buildings and hotels, be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our financial condition and results of operations, as well as the amount of cash available for distribution to our securityholders.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

Failure to comply with Federal government contractor requirements could result in substantial costs and loss of substantial revenue.

We are subject to compliance with a wide variety of complex legal requirements because we are a Federal government contractor. These laws regulate how we conduct business, require us to administer various compliance programs and require us to impose compliance responsibilities on some of our contractors. Our failure to comply with these laws could subject us to fines, penalties and damages, cause us to be in default of our leases and other contracts with the Federal government and bar us from entering into future leases and other contracts with the Federal government. There can be no assurance that these costs and loss of revenue will not have a material adverse effect on our properties, operations or business.

Some potential losses are not covered by insurance.

We carry insurance coverage on our properties of types and in amounts and with deductibles that we believe 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 (TRIPRA) and we can provide no assurance that it will be extended further. Currently, the per occurrence limits of our portfolio property insurance program are $1.0 billion, including coverage for acts of terrorism certified under TRIA other than nuclear, biological, chemical or radiological terrorism (Terrorism Coverage). We also carry $250 million of Terrorism Coverage for 601 Lexington Avenue, New York, New York (601 Lexington Avenue) in excess of the $1.0 billion of Terrorism Coverage in our property insurance program which is provided by IXP, LLC (IXP) as a direct insurer. 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, with $1.375 billion of Terrorism Coverage in excess of $250 million being provided by NYXP, LLC, (NYXP) as a direct insurer. We also currently carry 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 we manage. The per occurrence limit for NBCR Coverage is $1 billion. Under TRIA, after the payment of the required deductible and coinsurance, the additional Terrorism Coverage provided by IXP for 601 Lexington Avenue, the NBCR Coverage provided by IXP and the Terrorism Coverage provided by NYXP are backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. The program trigger is $100 million and the coinsurance is 15%. Under 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. We may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in our portfolio or for any other reason. In the event TRIPRA is not extended beyond December 31, 2014, (i) we will evaluate alternative approaches to secure coverage for acts of terrorism thereby potentially increasing our overall cost of insurance, (ii) if such insurance is not available at commercially reasonable rates with limits equal to our current coverage or at all, we may not continue to have full occurrence limit coverage for acts of terrorism, (iii) we may not satisfy the insurance requirements under existing or future debt financings secured by individual properties, (iv) we may not be able to obtain future debt financings secured by individual properties and (v) we may cancel the insurance policies issued by IXP for the NBCR Coverage and the additional Terrorism Coverage for 601 Lexington Avenue and by NYXP for the Terrorism Coverage for 767 Fifth Avenue. We intend 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.

We also currently carry earthquake insurance on our properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that we believe are commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, we currently carry earthquake insurance which covers our San Francisco region (excluding 535 Mission Street and the below grade improvements for Transbay Tower) with a $120 million per occurrence limit and a $120 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 535 Mission Street in San Francisco includes a $15 million per occurrence and annual aggregate limit of earthquake coverage. In addition, the builders risk policy maintained for the development of the below grade improvements of the Transbay Tower in San Francisco includes a $15 million per occurrence and annual aggregate limit of earthquake coverage. The amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact our ability to finance properties subject to earthquake risk. We may discontinue earthquake insurance or change the structure of our earthquake insurance program on some or all of our properties in the future if the premiums exceed our estimation of the value of the coverage.

IXP, a captive insurance company which is a wholly-owned subsidiary, acts as a direct insurer with respect to a portion of our earthquake insurance coverage for our Greater San Francisco properties, the additional Terrorism Coverage for 601 Lexington Avenue and our NBCR Coverage. The additional Terrorism Coverage provided by IXP for 601 Lexington Avenue only applies to losses which exceed the program trigger under TRIA. NYXP, a captive insurance company which is a wholly-owned subsidiary, acts as a direct insurer with respect to a portion of our Terrorism Coverage for 767 Fifth Avenue. Currently, NYXP only insures losses which exceed the program trigger under TRIA and NYXP reinsures with a third-party insurance company any coinsurance payable under TRIA. Insofar as we own IXP and NYXP, we are responsible for their liquidity and capital resources, and the accounts of IXP and NYXP are part of our consolidated financial statements. In particular, if a loss occurs which is covered by our NBCR Coverage but is less than the applicable program trigger under TRIA, IXP would be responsible for the full amount of the loss without any backstop by the Federal Government. IXP and NYXP would also be responsible for any recoupment charges by the Federal Government in the event losses are paid out and their insurance policies are maintained after the payout by the Federal Government. If we experience a loss and IXP or NYXP are required to pay under their insurance policies, we would ultimately record the loss to the extent of the required payment. Therefore, insurance coverage provided by IXP and NYXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance. In addition, our Operating Partnership has issued a guarantee to cover liabilities of IXP in the amount of $20.0 million.

The mortgages on our properties typically contain requirements concerning the financial ratings of the insurers who provide policies covering the property. We provide the lenders on a regular basis with the identity of the insurance companies in our insurance programs. The ratings of some of our insurers are below the rating requirements in some of our loan agreements and the lenders for these loans could attempt to claim an event of default has occurred under the loan. We believe we could obtain insurance with insurers which satisfy the rating requirements. Additionally, in the future our 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 our insurers will not have a material adverse effect on us.

We continue 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 we 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 we 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 we experience a loss that is uninsured or that exceeds policy limits, we 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 we could be liable for mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect our business and financial condition and results of operations.

Table of Contents

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets that have been or may be in the future the targets of actual or threatened terrorism attacks, including Boston, New York, San Francisco and Washington, DC. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially. See also *Some potential losses are not covered by insurance.*

We face risks associated with our tenants and contractual counterparties being designated Prohibited Persons by the Office of Foreign Assets Control.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury (OFAC) maintains a list of persons designated as terrorists or who are otherwise blocked or banned (Prohibited Persons). OFAC regulations and other laws prohibit conducting business or engaging in transactions with Prohibited Persons (the OFAC Requirements). Certain of our loan and other agreements require us to comply with OFAC Requirements. We have established a compliance program whereby tenants and others with whom we conduct business are checked against the OFAC list of Prohibited Persons prior to entering into any agreement and on a periodic basis thereafter. Our leases and other agreements, in general, require the other party to comply with OFAC Requirements. If a tenant or other party with whom we contract is placed on the OFAC list we may be required by the OFAC Requirements to terminate the lease or other agreement. Any such termination could result in a loss of revenue or a damage claim by the other party that the termination was wrongful.

We face possible risks associated with the physical effects of climate change.

We cannot assert with certainty whether climate change is occurring and, if so, at what rate. However, the physical effects of climate change could have a material adverse effect on our properties, operations and business. For example, many of our properties are located along the East and West coasts, particularly those in the Central Business Districts of Boston, New York, and San Francisco. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining demand for office space in our buildings or our inability to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy and increasing the cost of snow removal at our properties. There can be no assurance that climate change will not have a material adverse effect on our properties, operations or business.

Potential liability for environmental contamination could result in substantial costs.

Under federal, state and local environmental laws, ordinances and regulations, we may be required to investigate and clean up the effects of releases of hazardous or toxic substances or petroleum products at our properties simply because of our current or past ownership or operation of the real estate. If unidentified environmental problems arise, we may have to make substantial payments, which could adversely affect our cash flow and our ability to make distributions to our securityholders, because: as owner or operator we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination; the law typically imposes clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination; even if more than one person may be responsible for the contamination, each

Table of Contents

person who shares legal liability under the environmental laws may be held responsible for all of the clean-up costs; and governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

These costs could be substantial and in extreme cases could exceed the amount of our insurance or the value of the contaminated property. We currently carry environmental insurance in an amount and subject to deductibles that we believe are commercially reasonable. Specifically, we carry a pollution legal liability policy with a $20 million limit per incident and a policy aggregate limit of $40 million. The presence of hazardous or toxic substances or petroleum products or the failure to properly remediate contamination may materially and adversely affect our ability to borrow against, sell or rent an affected property. In addition, applicable environmental laws create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with contamination. Changes in laws, regulations and practices and their implementation increasing the potential liability for environmental conditions existing at our properties, or increasing the restrictions on the handling, storage or discharge of hazardous or toxic substances or petroleum products or other actions may result in significant unanticipated expenditures.

Environmental laws also govern the presence, maintenance and removal of asbestos and other building materials. For example, laws require that owners or operators of buildings containing asbestos:

- properly manage and maintain the asbestos;
- notify and train those who may come into contact with asbestos; and
- undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building.

Such laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

Some of our properties are located in urban and previously developed areas where fill or current or historic industrial uses of the areas have caused site contamination. It is our policy to retain independent environmental consultants to conduct or update Phase I environmental site assessments and asbestos surveys with respect to our acquisition of properties. These assessments generally include a visual inspection of the properties and the surrounding areas, an examination of current and historical uses of the properties and the surrounding areas and a review of relevant state, federal and historical documents, but do not involve invasive techniques such as soil and ground water sampling. Where appropriate, on a property-by-property basis, our practice is to have these consultants conduct additional testing, including sampling for asbestos, for lead and other contaminants in drinking water and, for soil and/or groundwater contamination where underground storage tanks are or were located or where other past site usage creates a potential environmental problem. Even though these environmental assessments are conducted, there is still the risk that:

- the environmental assessments and updates did not identify all potential environmental liabilities;
- a prior owner created a material environmental condition that is not known to us or the independent consultants preparing the assessments;

new environmental liabilities have developed since the environmental assessments were conducted; and

future uses or conditions such as changes in applicable environmental laws and regulations could result in environmental liability for us.

Inquiries about indoor air quality may necessitate special investigation and, depending on the results, remediation beyond our regular indoor air quality testing and maintenance programs. Indoor air quality issues can stem from inadequate ventilation, chemical contaminants from indoor or outdoor sources, and biological contaminants such as molds, pollen, viruses and bacteria. Indoor exposure to chemical or biological contaminants above certain levels can be alleged to be connected to allergic reactions or other health effects and symptoms in susceptible individuals. If these conditions were to occur at one of our properties, we may be subject to third-party claims for personal injury, or may need to undertake a targeted remediation program, including without limitation, steps to increase indoor ventilation rates and eliminate sources of contaminants. Such remediation programs could be costly, necessitate the temporary relocation of some or all of the property s tenants or require rehabilitation of the affected property.

We face 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.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems) and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants;

- result in misstated financial reports, violations of loan covenants, missed reporting deadlines and/or missed permitting deadlines;

- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;

- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;

- result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;

- require significant management attention and resources to remedy any damages that result;

- subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or damage our reputation among our tenants and investors generally.

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

Table of Contents

We did not obtain new owner s title insurance policies in connection with properties acquired during our initial public offering.

We acquired many of our properties from our predecessors at the completion of our initial public offering in June 1997. Before we acquired these properties, each of them was insured by a title insurance policy. We did not obtain new owner s title insurance policies in connection with the acquisition of these properties. To the extent we have financed properties after acquiring them in connection with the initial public offering, we have obtained new title insurance policies, however, the amount of these policies may be less than the current or future value of the applicable properties. Nevertheless, because in many instances we acquired these properties indirectly by acquiring ownership of the entity that owned the property and those owners remain in existence as our subsidiaries, some of these title insurance policies may continue to benefit us. Many of these title insurance policies may be for amounts less than the current or future values of the applicable properties. If there was a title defect related to any of these properties, or to any of the properties acquired at the time of our initial public offering, that is no longer covered by a title insurance policy, we could lose both our capital invested in and our anticipated profits from such property. We have obtained title insurance policies for all properties that we have acquired after our initial public offering, however, these policies may be for amounts less than the current or future values of the applicable properties.

Because of the ownership structure of our hotel property, we face potential adverse effects from changes to the applicable tax laws.

We own one hotel property. However, under the Internal Revenue Code, REITs like us are not allowed to operate hotels directly or indirectly. Accordingly, we lease our hotel property to one of our taxable REIT subsidiaries. As lessor, we are entitled to a percentage of the gross receipts from the operation of the hotel property. Marriott International, Inc. manages the hotel under the Marriott name pursuant to a management contract with the taxable REIT subsidiary as lessee. While the taxable REIT subsidiary structure allows the economic benefits of ownership to flow to us, the taxable REIT subsidiary is subject to tax on its income from the operations of the hotel at the federal and state level. In addition, the taxable REIT subsidiary is subject to detailed tax regulations that affect how it may be capitalized and operated. If the tax laws applicable to taxable REIT subsidiaries are modified, we may be forced to modify the structure for owning our hotel property, and such changes may adversely affect the cash flows from our hotel. In addition, the Internal Revenue Service, the United States Treasury Department and Congress frequently review federal income tax legislation, and we cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any of such actions may prospectively or retroactively modify the tax treatment of the taxable REIT subsidiary and, therefore, may adversely affect our after-tax returns from our hotel property.

We face possible adverse changes in tax laws.

From time to time changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. A shortfall in tax revenues for states and municipalities in which we operate may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for the payment of dividends.

We face possible state and local tax audits.

Because we are organized and qualify as a REIT, we are generally not subject to federal income taxes, but is subject to certain state and local taxes. In the normal course of business, certain entities through which we own real estate either have undergone, or are currently undergoing, tax audits. Although we believe that we have substantial arguments in favor of our positions in the ongoing audits, in some instances there is no controlling precedent or interpretive guidance on the specific point at issue. Collectively, tax deficiency notices received to date from the jurisdictions conducting the ongoing audits have not been material. However, there can be no assurance that future audits will not occur with increased frequency or that the ultimate result of such audits will not have a material adverse effect on our results of operations.

Table of Contents

Changes in accounting pronouncements could adversely affect our operating results, in addition to the reported financial performance of our tenants.

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the Securities and Exchange Commission, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. Proposed changes include, but are not limited to, changes in lease accounting and the adoption of accounting standards likely to require the increased use of fair-value measures.

These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants reported financial condition or results of operations or could affect our tenants preferences regarding leasing real estate.

Item 1B. ***Unresolved Staff Comments***

None.

Table of Contents

Item 2. ***Properties.***

At December 31, 2013, we owned or had interests in 175 properties, totaling approximately 44.4 million net rentable square feet, including nine properties under construction totaling approximately 2.9 million net rentable square feet. In addition, we had structured parking for approximately 45,234 vehicles containing approximately 15.4 million square feet. Our properties consisted of (1) 167 office properties, including 128 Class A office buildings, including eight properties under construction, and 39 properties that support both office and technical uses, (2) four retail properties, (3) one hotel and (4) three residential properties (one of which is under construction). In addition, we own or control 503.6 acres of land for future development. The table set forth below shows information relating to the properties we owned, or in which we had an ownership interest, at December 31, 2013.

Properties	Location	% Leased as of December 31, 2013	Number of Buildings	Net Rentable Square Feet
Class A Office				
767 Fifth Avenue (The General Motors Building) (60% ownership)	New York, NY	98.7%	1	1,806,957
John Hancock Tower	Boston, MA	95.9%	1	1,722,629
399 Park Avenue	New York, NY	99.0%	1	1,710,383
601 Lexington Avenue	New York, NY	99.8%	1	1,631,300
100 Federal Street	Boston, MA	94.6%	1	1,265,399
Times Square Tower (55% ownership)	New York, NY	100.0%	1	1,245,823
800 Boylston Street The Prudential Center	Boston, MA	98.5%	1	1,228,651
599 Lexington Avenue	New York, NY	99.2%	1	1,045,128
Bay Colony Corporate Center	Waltham, MA	76.4%	4	992,042
Embarcadero Center Four	San Francisco, CA	90.5%	1	934,377
111 Huntington Avenue The Prudential Center	Boston, MA	98.2%	1	858,326
Embarcadero Center One	San Francisco, CA	96.3%	1	833,438
Atlantic Wharf Office	Boston, MA	100.0%	1	793,827
Embarcadero Center Two	San Francisco, CA	98.2%	1	779,768
Embarcadero Center Three	San Francisco, CA	97.4%	1	775,086
Capital Gallery	Washington, DC	92.5%	1	631,165
South of Market	Reston, VA	100.0%	3	623,665
Metropolitan Square (51% ownership) (1)	Washington, DC	90.6%	1	588,917
3200 Zanker Road	San Jose, CA	49.9%	4	543,900
901 New York Avenue (25% ownership) (1)	Washington, DC	99.9%	1	539,679
Reservoir Place	Waltham, MA	85.2%	1	527,860
One and Two Patriots Park	Reston, VA	100.0%	2	523,482
Fountain Square (50% ownership)	Reston, VA	98.4%	2	521,628
601 and 651 Gateway	South San Francisco, CA	99.2%	2	506,277
101 Huntington Avenue The Prudential Center	Boston, MA	99.2%	1	505,389
2200 Pennsylvania Avenue	Washington, DC	98.1%	1	458,831
One Freedom Square	Reston, VA	98.8%	1	432,831
Two Freedom Square	Reston, VA	100.0%	1	421,142
One Tower Center	East Brunswick, NJ	37.3%	1	414,648

Table of Contents

Properties	Location	% Leased as of December 31, 2013	Number of Buildings	Net Rentable Square Feet
Market Square North (50% ownership) (1)	Washington, DC	87.9%	1	407,607
140 Kendrick Street	Needham, MA	95.6%	3	380,987
One and Two Discovery Square	Reston, VA	93.8%	2	366,990
Weston Corporate Center	Weston, MA	100.0%	1	356,995
510 Madison Avenue	New York, NY	68.2%	1	355,598
505 9th Street, N.W. (50% ownership)	Washington, DC	100.0%	1	321,943
One Reston Overlook	Reston, VA	100.0%	1	319,519
1333 New Hampshire Avenue	Washington, DC	91.8%	1	315,371
Waltham Weston Corporate Center	Waltham, MA	99.1%	1	306,687
230 CityPoint	Waltham, MA	74.1%	1	301,373
Wisconsin Place Office	Chevy Chase, MD	100.0%	1	299,186
540 Madison Avenue (60% ownership) (1)	New York, NY	75.8%	1	294,345
Quorum Office Park	Chelmsford, MA	90.0%	2	267,527
Five Cambridge Center	Cambridge, MA	100.0%	1	263,450
Reston Corporate Center	Reston, VA	100.0%	2	261,046
Democracy Tower	Reston, VA	100.0%	1	259,441
611 Gateway	South San Francisco, CA	81.0%	1	257,664
New Dominion Technology Park Building Two	Herndon, VA	100.0%	1	257,400
200 West Street	Waltham, MA	87.9%	1	256,245
1330 Connecticut Avenue	Washington, DC	100.0%	1	252,136
500 E Street, S. W.	Washington, DC	100.0%	1	248,336
New Dominion Technology Park Building One	Herndon, VA	100.0%	1	235,201
510 Carnegie Center	Princeton, NJ	100.0%	1	234,160
500 North Capitol (30% ownership) (1)	Washington, DC	85.0%	1	231,411
Four Cambridge Center	Cambridge, MA	100.0%	1	216,156
One Cambridge Center	Cambridge, MA	100.0%	1	215,629
77 CityPoint	Waltham, MA	100.0%	1	209,707
Sumner Square	Washington, DC	97.3%	1	208,892
University Place	Cambridge, MA	100.0%	1	195,282
Seventeen Cambridge Center	Cambridge, MA	100.0%	1	195,191
North First Business Park (2)	San Jose, CA	100.0%	5	190,636
Three Patriots Park	Reston, VA	100.0%	1	182,423
2600 Tower Oaks Boulevard	Rockville, MD	70.7%	1	179,369
Eight Cambridge Center	Cambridge, MA	100.0%	1	177,226
Lexington Office Park	Lexington, MA	94.5%	2	166,759
210 Carnegie Center	Princeton, NJ	79.3%	1	162,372
206 Carnegie Center	Princeton, NJ	100.0%	1	161,763
191 Spring Street	Lexington, MA	100.0%	1	158,900
Kingstowne Two	Alexandria, VA	73.0%	1	156,251
Ten Cambridge Center	Cambridge, MA	100.0%	1	152,664
212 Carnegie Center	Princeton, NJ	79.5%	1	152,576
Kingstowne One	Alexandria, VA	83.5%	1	151,483
214 Carnegie Center	Princeton, NJ	67.1%	1	150,774
506 Carnegie Center	Princeton, NJ	100.0%	1	149,110
2440 West El Camino Real	Mountain View, CA	100.0%	1	140,042

Properties	Location	% Leased as of December 31, 2013	Number of Buildings	Net Rentable Square Feet
Two Reston Overlook	Reston, VA	100.0%	1	134,615
508 Carnegie Center	Princeton, NJ	69.4%	1	133,915
202 Carnegie Center	Princeton, NJ	97.4%	1	130,582
101 Carnegie Center	Princeton, NJ	84.0%	1	125,269
502 Carnegie Center	Princeton, NJ	83.3%	1	122,460
504 Carnegie Center	Princeton, NJ	100.0%	1	121,990
40 Shattuck Road	Andover, MA	87.7%	1	121,216
91 Hartwell Avenue	Lexington, MA	63.6%	1	120,458
701 Carnegie Center	Princeton, NJ	100.0%	1	120,000
Annapolis Junction Building Six (50% ownership) (1)	Annapolis, MD	48.9%	1	119,339
Annapolis Junction (50% ownership) (1)	Annapolis, MD	91.6%	1	117,599
Three Cambridge Center	Cambridge, MA	100.0%	1	115,061
201 Spring Street	Lexington, MA	100.0%	1	106,300
104 Carnegie Center	Princeton, NJ	90.2%	1	102,886
33 Hayden Avenue	Lexington, MA	64.3%	1	80,128
Eleven Cambridge Center	Cambridge, MA	100.0%	1	79,616
Reservoir Place North	Waltham, MA	100.0%	1	73,258
105 Carnegie Center	Princeton, NJ	62.7%	1	69,955
32 Hartwell Avenue	Lexington, MA	100.0%	1	69,154
302 Carnegie Center	Princeton, NJ	96.1%	1	64,926
195 West Street	Waltham, MA	100.0%	1	63,500
100 Hayden Avenue	Lexington, MA	100.0%	1	55,924
181 Spring Street	Lexington, MA	100.0%	1	55,793
211 Carnegie Center	Princeton, NJ	100.0%	1	47,025
92 Hayden Avenue	Lexington, MA	100.0%	1	31,100
201 Carnegie Center	Princeton, NJ	100.0%		6,500
Subtotal for Class A Office Properties		93.7%	120	37,974,940
Retail				
Shops at The Prudential Center	Boston, MA	100.0%	1	501,357
Fountain Square Retail (50% ownership)	Reston, VA	100.0%	1	234,339
Kingstowne Retail	Alexandria, VA	100.0%	1	88,288
Shaws Supermarket at The Prudential Center	Boston, MA	100.0%	1	57,235
Subtotal for Retail Properties		100.0%	4	881,219
Office/Technical Properties				
Mountain View Research Park	Mountain View, CA	83.5%	16	603,564
Seven Cambridge Center	Cambridge, MA	100.0%	1	231,028
Mountain View Technology Park	Mountain View, CA	100.0%	7	135,279
7601 Boston Boulevard	Springfield, VA	100.0%	1	103,750
7435 Boston Boulevard	Springfield, VA	100.0%	1	103,557
8000 Grainger Court	Springfield, VA	100.0%	1	88,775
7500 Boston Boulevard	Springfield, VA	100.0%	1	79,971
7501 Boston Boulevard	Springfield, VA	100.0%	1	75,756
Fourteen Cambridge Center	Cambridge, MA	100.0%	1	67,362
164 Lexington Road	Billerica, MA	0.0%	1	64,140
7450 Boston Boulevard	Springfield, VA	100.0%	1	62,402

Table of Contents

Properties	**Location**	**% Leased as of December 31, 2013**	**Number of Buildings**	**Net Rentable Square Feet**
7374 Boston Boulevard	Springfield, VA	100.0%	1	57,321
8000 Corporate Court	Springfield, VA	0.0%	1	52,539
7451 Boston Boulevard	Springfield, VA	34.9%	1	45,615
7300 Boston Boulevard	Springfield, VA	100.0%	1	32,000
17 Hartwell Avenue	Lexington, MA	0.0%	1	30,000
453 Ravendale Avenue	Mountain View, CA	100.0%	1	29,620
7375 Boston Boulevard	Springfield, VA	100.0%	1	26,865
Subtotal for Office/Technical Properties		85.4%	39	1,889,544
Residential Properties				
Residences on The Avenue (335 units)	Washington, DC	95.0%(3)	1	323,050(4)
The Lofts at Atlantic Wharf (86 units)	Boston, MA	98.5%(3)	1	87,097(5)
Subtotal for Residential Properties		95.7%	2	410,147
Hotel Property				
Cambridge Center Marriott (433 rooms)	Cambridge, MA	75.3%(6)	1	334,260(7)
Subtotal for Hotel Property		75.3%	1	334,260
Subtotal for In-Service Properties		93.4%	166	41,490,110
Structured Parking (45,234 spaces)				15,440,948
Properties Under Construction (8)				
Office:				
Annapolis Junction Building Seven (50% ownership) (1)	Annapolis, MD	100%	1	125,000
680 Folsom Street (9)	San Francisco, CA	96%	2	524,509
250 West 55th Street (10)	New York, NY	61%	1	989,000
804 Carnegie Center	Princeton, NJ	100%	1	130,000
535 Mission Street	San Francisco, CA	0%	1	307,000
601 Massachusetts Avenue	Washington, DC	79%	1	478,000
Transbay Tower (95% ownership) (11)	San Francisco, CA	N/A	1	N/A
Residential:				
The Avant at Reston Town Center (359 units) (12)	Reston, VA	21%	1	355,327(13)
Subtotal for Properties Under Construction		63%	9	2,908,836
Total Portfolio			175	59,839,894

(1) Property is an unconsolidated joint venture.
(2) Property held for redevelopment as of December 31, 2013.
(3)

Represents the Average Physical Occupancy as of December 31, 2013. Average Physical Occupancy is defined as the average number of occupied units during the fourth quarter of 2013 divided by the total number of units, expressed as a percentage. Note that these amounts are not included in the calculation of the Total Portfolio occupancy rate for In-Service Properties as of December 31, 2013.

(4) Includes 49,528 square feet of retail space which is 100% leased as of December 31, 2013. Note that this amount is not included in the calculation of the Total Portfolio occupancy rate for In-Service Properties as of December 31, 2013.

(5) Includes 9,617 square feet of retail space which is 100% leased as of December 31, 2013. Note that this amount is not included in the calculation of the Total Portfolio occupancy rate for In-Service Properties as of December 31, 2013.
(6) Represents the weighted-average room occupancy for the year ended December 31, 2013. Note that this amount is not included in the calculation of the Total Portfolio occupancy rate for In-Service Properties as of December 31, 2013.
(7) Includes 4,260 square feet of retail space which is 100% leased of December 31, 2013. Note that this amount is not included in the calculation of the Total Portfolio occupancy rate for In-Service Properties as of December 31, 2013.
(8) Represents percentage leased as of February 21, 2014.
(9) As of February 21, 2014 this property was 1% placed in-service.
(10) As of February 21, 2014 this property was 6% placed in-service.
(11) This project could support a 60-story, 1.4 million square foot office tower, however it currently only has approval to be built to grade.
(12) As of February 21, 2014 this property was fully placed in-service (Refer to Footnote 20 of the Consolidated Financial Statements).
(13) Includes 26,179 square feet of retail space which is 100% leased as of December 31, 2013.

Percentage Leased and Average Annualized Revenue per Square Foot for In-Service Properties

The following table sets forth our percentage leased and average annualized revenue per square foot on a historical basis for our In-Service Properties.

	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013
Percentage leased	92.4%	93.2%	91.3%	91.4%	93.4%
Average annualized revenue per square foot(1)	$ 52.84	$ 53.21	$ 53.58	$ 55.43	$ 56.36

(1) Represents the monthly contractual base rents and recoveries from tenants under existing leases as of December 31, 2009, 2010, 2011, 2012 and 2013 multiplied by twelve. These annualized amounts are before rent abatements and include expense reimbursements, which may be estimates as of such date. The aggregate amount of rent abatements per square foot under existing leases as of December 31, 2009, 2010, 2011, 2012 and 2013 for the succeeding twelve month period is $0.96, $1.11, $1.10, $1.17 and $0.58, respectively.

Table of Contents

Top 20 Tenants by Square Feet

Our 20 largest tenants by square feet as of December 31, 2013 were as follows:

	Tenant	Square Feet	% of In-Service Portfolio
1	U.S. Government	2,423,424(1)	5.95%
2	Citibank	1,018,432(2)	2.50%
3	Bank of America	867,030(3)	2.13%
4	Biogen	772,212	1.90%
5	Wellington Management	707,568	1.74%
6	Kirkland & Ellis	639,683(4)	1.57%
7	Genentech	568,097	1.39%
8	Ropes & Gray	528,931	1.30%
9	O Melveny & Myers	504,902	1.24%
10	Weil Gotshal Manges	490,065(5)	1.20%
11	Shearman & Sterling	472,808	1.16%
12	Manufactures Investment (ManuLife)	440,974	1.08%
13	State Street Bank and Trust	408,552	1.00%
14	Finnegan Henderson Farabow	362,405(6)	0.89%
15	Microsoft	359,859	0.88%
16	Ann Inc. (fka Ann Taylor Corp.)	351,026	0.86%
17	Parametric Technology	320,655	0.79%
18	Google	306,386	0.75%
19	Mass Financial Services	301,668	0.74%
20	Bingham McCutchen	301,385	0.74%

(1) Includes 92,620 and 104,874 square feet of space in properties in which we have a 51% and 50% interest, respectively.
(2) Includes 10,080 and 2,761 square feet of space in properties in which we have a 60% and 51% interest, respectively.
(3) Includes 50,887 square feet of space in a property in which we have a 60% interest.
(4) Includes 248,021 square feet of space in a property in which we have a 51% interest.
(5) Includes 449,871 square feet of space in a property in which we have a 60% interest.
(6) Includes 292,548 square feet of space in a property in which we have a 25% interest.

Tenant Diversification (Gross Rent)

Our tenant diversification as of December 31, 2013 was as follows:

Sector	Percentage of Gross Rent
Legal Services	25%
Financial Services all other	16%
Financial Services commercial and investment banking	12%
Technical and Scientific Services	12%

Other Professional Services	7%
Retail	7%
Government / Public Administration	5%
Manufacturing / Consumer Products	5%
Other	4%
Real Estate and Insurance	4%
Media / Telecommunications	3%

Table of Contents

Lease Expirations (1)(2)

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized Contractual Rent Under Expiring Leases Without Future Step-Ups(3)	Current Annualized Contractual Rent Under Expiring Leases Without Future Step-Ups p.s.f.(3)	Current Annualized Contractual Rent Under Expiring Leases With Future Step-Ups(4)	Current Annualized Contractual Rent Under Expiring Leases With Future Step-Ups p.s.f.(4)	Percentage of Total Square Feet
2014	2,540,562	$ 118,726,987	$ 46.73	$ 119,505,067	$ 47.04	6.2%
2015	2,936,829	153,984,971	52.43	155,587,846	52.98	7.2%
2016	3,248,649	162,740,370	50.09	166,813,872	51.35	8.0%
2017	4,220,059	282,602,966	66.97	289,133,131	68.51	10.4%
2018	1,877,474	116,800,109	62.21	122,282,936	65.13	4.6%
2019	4,095,650	222,751,651	54.39	237,400,238	57.96	10.1%
2020	3,463,210	207,424,504	59.89	225,469,867	65.10	8.5%
2021	2,389,732	127,804,161	53.48	143,518,208	60.06	5.9%
2022	4,053,888	224,975,114	55.50	250,776,512	61.86	10.0%
Thereafter	8,753,899	500,425,443	57.17	595,601,122	68.04	21.5%

(1) Includes 100% of unconsolidated joint venture properties. Does not include residential units and the hotel.

(2) Does not include data for leases expiring in a particular year when leases for the same space have already been signed with replacement tenants with future commencement dates. In those cases, the data is included in the year in which the future lease with the replacement tenant expires.

(3) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2013 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

(4) Represents the monthly contractual base rent under expiring leases with future contractual increases upon expiration and recoveries from tenants under existing leases as of December 31, 2013 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

Item 3. ***Legal Proceedings***

We are subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

Item 4. ***Mine Safety Disclosures***

Not Applicable.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

(a) Our common stock is listed on the New York Stock Exchange under the symbol BXP. The high and low sales prices and dividends for the periods indicated in the table below were:

Quarter Ended	High	Low	Dividends per common share
December 31, 2013	$ 109.83	$ 98.04	$ 2.90(1)
September 30, 2013	112.93	98.21	0.65
June 30, 2013	115.85	99.59	0.65
March 31, 2013	109.65	99.85	0.65
December 31, 2012	111.56	99.23	0.65
September 30, 2012	117.00	107.52	0.55
June 30, 2012	110.17	98.92	0.55
March 31, 2012	107.87	96.73	0.55

(1) Paid on January 29, 2014 to stockholders of record as of the close of business on December 31, 2013. Amount includes a $2.25 per common share special dividend.

At February 21, 2014, we had approximately 1,444 stockholders of record.

In order to maintain our qualification as a REIT, we must make annual distributions to our stockholders of at least 90% of our taxable income (not including net capital gains). We have adopted a policy of paying regular quarterly distributions on our common stock, and we have adopted a policy of paying regular quarterly distributions on the common units of BPLP. Cash distributions have been paid on our common stock and BPLP s common units since our initial public offering. Distributions are declared at the discretion of the Board of Directors and depend on actual and anticipated cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors the Board of Directors may consider relevant.

During the three months ended December 31, 2013, we issued an aggregate of 592,506 common shares in exchange for 592,506 common units of limited partnership held by certain limited partners of BPLP. Of these shares, 586,831 (of which 432,914 shares had been issued in exchange for common units issued by BPLP upon conversion of 329,880 Series Two Preferred Units) were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. We relied on the exemption under Section 4(2) based upon factual representations received from the limited partners who received the common shares.

Stock Performance Graph

The following graph provides a comparison of cumulative total stockholder return for the period from December 31, 2008 through December 31, 2013, among Boston Properties, the Standard & Poor s (S&P) 500 Index, the National Association of Real Estate Investment Trusts, Inc. (NAREIT) Equity REIT Total Return Index (the Equity REIT Index) and the NAREIT Office REIT Index (the Office REIT Index). The Equity REIT Index includes all tax-qualified equity REITs listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ Stock Market. Equity REITs are defined as those with 75% or more of their gross invested book value of assets invested directly or indirectly in the equity ownership of real estate. The Office REIT Index includes all office REITs included in the Equity REIT Index. Data for Boston Properties, the S&P 500 Index, the Equity REIT Index and the Office REIT Index was provided to us by NAREIT. Upon written request, Boston Properties will provide any stockholder with a list of the REITs included in the Equity REIT

Table of Contents

Index and the Office REIT Index. The stock performance graph assumes an investment of $100 in each of Boston Properties and the three indices, and the reinvestment of any dividends. The historical information set forth below is not necessarily indicative of future performance. The data shown is based on the share prices or index values, as applicable, at the end of each month shown.

	As of the year ended December 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Boston Properties	$ 100.00	$ 127.52	$ 167.82	$ 198.28	$ 215.25	$ 214.06
S&P 500	$ 100.00	$ 126.46	$ 145.51	$ 148.59	$ 172.37	$ 228.19
Equity REIT Index	$ 100.00	$ 127.99	$ 163.76	$ 177.32	$ 212.26	$ 218.32
Office REIT Index	$ 100.00	$ 135.55	$ 160.50	$ 159.28	$ 181.82	$ 191.96

(b) None.

(c) Issuer Purchases of Equity Securities. No repurchases during the fourth quarter.

Table of Contents

Item 6. ***Selected Financial Data***

The following table sets forth our selected financial and operating data on a historical basis. Certain prior year amounts have been reclassified to conform to the current year presentation and have been revised for the reclassifications related to the disposition of qualifying properties during 2013 which have been reclassified as discontinued operations, for the periods presented, in accordance with the guidance in ASC 360 Property, Plant and Equipment (ASC 360). We have modified the presentation of expenses to operate our San Francisco and Princeton regional offices to reflect the growing activity in our San Francisco region and to have a consistent presentation across our company. These expenses, which totaled approximately $8.1 million, $7.7 million, $7.5 million, $8.1 million and $8.1 million for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively, were previously included in Rental Operating Expenses and are now included in General and Administrative Expenses for all periods presented. The following data should be read in conjunction with our financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

Our historical operating results may not be comparable to our future operating results.

	For the year ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Statement of Operations Information:					
Total revenue	$ 2,135,539	$ 1,847,186	$ 1,722,792	$ 1,515,420	$ 1,488,683
Expenses:					
Rental operating	742,956	639,088	572,668	479,879	480,273
Hotel operating	28,447	28,120	26,128	25,153	23,966
General and administrative	115,329	90,129	87,101	87,459	83,512
Transaction costs	1,744	3,653	1,987	2,876	
Impairment loss	8,306				
Suspension of development				(7,200)	27,766
Depreciation and amortization	560,637	445,875	429,742	329,749	313,444
Total expenses	1,457,419	1,206,865	1,117,626	917,916	928,961
Operating income	678,120	640,321	605,166	597,504	559,722
Other income (expense):					
Income from unconsolidated joint ventures	75,074	49,078	85,896	36,774	12,058
Gains on consolidation of joint ventures	385,991				
Interest and other income	8,310	10,091	5,358	7,332	4,050
Gains (losses) from investments in securities	2,911	1,389	(443)	935	2,434
Interest expense	(446,880)	(410,970)	(391,533)	(375,403)	(318,989)
Gains (losses) from early extinguishments of debt	122	(4,453)	(1,494)	(89,670)	(494)
Income from continuing operations	703,648	285,456	302,950	177,472	258,781
Gains on sales of real estate				2,734	11,760
Discontinued operations	137,792	46,683	10,876	10,121	3,958
Net income	841,440	332,139	313,826	190,327	274,499
Net income attributable to noncontrolling interests	(91,629)	(42,489)	(41,147)	(31,255)	(43,485)
Net income attributable to Boston Properties, Inc.	749,811	289,650	272,679	159,072	231,014
Preferred dividends	(8,057)				
Net income attributable to Boston Properties, Inc. common shareholders	$ 741,754	$ 289,650	$ 272,679	$ 159,072	$ 231,014
Basic earnings per common share attributable to Boston Properties, Inc.:					
Income from continuing operations	$ 4.06	$ 1.65	$ 1.80	$ 1.08	$ 1.73
Discontinued operations	0.81	0.28	0.07	0.06	0.03

Net income	$ 4.87	$ 1.93	$ 1.87	$ 1.14	$ 1.76
Weighted average number of common shares outstanding	152,201	150,120	145,693	139,440	131,050
Diluted earnings per common share attributable to Boston Properties, Inc.:					
Income from continuing operations	$ 4.05	$ 1.64	$ 1.80	$ 1.08	$ 1.73
Discontinued operations	0.81	0.28	0.01	0.06	0.03
Net income	$ 4.86	$ 1.92	$ 1.81	$ 1.14	$ 1.76
Weighted average number of common and common equivalent shares outstanding	152,521	150,711	146,218	140,057	131,512

Table of Contents

	2013	2012	December 31, 2011 (in thousands)	2010	2009
Balance Sheet information:					
Real estate, gross	$ 18,978,765	$ 14,893,328	$ 13,389,472	$ 12,764,935	$ 11,099,558
Real estate, net	15,817,194	11,959,168	10,746,486	10,441,117	9,065,881
Cash and cash equivalents	2,365,137	1,041,978	1,823,208	478,948	1,448,933
Total assets	20,162,251	15,462,321	14,782,966	13,348,263	12,348,703
Total indebtedness	11,341,508	8,912,369	8,704,138	7,786,001	6,719,771
Noncontrolling interests	150,921	208,434	55,652	55,652	55,652
Stockholders equity attributable to Boston Properties, Inc.	5,741,153	5,097,065	4,865,998	4,372,643	4,446,002
Equity noncontrolling interests	1,302,465	537,789	547,518	591,550	623,057

	For the year ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share and percentage data)				
Other Information:					
Funds from Operations attributable to Boston Properties, Inc. (1)	$ 751,464	$ 741,419	$ 710,991	$ 547,356	$ 618,006
Dividends declared per share (2)	4.85	2.30	2.05	2.00	2.18
Cash flows provided by operating activities	777,926	642,949	606,328	375,893	617,376
Cash flows used in investing activities	(532,640)	(1,278,032)	(90,096)	(1,161,274)	(446,601)
Cash flows provided by (used in) financing activities	1,077,873	(146,147)	828,028	(184,604)	1,036,648
Total square feet at end of year (including development projects and parking)	59,840	60,275	57,259	53,557	50,468
In-service percentage leased at end of year	93.4%	91.4%	91.3%	93.2%	92.4%

(1) Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of NAREIT, we calculate Funds from Operations, or FFO, by adjusting net income (loss) attributable to Boston Properties, Inc. (computed in accordance with GAAP, including non-recurring items) for gains (or losses) from sales of properties, impairment losses on depreciable real estate of consolidated real estate, impairment losses on investments in unconsolidated joint ventures driven by a measurable decrease in the fair value of depreciable real estate held by the unconsolidated joint ventures, real estate related depreciation and amortization, and after adjustment for unconsolidated partnerships, joint ventures and preferred distributions. FFO is a non-GAAP financial measure. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing our comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets, impairment losses on depreciable real estate of consolidated real estate, impairment losses on investments in unconsolidated joint ventures driven by a measurable decrease in the fair value of depreciable real estate held by the unconsolidated joint ventures and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. Amount represents our share, which was 89.99%, 89.48%, 88.57%, 87.25% and 86.57% for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively, after allocation to the noncontrolling interests.

FFO should not be considered as an alternative to net income attributable to Boston Properties, Inc. (determined in accordance with GAAP) as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income attributable to Boston Properties, Inc. and considered in addition to cash flows in accordance with GAAP, as presented in our Consolidated Financial Statements.

A reconciliation of FFO to net income attributable to Boston Properties, Inc. computed in accordance with GAAP is provided under the heading of Management s Discussion and Analysis of Financial Condition and Results of Operations Funds from Operations.

(2) Includes the special dividend of $2.25 per share paid on January 29, 2014 to shareholders of record as of the close of business on December 31, 2013.

Table of Contents

Item 7 ***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.

Forward-Looking Statements

This Annual Report on Form 10-K, 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 Business Business and Growth Strategies, 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, should, will and similar e 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:

- the continuing impacts of high unemployment and other macroeconomic trends, which are having and may continue to 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 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;
- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, tenant space utilization, dependence on tenants financial condition, and competition from other developers, owners and operators of real estate);
- failure to manage effectively our growth and expansion into new markets and sub-markets or to integrate acquisitions and developments successfully;

the ability of our joint venture partners to satisfy their obligations;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits 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, 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 our 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; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks set forth above are not exhaustive. Other sections of this report, including Part I, Item 1A Risk Factors, 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 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 Current Reports on Form 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

We are a fully integrated self-administered and self-managed REIT and one of the largest owners and developers of Class A office properties in the United States. Our properties have been concentrated in five markets Boston, New York, Princeton, San Francisco and Washington, DC. Beginning in fiscal 2014, Princeton will be reflected as the suburban component of the New York region. 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, our 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.

Our core strategy has always been to own, operate and develop 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 the current 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 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. We expect tenants in our markets to continue to take advantage of the ability to upgrade to high-quality space in Class A properties like ours, particularly those tenants who value our operational expertise and financial stability when making their leasing decisions.

Leasing activity has continued to improve in our submarkets in which demand is driven primarily by growth in the technology and life sciences industries. This is particularly true in the San Francisco Central Business District (CBD), Silicon Valley, Cambridge, Massachusetts and suburban Boston submarkets, and we remain optimistic about the long-term operating fundamentals in all of our markets. Our portfolio is concentrated in markets and submarkets where businesses are oriented on new ideas, such as technology, advertising, media and information distribution (often referred to as TAMI), mobility, life sciences and medical devices, and these segments of the economy are expanding and leasing additional office space. However, there continue to be headwinds against more rapid improvements in the overall office business. The strongest force is densification, which occurs as businesses seek less traditional layouts that cater to more collaborative work environments and fit people more efficiently into less space. We are also seeing moderate levels of new construction in our markets accommodating both growing tenant sectors and tenants seeking more efficient space utilization, and the resulting increase in supply presents challenges for increasing our occupancy and the rents we can realize.

Leasing activity in our portfolio during 2013 was consistent with recent years as we signed approximately 5.1 million square feet of leases covering vacant space, extensions and expansions and pre-leasing for our development projects. This total was in line with our annual average of approximately 5.1 million square feet over the past five years. Our activity has resulted in significant improvement in our portfolio occupancy of 200 basis points in 2013 from 91.4% at December 31, 2012 to 93.4% at December 31, 2013.

In the midtown Manhattan market, overall leasing activity in 2013 remained strong for tenants seeking between 5,000 and 25,000 square feet, and we completed approximately 600,000 square feet of leasing in 58 lease transactions. Activity in our portfolio has improved with same store occupancy increasing by 330 basis points from the end of 2012 to approximately 96.6% as of December 31, 2013, with little near-term lease expirations. The increase in demand in our portfolio is driven by smaller tenants, primarily in the financial services industry. We also experienced activity from larger tenants and during 2013 we signed a 96,000 square foot lease with an established financial tenant at our 250 West 55th Street development project with projected revenue beginning in early 2015. As of December 31, 2013, 250 West 55th Street has been partially placed in-service and is currently 61% leased. We expect to commence revenue recognition on a significant portion of the signed leases in the second half of 2014. We are also negotiating leases with four tenants totaling approximately 175,000 square feet and, if these leases are signed, the building will be approximately 76% leased. We do not expect these leases under negotiation, if signed, to begin revenue recognition until early 2015. At 510 Madison Avenue and 540 Madison Avenue our space leased has improved to 80% and 85%, respectively, with approximately 159,000 square feet of new leases signed during 2013 in 25 separate transactions.

In our Washington, DC region, the overall leasing activity continues to be slow and public sector and defense contractor demand has been adversely impacted by continued federal budgetary uncertainty, sequestration and the reductions in discretionary spending programs. Our near-term exposure in the Washington, DC CBD is limited due to our strong occupancy rate of 94.6%. In addition, with positive absorption in our suburban Washington, DC assets, particularly in Reston, Virginia, occupancy in our Washington region portfolio improved from approximately 94.3% at the end of 2012 to approximately 95.0% at December 31, 2013, with moderate rollover/exposure through 2014 of approximately 7.8%. We are actively engaging our law firm tenants with future lease expirations to provide new space configuration in exchange for extended lease terms at market rents. This may result in us reducing the amount of space the tenant leases, therefore reducing near-term revenue, but providing for more stable long-term revenues.

In the Boston region, the expansion of the life sciences and technology industry is positively impacting each of the submarkets in which we operate. Our assets in the Boston CBD are approximately 98.0% leased. We have been actively leasing space to cover our 2014-2015 lease expirations at the John Hancock Tower and the Prudential Center and have signed approximately 817,000 square feet of new leases, early renewals and relocations. However, the positive rental impact from approximately 568,000 square feet will not be realized until 2015 because (1) a portion of these leases are with existing sublease tenants and therefore higher rents will not commence until the new direct lease takes effect and (2) other tenants do not take occupancy until 2015. The East Cambridge submarket is the strongest submarket in the region. Our Cambridge portfolio is 100% leased with approximately 77,000 square feet expiring through 2014. Although we have no vacant space to lease, we are negotiating early renewals with tenants in Cambridge that we expect will increase our rental revenues from these spaces in future years. In the suburbs of Boston along the Route 128 corridor, we are also benefiting from the strong tenant demand in the technology and life sciences industries with the completion of approximately 803,000 square feet of leases since the end of 2012. Specifically, at our Bay Colony Corporate Center we have signed leases or have leases under negotiation that, if consummated, would increase our occupancy from approximately 76.4%, as of December 31, 2013, to approximately 89.5%. In total, our suburban portfolio occupancy improved 790 basis points since the beginning of 2013 to 86.3%.

The San Francisco CBD and Silicon Valley submarkets continue to benefit from business expansion and job growth, particularly in the technology sector, which has resulted in positive absorption, lower vacancy and increasing rental rates. Our assets in San Francisco CBD and the Silicon Valley submarkets are approximately 89.9% leased. During 2013 we leased approximately 1.1 million square feet, including an approximately 428,000 square foot renewal at our Gateway complex and an approximately 56,000 square foot lease at 50 Hawthorne Street. Our 680 Folsom Street/50 Hawthorne Street development project is now approximately 96% pre-leased with delivery expected in mid 2014. Construction of 535 Mission Street is on schedule and we expect to be able to deliver space to tenants in the second half of 2014 with revenue commencing in 2015. In addition, we have commenced the construction of below grade and foundation work for the Transbay Tower, a 1.4 million square foot project located in the heart of San Francisco s South Financial submarket. These activities will be completed in early 2015 and, prior to completing these activities, we expect to determine whether to proceed to complete vertical construction.

At Carnegie Center in Princeton, New Jersey, we continue to gain occupancy, extend leases and expand our portfolio with build-to-suit opportunities. During 2013, we completed approximately 541,000 square feet of leases with existing, new or expanding tenants that will improve our occupancy from approximately 84.5%, as of December 31, 2012, to a projected average of approximately 90% in 2014. In addition, we signed a 15-year lease with NRG Energy, Inc. for an approximately 130,000 net rentable square foot build-to-suit that we expect to deliver in 2016.

Table of Contents

The table below details the leasing activity during the three and twelve months ended December 31, 2013:

	Three Months Ended December 31, 2013	Twelve Months Ended December 31, 2013
	Total Square Feet	
Vacant space available at the beginning of the period	2,973,975	3,501,253
Property dispositions/properties taken out of service	(30,077)	(139,354)
Properties acquired vacant space		86,661
Properties placed in-service	4,100	616,783
Leases expiring or terminated during the period	547,336	2,877,334
Total space available for lease	3,495,334	6,942,677
1st generation leases	68,450	648,942
2nd generation leases with new tenants	548,660	2,398,202
2nd generation lease renewals	194,577	1,211,886
Total space leased	811,687	4,259,030
Vacant space available for lease at the end of the period	2,683,647	2,683,647
Second generation leasing information: **(1)**		
Leases commencing during the period, in square feet	743,237	3,610,088
Average Lease Term	76 Months	81 Months
Average Free Rent Period	79 Days	76 Days
Total Transaction Costs Per Square Foot (2)	$ 37.85	$ 36.58
Increase / (decrease) in Gross Rents (3)	1.30%	(1.08)%
Increase / (decrease) in Net Rents (4)	2.11%	(2.29)%

(1) Second generation leases are defined as leases for space that had previously been under lease by us. Of the 743,237 and 3,610,088 square feet of second generation leases that commenced during the three and twelve months ended December 31, 2013, respectively, 514,202 and 2,208,099 square feet were signed in prior periods for the three and twelve months ended December 31, 2013, respectively.

(2) Total transaction costs include tenant improvements and leasing commissions and exclude free rent concessions.

(3) Represents the increase/(decrease) in gross rent (base rent plus expense reimbursements) on the new vs. expired leases on the 407,680 and 2,462,953 square feet of second generation leases (1) that had been occupied within the prior 12 months and (2) for which the new lease term is greater than six months, for the three and twelve months ended December 31, 2013, respectively.

(4) Represents the increase/(decrease) in net rent (gross rent less operating expenses) on the new vs. expired leases on the 407,680 and 2,462,953 square feet of second generation leases (1) that had been occupied within the prior 12 months and (2) for which the new lease term is greater than six months, for the three and twelve months ended December 31, 2013, respectively.

From January 1, 2014 to December 31, 2014, leases representing approximately 6.2% of the space at our properties expire. As these leases expire, assuming no change in current market rental rates, we expect that the rental rates we are likely to achieve on new leases will generally be greater than the rates that are currently being paid.

Although we continue to evaluate opportunities to acquire assets, the abundance of capital and demand for assets has resulted in increasing prices. As a result, in the current environment we are able to develop properties at a cost per square foot that is generally less than the cost at which we can acquire older existing properties, thereby generating relatively better returns with lower annual maintenance expenses and capital costs. Accordingly, we believe the successful lease-up and completion of our development pipeline will enhance our long-term return on equity and earnings growth as these developments are placed in-service through 2016.

55

Table of Contents

During the twelve months ended December 31, 2013, we fully placed in-service Two Patriots Park in Reston, Virginia, 500 North Capitol Street in Washington, DC, Annapolis Junction Building Six in Annapolis, Maryland, Seventeen Cambridge Center in Cambridge, Massachusetts, and the Cambridge Center Connector in Cambridge, Massachusetts. In addition, during 2013, we partially placed in-service 250 West 55th Street in New York City, 680 Folsom Street in San Francisco and The Avant, our residential project in Reston, Virginia. We believe the development of well-positioned office buildings is justified in many of our submarkets where tenants have shown demand for high-quality construction, modern design, efficient floor plates and sustainable features. In addition, select first-class residential developments that are part of a mixed-use environment, which combine office, retail and residential uses, have proven successful in our markets. Each of our development projects underway is pre-certified USGB LEED Silver or higher. As of December 31, 2013, our current development pipeline, which excludes properties which are fully placed in-service, totals approximately 2.9 million square feet with a total projected investment of approximately $2.5 billion. Additionally, we are working on several new developments in each of our markets that could commence in 2015 or later.

Given investor demand for assets like ours we also continue to review our portfolio to identify properties that may have limited opportunities for cash flow growth, no longer fit within our portfolio strategy or can attract premium pricing in the current market environment as potential sales candidates. During 2013 we sold approximately $1.25 billion (our share) of assets, including:

- a 45% ownership interest in our Times Square Tower property in New York City for a gross sale price of approximately $684 million,
- 125 West 55th Street in New York City, which was owned by a joint venture in which we had a 60% interest, for approximately $470 million, of which our share is approximately $282.0 million,
- an assemblage of land parcels and air-rights at Eighth Avenue and 46th Street in New York City, which were owned by a joint venture in which we had a 50% interest, for an imputed sale price of approximately $45 million, of which our share is approximately $22.5 million,
- 303 Almaden Boulevard in San Jose, California for approximately $40 million,
- 1301 New York Avenue in Washington, DC for approximately $135 million,
- 10 & 20 Burlington Mall Road in Burlington, Massachusetts for approximately $30 million, and
- One Preserve Parkway in Rockville, Maryland for approximately $61 million.

In general, we structure asset sales for possible inclusion in like kind exchanges within the meaning of Section 1031 of the Internal Revenue Code. The ability to complete a like kind exchange depends on many factors, including, among others, identifying and acquiring suitable replacement property within limited time periods and the ownership structure of the property being sold, and therefore we are not always able to sell an asset as part of a like kind exchange. When successful, however, like kind exchanges enable us to defer the taxable gain on the asset sold and thus preserve capital. Primarily as a result of our 2013 asset sales program, we declared a special dividend of $2.25 per share of common stock to holders of record as of December 31, 2013 that was paid on January 29, 2014. We are considering the sale of all or a portion of additional properties and if we are unable to identify and acquire suitable replacement property in a like kind exchange, then we expect to distribute at least the amount of proceeds necessary to avoid paying a corporate level tax on the gain realized from the sale.

After repaying $747.5 million of our Operating Partnership s 3.625% exchangeable senior notes on February 18, 2014, we maintain substantial liquidity including available cash, as of February 21, 2014, of approximately $0.9 billion and approximately $989.4 million available under our Operating Partnership s $1.0 billion Unsecured Line of Credit. Our more significant future funding requirements include $0.7 billion of our development pipeline that remains to be funded through 2017 and approximately $77 million of secured debt (of which our share is approximately $70 million) that matures by the end of 2014. We have access to multiple sources of capital, including current cash balances, public debt and equity markets, secured and unsecured debt markets and potential asset sales to fund our future capital requirements.

For descriptions of significant transactions that we completed during 2013, see *Item 1. Business Transactions During 2013*.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate

Upon acquisitions of real estate that constitutes a business, which includes the consolidation of previously unconsolidated joint ventures,, we assess the fair value of acquired tangible and intangible assets, (including land, buildings, tenant improvements, above- and below-market leases, leasing and assumed financing origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities) and allocate the purchase price to the acquired assets and assumed liabilities, including land and buildings as if vacant. We assess and consider fair value based on estimated cash flow projections that utilize discount and/or capitalization rates that we deem appropriate, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions.

The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired above- and below-market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below- market leases. Acquired above- and below-market lease values have been reflected within Prepaid Expenses and Other Assets and Other Liabilities, respectively, in our Consolidated Balance Sheets. Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant s lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Management reviews its long-lived assets for impairment following the end of each quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such criteria are present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether an asset has been impaired, our established strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that an impairment has occurred, the affected assets must be reduced to their fair value, less cost to sell.

Guidance in Accounting Standards Codification (ASC) 360 Property Plant and Equipment (ASC 360) requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that a sale of the property within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets, and the asset is written down to the lower of carrying value or fair market value, less cost to sell.

Real estate is stated at depreciated cost. A variety of costs are incurred in the acquisition, development and leasing of properties. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. We expense costs that we incur to effect a business combination such as legal, due diligence and other closing related costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development. After the determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease, involves a degree of judgment. Our capitalization policy on development properties is guided by guidance in ASC 835-20 Capitalization of Interest and ASC 970 Real Estate General. The costs of land and buildings under development include specifically identifiable costs.

The capitalized costs include pre-construction costs necessary to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary to the development of the property. We consider a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed, (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction or (3) if activities necessary for the development of the property have been suspended.

Investments in Unconsolidated Joint Ventures

We consolidate variable interest entities (VIEs) in which we are considered to be the primary beneficiary. VIEs are entities in which the equity investors do not have sufficient equity at risk to finance their endeavors without additional financial support or that the holders of the equity investment at risk do not have a controlling

financial interest. The primary beneficiary 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 variable interest entity s performance, and (2) the obligation to absorb losses and right to receive the returns from the variable interest entity that would be significant to the variable interest entity. For ventures that are not VIEs we consolidate entities for which we have significant decision making control over the ventures operations. Our judgment with respect to our level of influence or control of an entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity s governance, the size of our investment (including loans), estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our assessment of our influence or control over an entity affects the presentation of these investments in our consolidated financial statements. In addition to evaluating control rights, we consolidate entities in which the outside partner has no substantive kick-out rights to remove us as the managing member.

Accounts of the consolidated entity are included in our accounts and the non-controlling interest is reflected on the Consolidated Balance Sheets as a component of equity or in temporary equity between liabilities and equity. Investments in unconsolidated joint ventures are recorded initially at cost, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over the life of the related asset. Under the equity method of accounting, our net equity investment is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of joint venture income or loss generally follows the joint venture s distribution priorities, which may change upon the achievement of certain investment return thresholds. We may account for cash distributions in excess of our investment in an unconsolidated joint venture as income when we are not the general partner in a limited partnership and when we have neither the requirement nor the intent to provide financial support to the joint venture. Our investments in unconsolidated joint ventures are reviewed for impairment periodically and we record impairment charges when events or circumstances change indicating that a decline in the fair values below the carrying values has occurred and such decline is other-than-temporary. The ultimate realization of the investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value below the carrying value of an investment in an unconsolidated joint venture is other-than-temporary.

To the extent that we contribute assets to a joint venture, our investment in the joint venture is recorded at our cost basis in the assets that were contributed to the joint venture. To the extent that our cost basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in our share of equity in net income of the joint venture. In accordance with the provisions of ASC 970-323 Investments-Equity Method and Joint Ventures (ASC 970-323), we will recognize gains on the contribution of real estate to joint ventures, relating solely to the outside partner s interest, to the extent the economic substance of the transaction is a sale.

The combined summarized financial information of the unconsolidated joint ventures is disclosed in Note 5 to the Consolidated Financial Statements.

Revenue Recognition

Contractual rental revenue is reported on a straight-line basis over the terms of our respective leases. We recognize rental revenue of acquired in-place above- and below-market leases at their fair values over the terms of the respective leases. Accrued rental income as reported on the Consolidated Balance Sheets represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements.

Table of Contents

For the year ended December 31, 2013, the impact of the net adjustments of rents from above- and below-market leases increased rental revenue by approximately $28.0 million. For the year ended December 31, 2013, the impact of the straight-line rent adjustment increased rental revenue by approximately $65.8 million. Those amounts exclude the adjustment of rents from above- and below-market leases and straight-line income from unconsolidated joint ventures, which are disclosed in Note 5 to the Consolidated Financial Statements.

Our leasing strategy is generally to secure creditworthy tenants that meet our underwriting guidelines. Furthermore, following the initiation of a lease, we continue to actively monitor the tenant s creditworthiness to ensure that all tenant related assets are recorded at their realizable value. When assessing tenant credit quality, we:

- review relevant financial information, including:
  - financial ratios;
  - net worth;
  - revenue;
  - cash flows;
  - leverage; and
  - liquidity;
- evaluate the depth and experience of the tenant s management team; and
- assess the strength/growth of the tenant s industry.

As a result of the underwriting process, tenants are then categorized into one of three categories:

(1) low risk tenants;

(2) the tenant s credit is such that we require collateral, in which case we:

- require a security deposit; and/or
- reduce upfront tenant improvement investments; or

(3) the tenant s credit is below our acceptable parameters.

We consistently monitor the credit quality of our tenant base. We provide an allowance for doubtful accounts arising from estimated losses that could result from the tenant s inability to make required current rent payments and an allowance against accrued rental income for future potential losses that we deem to be unrecoverable over the term of the lease.

Tenant receivables are assigned a credit rating of 1 through 4. A rating of 1 represents the highest possible rating and no allowance is recorded. A rating of 4 represents the lowest credit rating, in which case we record a full reserve against the receivable balance. Among the factors considered in determining the credit rating include:

- payment history;
- credit status and change in status (credit ratings for public companies are used as a primary metric);
- change in tenant space needs (i.e., expansion/downsize);
- tenant financial performance;
- economic conditions in a specific geographic region; and
- industry specific credit considerations.

Table of Contents

If our estimates of collectability differ from the cash received, the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases, including unconsolidated joint ventures, was approximately 6.6 years as of December 31, 2013. The credit risk is mitigated by the high quality of our existing tenant base, reviews of prospective tenants risk profiles prior to lease execution and consistent monitoring of our portfolio to identify potential problem tenants.

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period during which the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with guidance in ASC 605-45 Principal Agent Considerations (ASC 605-45). ASC 605-45 requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have credit risk. We also receive reimbursement of payroll and payroll related costs from third parties which we reflect on a net basis.

Our parking revenues are derived from leases, monthly parking and transient parking. We recognize parking revenue as earned.

Our hotel revenues are derived from room rentals and other sources such as charges to guests for telephone service, movie and vending commissions, meeting and banquet room revenue and laundry services. Hotel revenues are recognized as earned.

We receive management and development fees from third parties. Property management fees are recorded and earned based on a percentage of collected rents at the properties under management, and not on a straight-line basis, because such fees are contingent upon the collection of rents. We review each development agreement and record development fees as earned depending on the risk associated with each project. Profit on development fees earned from joint venture projects is recognized as revenue to the extent of the third-party partners ownership interest.

Gains on sales of real estate are recognized pursuant to the provisions included in ASC 360-20 Real Estate Sales (ASC 360-20). The specific timing of the sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Depreciation and Amortization

We compute depreciation and amortization on our properties using the straight-line method based on estimated useful asset lives. We allocate the acquisition cost of real estate to its components and depreciate or amortize these assets over their useful lives. The amortization of acquired above- and below-market leases and acquired in-place leases is recorded as an adjustment to revenue and depreciation and amortization, respectively, in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, marketable securities, escrows, receivables, accounts payable, accrued expenses and other assets and liabilities are reasonable estimates of their fair values because of the short maturities of these instruments.

We follow the authoritative guidance for fair value measurements when valuing our financial instruments for disclosure purposes. We determine the fair value of our unsecured senior notes and unsecured exchangeable senior notes using market prices. The inputs used in determining the fair value of our unsecured senior notes and unsecured exchangeable senior notes is categorized at a level 1 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that we use quoted market rates to value these instruments. However, the inputs used in determining the fair value could be categorized at a level 2 basis if trading volumes are low. We determine the fair value of our mortgage notes payable using discounted cash flow analyses by discounting the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on current market rates for similar securities. In determining the current market rates, we add our estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to our debt. The inputs used in determining the fair value of our 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 we consider the rates used in the valuation techniques to be unobservable inputs.

Derivative Instruments and Hedging Activities

Derivative instruments and hedging activities require management to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the derivative instruments are reported in the Consolidated Statements of Operations as a component of net income or as a component of comprehensive income and as a component of equity on the Consolidated Balance Sheets. While management believes its judgments are reasonable, a change in a derivative s effectiveness as a hedge could materially affect expenses, net income and equity. We account for the effective portion of changes in the fair value of a derivative in other comprehensive income (loss) and subsequently reclassify the effective portion to earnings over the term that the hedged transaction affects earnings. We account for the ineffective portion of changes in the fair value of a derivative directly in earnings.

Results of Operations

The following discussion is based on our Consolidated Statement of Operations for the years ended December 31, 2013, 2012 and 2011.

At December 31, 2013, 2012 and 2011, we owned or had interests in a portfolio of 175, 157 and 153 properties, respectively (in each case, the Total Property Portfolio). As a result of changes within our Total Property Portfolio, the financial data presented below 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 are necessarily meaningful. Therefore, the comparison of operating results for the years ended December 31, 2013, 2012 and 2011 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 or Consolidated or Development or Redevelopment 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 consolidated 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 consolidated, repositioned 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.

Net operating income, or NOI, is a non-GAAP financial measure equal to net income attributable to Boston Properties, Inc., the most directly comparable GAAP financial measure, plus income attributable to noncontrolling interests, discontinued operations, depreciation and amortization, interest expense, impairment loss, transaction costs, general and administrative expense, less gains (losses) from early extinguishments of debt,

gains (losses) from investments in securities, gains on consolidation of joint ventures, income from unconsolidated joint ventures, interest and other income and development and management services revenue. We use NOI internally as a performance measure and believe NOI 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. NOI excludes certain components from net income attributable to Boston Properties, Inc. in order to provide results that are more closely related to a property s results of operations. 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. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property 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. as presented in our Consolidated Financial Statements. NOI should not be considered as an alternative to net income attributable to Boston Properties, Inc. as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions. For a reconciliation of NOI to net income attributable to Boston Properties, Inc., see Note 14 to the Consolidated Financial Statements.

Comparison of the year ended December 31, 2013 to the year ended December 31, 2012

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 126 properties totaling approximately 33.5 million net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or consolidated or placed in-service on or prior to January 1, 2012 and owned and in service through December 31, 2013. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or consolidated or in development or redevelopment after January 1, 2012 or disposed of on or prior to December 31, 2013. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the year ended December 31, 2013 and 2012 with respect to the properties which were placed in-service, acquired or consolidated or in development or redevelopment.

Table of Contents

	Same Property Portfolio				Properties Acquired or Consolidated Portfolio		Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio		Total Property Portfolio			
in thousands)	2013	2012	Increase/ (Decrease)	% Change	2013	2012	2013	2012	2013	2012	2013	2012	Increase/ (Decrease)	% Cha
evenue:														
evenue	$ 1,704,584	$ 1,650,516	$ 54,068	3.28%	$ 289,905	$ 61,692	$ 43,807	$ 25,141	$ 2,248	$ 7,098	$ 2,040,544	$ 1,744,447	$ 296,097	1
tion Income	2,399	7,625	(5,226)	(68.54)%			408	2,571			2,807	10,196	(7,389)	(7
ntal Revenue	1,706,983	1,658,141	48,842	2.95%	289,905	61,692	44,215	27,712	2,248	7,098	2,043,351	1,754,643	288,708	1
ate Operating s	618,119	593,976	24,143	4.06%	99,284	25,378	13,362	7,604	421	1,138	731,186	628,096	103,090	1
rating Income, g residential l	1,088,864	1,064,165	24,699	2.32%	190,621	36,314	30,853	20,108	1,827	5,960	1,312,165	1,126,547	185,618	1
ial Net g Income(1)	10,393	9,576	817	8.53%							10,393	9,576	817	
et Operating 1)	11,883	9,795	2,088	21.32%							11,883	9,795	2,088	2
dated Net g Income(1)	1,111,140	1,083,536	27,604	2.55%	190,621	36,314	30,853	20,108	1,827	5,960	1,334,441	1,145,918	188,523	1
evenue:														
ment and ment services											29,695	34,060	(4,365)	(1
xpenses:														
and rative expense											115,329	90,129	25,200	2
ion costs											1,744	3,653	(1,909)	(5
ent loss											8,306		8,306	10
ation and ation	405,355	401,833	3,522	0.88%	135,236	27,310	15,467	10,598	4,579	6,134	560,637	445,875	114,762	2
her Expenses	405,355	401,833	3,522	0.88%	135,236	27,310	15,467	10,598	4,579	6,134	686,016	539,657	146,359	2
g Income	705,785	681,703	24,082	3.53%	55,385	9,004	15,386	9,510	(2,752)	(174)	678,120	640,321	37,799	
come:														
from lidated joint											75,074	49,078	25,996	5
n consolidation ventures											385,991		385,991	10
and other											8,310	10,091	(1,781)	(1
om ents in s											2,911	1,389	1,522	10
osses) from inguishments											122	(4,453)	4,575	10
xpenses:														
expense											446,880	410,970	35,910	
from ng operations											703,648	285,456	418,192	14

nued ns:				
from nued ns	8,022	9,806	(1,784)	(1
sales of real om nued ns	112,829	36,877	75,952	20
forgiveness of n discontinued ns	20,182		20,182	10
ent loss from nued ns	(3,241)		(3,241)	(10
me	841,440	332,139	509,301	15
me ble to rolling :				
rolling in property hips	(1,347)	(3,792)	2,445	6
rolling redeemable d units of the g Partnership	(6,046)	(3,497)	(2,549)	(7
rolling common units perating hip	(70,085)	(30,125)	(39,960)	(13
rolling interest ntinued ns common the Operating hip	(14,151)	(5,075)	(9,076)	(17
me ble to Boston es, Inc.	$ 749,811	$ 289,650	$ 460,161	15
d dividends	(8,057)		(8,057)	(10
me ble to Boston es, Inc. shareholders	$ 741,754	$ 289,650	$ 452,104	15

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 62. Residential Net Operating Income for the year ended December 31, 2013 and 2012 are comprised of Residential Revenue of $22,163 and $20,568 less Residential Expenses of $11,770 and $10,992, respectively. Hotel Net Operating Income for the year ended December 31, 2013 and 2012 are comprised of Hotel Revenue of $40,330 and $37,915 less Hotel Expenses of $28,447 and $28,120, respectively, per the Consolidated Statements of Operations.

Table of Contents

Same Property Portfolio

Rental Revenue

Rental revenue from the Same Property Portfolio increased approximately $54.1 million for the year ended December 31, 2013 compared to 2012. The increase was primarily the result of an increase of approximately $46.9 million in rental revenue from our leases and increases in parking and other recoveries of approximately $4.9 million and $3.2 million, respectively, partially offset by a decrease in other income of approximately $0.9 million. The increase in parking was primarily related to transient parking. The increase in rental revenue from our leases of approximately $46.9 million was the result of our average revenue increasing by approximately $0.97 per square foot, contributing approximately $29.5 million, and an approximately $17.4 million increase due to an increase in average occupancy from 91.4% to 92.3%.

For 2014, we expect continued improvement in our occupancy to result in an increase in Same Property Portfolio net operating income of approximately 1.25% to 2.5% compared to 2013. We are expecting occupancy to average between 92.5% to 93.5% for 2014.

Termination Income

Termination income decreased by approximately $5.2 million for the year ended December 31, 2013 compared to 2012.

Termination income for the year ended December 31, 2013 related to twenty-two tenants across the Same Property Portfolio and totaled approximately $2.4 million, of which approximately $1.0 million was negotiated termination income from one of our Reston, Virginia properties in order to accommodate growth of an existing tenant.

Termination income for the year ended December 31, 2012 related to twenty-eight tenants across the Same Property Portfolio and totaled approximately $7.6 million of which approximately $3.6 million was from the settlement of a bankruptcy claim against a former tenant that rejected our lease in 2009 and approximately $0.9 million was a negotiated termination from one of our Reston, Virginia properties in order to accommodate growth of an existing tenant.

Real Estate Operating Expenses

Operating expenses from the Same Property Portfolio increased approximately $24.1 million for the year ended December 31, 2013 compared to 2012 due primarily to (1) an increase of approximately $13.9 million, or 5.3%, in real estate taxes, which increases primarily occurred in our Boston and New York regions, (2) an increase of approximately $4.9 million, or 5.3%, in utilities expense, that was primarily due to an increase in the delivery rate for steam in the Boston region, (3) an increase of approximately $5.3 million, or 5.8%, in property repairs and maintenance expense and (4) an increase of approximately $3.2 million, or 2.3%, in other operating expenses. This was partially offset by an approximately $3.2 million cumulative non-cash straight-line adjustment for ground rent expense that occurred in 2012 and did not recur in 2013.

We have modified the presentation of expenses to operate our San Francisco and Princeton regional offices to reflect the growing activity in our San Francisco region and to have a consistent presentation across our company. These expenses, which totaled approximately $8.1 million and $7.7 million for the year ended December 31, 2013 and 2012, respectively, were previously included in Rental Operating Expenses and are now included in General and Administrative Expenses for all periods presented.

Depreciation and Amortization Expense

Depreciation and amortization expense for the Same Property Portfolio increased approximately $3.5 million, or 0.9%, for the year ended December 31, 2013 compared to 2012.

Table of Contents

Properties Acquired or Consolidated Portfolio

On March 1, 2012, we acquired 453 Ravendale Drive located in Mountain View, California for a purchase price of approximately $6.7 million in cash. 453 Ravendale Drive is an approximately 30,000 net rentable square foot Office/Technical property.

On March 13, 2012, we acquired 100 Federal Street in Boston, Massachusetts for an aggregate investment of approximately $615.0 million in cash. In connection with the transaction, we entered into a long-term lease with an affiliate of Bank of America for approximately 732,000 square feet. 100 Federal Street is an approximately 1,265,000 net rentable square foot, 37-story Class A office tower.

On October 4, 2012, we completed the formation of a joint venture which owns and operates Fountain Square located in Reston, Virginia, adjacent to our other Reston properties. Fountain Square is an office and retail complex aggregating approximately 756,000 net rentable square feet, comprised of approximately 522,000 net rentable square feet of Class A office space and approximately 234,000 net rentable square feet of retail space. We own 50% of, and are consolidating, the joint venture.

On April 10, 2013, we acquired the Mountain View Research Park and Mountain View Technology Park properties from the Value-Added Fund for an aggregate net purchase price of approximately $233.1 million. Prior to the acquisition, our ownership interest in the properties was approximately 39.5%. As a result of the acquisition, we own 100% of the properties and account for them on a consolidated basis. Mountain View Research Park is an approximately 604,000 net rentable square foot, sixteen building Office/Technical complex. Mountain View Technology Park is an approximately 135,000 net rentable square foot, seven building Office/Technical complex.

On May 31, 2013, our two joint venture partners in 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building) in New York City) transferred all of their interests in the joint venture to third parties. In connection with the transfer, we and our new joint venture partners modified our relative decision making authority and consent rights with respect to the joint venture s assets and operations. These changes resulted in us having sufficient financial and operating control over 767 Venture, LLC such that we now account for the assets, liabilities and operations of 767 Venture, LLC on a consolidated basis in our financial statements instead of under the equity method of accounting. Our ownership interest in 767 Venture, LLC remained unchanged at 60%. 767 Fifth Avenue (the General Motors Building) is an approximately 1.8 million net rentable square foot, 59-story Class A office tower.

Rental Revenue

Rental revenue from our Properties Acquired or Consolidated Portfolio increased approximately $228.2 million for the year ended December 31, 2013 compared to 2012, as detailed below:

Property	Date Acquired	Rental Revenue for the year ended December 31, 2013	2012	Change
			(in thousands)	
453 Ravendale Drive	March 1, 2012	$ 582	$ 494	$ 88
100 Federal Street	March 13, 2012	67,848	52,529	15,319
Fountain Square	October 4, 2012	37,035	8,669	28,366
Mountain View Research Park	April 10, 2013	13,508		13,508

Mountain View Technology Park	April 10, 2013	3,168		3,168
767 Fifth Avenue (the General Motors Building)	May 31, 2013	167,764		167,764
Total		$ 289,905	$ 61,692	$ 228,213

Table of Contents

Real Estate Operating Expenses

Real estate operating expenses from our Properties Acquired or Consolidated Portfolio increased approximately $73.9 million for the year ended December 31, 2013 compared to 2012, as detailed below:

Property	Date Acquired	Real Estate Operating Expenses for the year ended December 31, 2013	2012	Change
		(in thousands)		
453 Ravendale Drive	March 1, 2012	$ 161	$ 149	$ 12
100 Federal Street	March 13, 2012	28,704	22,141	6,563
Fountain Square	October 4, 2012	12,411	3,088	9,323
Mountain View Research Park	April 10, 2013	2,996		2,996
Mountain View Technology Park	April 10, 2013	554		554
767 Fifth Avenue (the General Motors Building)	May 31, 2013	54,458		54,458
Total		$ 99,284	$ 25,378	$ 73,906

Depreciation and Amortization Expense

Depreciation and amortization expense for our Properties Acquired or Consolidated Portfolio increased by approximately $107.9 million for the year ended December 31, 2013 compared to 2012 as a result of the acquisition or consolidation of properties after December 31, 2012, as well as the additional depreciation expense incurred for the year ended December 31, 2013 associated with 453 Ravendale Drive, 100 Federal Street and Fountain Square, which were acquired on March 1, 2012, March 13, 2012 and October 4, 2012, respectively, and, as a result, were not recognizing depreciation expense for the full year ended December 31, 2012.

For a discussion of the operating results for 767 Fifth Avenue (the General Motors Building), Mountain View Research Park and Mountain View Technology Park for the period prior to consolidation / acquisition refer to *Results of Operations Other Income and Expense Items Income from Unconsolidated Joint Ventures* within *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.*

Properties Placed In-Service Portfolio

We had six properties that were placed in-service or partially placed in-service between January 1, 2012 and December 31, 2013. The square footage amount for the four properties that are fully placed in-service is approximately 1.1 million. One and Two Patriots Park is a two-phase redevelopment project for a single tenant.

Rental Revenue

Rental revenue from our Properties Placed In-Service Portfolio increased approximately $16.5 million for the year ended December 31, 2013 compared to 2012, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Rental Revenue for the year ended December 31, 2013	2012	Change
			(in thousands)		
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	$ 22,141	$ 19,577	$ 2,564
One and Two Patriots Park	Second Quarter, 2012 (Phase I) and First Quarter, 2013 (Phase II)	Second Quarter, 2012 (Phase I) and First Quarter, 2013 (Phase II)	15,889	8,135	7,754
Seventeen Cambridge Center	Second Quarter, 2013	Second Quarter, 2013	5,717		5,717
250 West 55th Street	Third Quarter, 2013	N/A	311		311
The Avant at Reston Town Center	Fourth Quarter, 2013	N/A	157		157
Total			$ 44,215	$ 27,712	$ 16,503

67

Table of Contents

Termination Income

Included above for the year ended December 31, 2013 is approximately $0.4 million of termination income related to two tenants, of which approximately $0.3 million was related to a retail tenant at our 510 Madison Avenue building.

Included above for the year ended December 31, 2012 is the remaining approximately $2.6 million of termination income related to lease amendments we signed on July 1, 2011 with the existing tenant at our three-building Patriots Park complex on Sunrise Valley Drive in Reston, Virginia. Under the amendments, the existing tenant terminated early its leases for approximately 523,000 square feet at the complex and was responsible for certain payments to us aggregating approximately $15.7 million.

Real Estate Operating Expenses

Real estate operating expenses from our Properties Placed In-Service Portfolio increased approximately $5.8 million for the year ended December 31, 2013 compared to 2012, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Real Estate Operating Expenses for the year ended December 31, 2013	2012	Change
			(in thousands)		
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	$ 7,082	$ 6,223	$ 859
One and Two Patriots Park	Second Quarter, 2012 (Phase I) and First Quarter, 2013 (Phase II)	Second Quarter, 2012 (Phase I) and First Quarter, 2013 (Phase II)	4,223	1,381	2,842
Seventeen Cambridge Center	Second Quarter, 2013	Second Quarter, 2013	353		353
250 West 55th Street	Third Quarter, 2013	N/A	1,340		1,340
The Avant at Reston Town Center	Fourth Quarter, 2013	N/A	364		364
Total			$ 13,362	$ 7,604	$ 5,758

Depreciation and Amortization Expense

Depreciation and amortization expense for our Properties Placed In-Service Portfolio increased by approximately $4.9 million for the year ended December 31, 2013 compared to 2012.

Properties in Development or Redevelopment Portfolio

At December 31, 2013 and 2012, the Properties in Development or Redevelopment Portfolio consisted primarily of our 601 Massachusetts Avenue property located in Washington, DC.

On April 25, 2013, we commenced development of our 601 Massachusetts Avenue property, which is expected to be completed during the fourth quarter of 2015. Prior to the commencement of development, this building was operational and, during the year ended December 31, 2013 and 2012, had revenue of approximately $2.2 million and $7.1 million, respectively, and operating expenses of approximately $0.4 million and $1.1 million, respectively. In addition, the decrease in depreciation expense of approximately $1.6 million is the result of the property being taken out of service on April 25, 2013 and therefore not incurring a full year of depreciation expense.

Other Operating Income and Expense Items

Residential Net Operating Income

Net operating income for our residential properties increased by approximately $0.8 million for the year ended December 31, 2013 compared to 2012.

Table of Contents

The following reflects our occupancy and rate information for The Lofts at Atlantic Wharf and the Residences on The Avenue for the year ended December 31, 2013 and 2012.

	The Lofts at Atlantic Wharf			Residences on The Avenue		
	2013	2012	Percentage Change	2013	2012	Percentage Change
Average Physical Occupancy(1)	98.6%	95.8%	2.9%	93.4%	90.0%	3.8%
Average Economic Occupancy(2)	97.6%	92.0%	6.1%	93.0%	89.2%	4.3%
Average Monthly Rental Rate(3)	$ 3,778	$ 3,640	3.8%	$ 3,295	$ 3,213	2.6%
Average Rental Rate Per Occupied Square Foot	$ 4.20	$ 4.08	2.9%	$ 4.04	$ 3.94	2.5%

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

(2) 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.

(3) 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.

Hotel Net Operating Income

Net operating income for the Cambridge Center Marriott hotel property increased by approximately $2.1 million for the year ended December 31, 2013 compared to 2012 due primarily to improvements in revenue per available room (REVPAR) and occupancy. We expect our hotel net operating income for fiscal 2014 to be between $12 million and $13 million.

The following reflects our occupancy and rate information for the Cambridge Center Marriott hotel for the year ended December 31, 2013 and 2012.

	2013	2012	Percentage Change
Occupancy	79.8%	78.8%	1.3%
Average daily rate	$ 233.95	$ 226.58	3.3%
REVPAR	$ 186.71	$ 178.66	4.5%

Development and Management Services

Development and management services income decreased approximately $4.4 million for the year ended December 31, 2013 compared to 2012. The decrease was due to decreases in development and management fee income of approximately $1.4 million and $3.0 million, respectively.

The decrease in development fees is primarily due to a decrease in fees associated with tenant improvement project management. The net decrease in management fees is due primarily to a decrease in management fees earned from our joint ventures primarily due to the consolidation/acquisition of 767 Fifth Avenue (the General Motors Building) and the Mountain View assets and the sale of 125 West 55th Street in New York City, partially offset by an increase in tenant service income. We expect fee income for fiscal 2014 to be between $19 million and $22 million. Our 2014 estimates are less than 2013 due to the conclusion of several fee development projects in Washington, DC and Boston as well as the change in the accounting for 767 Fifth Avenue (the General Motors Building). As a result of the consolidation of 767 Fifth Avenue (the General Motors Building), the management fees for the building that were approximately $5 million per year will no longer be recognized as fee income. Instead our partners 40% share will be reflected as an adjustment to noncontrolling interest in property partnerships.

General and Administrative

General and administrative expenses increased approximately $25.2 million for the year ended December 31, 2013 compared to 2012. On March 11, 2013, we announced that Owen D. Thomas would succeed Mortimer B. Zuckerman as our Chief Executive Officer, effective April 2, 2013. Mr. Zuckerman will continue to serve as Executive Chairman for a transition period and thereafter is expected to continue to serve as the Non-Executive Chairman of the Board. In connection with succession planning, Mr. Zuckerman entered into a Transition Benefits Agreement with us. If Mr. Zuckerman remains employed by us through July 1, 2014, he will be entitled to receive, on January 1, 2015, a lump sum cash payment of $6.7 million and an equity award with a targeted value of approximately $11.1 million. The cash payment and equity award vest one-third on each of March 10, 2013, October 1, 2013 and July 1, 2014, subject to acceleration in certain circumstances. As a result, we recognized approximately $13.8 million of compensation expense during the year ended December 31, 2013. We expect to recognize the remaining approximately $4.0 million of compensation expense over the remaining vesting period and, accordingly, expect to expense approximately $2.0 million in each of the 1st and 2nd quarters of 2014. In addition, the agreement provides that if Mr. Zuckerman terminates his employment with us for any reason, voluntarily or involuntarily, he will become fully vested in any outstanding equity awards with time-based vesting. As a result, during the year ended December 31, 2013, we accelerated the remaining approximately $12.9 million of stock-based compensation expense associated with Mr. Zuckerman s unvested long-term equity awards. During the year ended December 31, 2012, we recognized approximately $4.6 million of amortization that occurred prior to the accelerated vesting of the $12.9 million of stock-based compensation expense associated with the Transition Benefits Agreement. The remaining increase was primarily due to (1) an approximately $2.6 million increase related to the issuance of the 2013 MYLTIP Units and non-qualified stock options, (2) an approximately $1.3 million increase in health insurance costs, (3) an approximately $1.7 million increase in the value of our deferred compensation plan, (4) an approximately $0.8 million increases in taxes and (5) an approximately $3.1 million increase in other general and administrative expenses, which includes compensation expenses. This increase was partially offset by (1) approximately $1.9 million of amortization that occurred for a member of senior management in 2012 that did not recur in 2013 due to the fact that this person reached retirement age and therefore became fully vested in time-based equity awards and we no longer recognized expense on a quarterly basis and (2) our recognition of approximately $4.5 million of expense during the first quarter of 2012 in connection with the resignation of E. Mitchell Norville, our Chief Operating Officer, on February 29, 2012, which did not recur in 2013.

We have modified the presentation of expenses to operate our San Francisco and Princeton regional offices to reflect the growing activity in our San Francisco region and to have a consistent presentation across our company. These expenses, which totaled approximately $8.1 million and $7.7 million for the year ended December 31, 2013 and 2012, respectively, were previously included in Rental Operating Expenses and are now included in General and Administrative Expenses for all periods presented. We expect our fiscal 2014 general and administrative expenses to be between $100 million and $104 million, which includes approximately $1.2 million associated with the termination of the 2011 OPP Awards. Refer to Note 20 of the Consolidated Financial Statements.

Wages directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Capitalized wages for the year ended December 31, 2013 and 2012 were approximately $12.8 million and $12.7 million, respectively. These costs are not included in the general and administrative expenses discussed above.

Table of Contents

Transaction Costs

During the year ended December 31, 2013 we incurred approximately $1.7 million of transaction costs of which approximately $0.6 million related to the acquisition of the Mountain View Research Park and Mountain View Technology Park properties in Mountain View, California, approximately $0.4 million related to Transbay Tower in San Francisco, California, approximately $0.5 million related to transaction costs for transactions in New York City and approximately $0.2 million related to the pursuit of other transactions.

During the year ended December 31, 2012, we incurred approximately $3.7 million of transaction pursuit costs of which approximately $0.6 million related to the acquisition of 680 Folsom Street in San Francisco, California, approximately $0.5 million related to the acquisition of Fountain Square in Reston, Virginia, approximately $0.3 million related to the forming of a joint venture to pursue the acquisition of land in San Francisco, California to construct the Transbay Tower, approximately $0.6 million related to the acquisition of 100 Federal Street in Boston, Massachusetts and approximately $1.7 million related to the pursuit of other transactions.

Impairment Loss

On March 28, 2013, we executed a binding contract for the sale of our 303 Almaden Boulevard property located in San Jose, California for a sale price of $40.0 million. The pending sale of this asset caused us to evaluate our strategy for development of the adjacent Almaden land parcel which can accommodate approximately 840,000 square feet of office development. Based on a shorter than expected hold period, we reduced the carrying value of the land parcel to its fair market value and recognized an impairment loss of approximately $8.3 million during the three months ended March 31, 2013.

Other Income and Expense Items

Income from Unconsolidated Joint Ventures

For the year ended December 31, 2013 compared to 2012, income from unconsolidated joint ventures increased by approximately $26.0 million due primarily to (1) an increase of approximately $41.1 million in our share of net income from the sale of 125 West 55th Street on May 30, 2013 and (2) an increase of approximately $11.3 million in our share of net income from the sale of the Eighth Avenue and 46th Street project in New York City partially offset by the following: (1) an approximately $21.0 million decrease in our share of net income from 767 Fifth Avenue (the General Motors Building) related to the consolidation on June 1, 2013 and termination income that was received during 2012 that did not recur in 2013, (2) an approximately $3.2 million decrease in our share of net income from 540 Madison Avenue due to lease expirations, (3) an approximately $1.1 million decrease in our share of net income from the Value-Added Fund due to our acquisition of the Mountain View assets on April 10, 2013 which includes approximately $0.2 million of gain recognized during 2012 related to the sale of 300 Billerica Road in Chelmsford, Massachusetts and (4) an approximately $1.1 million decrease in our share of net income from our other unconsolidated joint ventures.

On July 19, 2013, a joint venture in which we have a 50% interest completed the sale of its Eighth Avenue and 46th Street project located in New York City for an imputed sale price of $45.0 million. Eighth Avenue and 46th Street is comprised of an assemblage of land parcels and air-rights. Net cash proceeds to us totaled approximately $21.8 million, after the payment of transaction costs. The joint venture had previously recognized an impairment loss on the property. As a result, the joint venture recognized a gain on sale of real estate totaling approximately $12.6

million, of which our share was approximately $11.3 million.

On May 31, 2013, our two joint venture partners in 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building) in New York City) transferred all of their interests in the joint venture to third parties. In connection with the transfer, we and our new joint venture partners modified our relative decision making authority and consent rights with respect to the joint venture s assets and operations. These changes resulted in us having sufficient financial and operating control over 767 Venture, LLC such that we now account for the assets, liabilities and operations of 767 Venture, LLC on a consolidated basis in our financial statements instead of under the equity method of accounting. Our ownership interest in 767 Venture, LLC remained unchanged at 60%. Due to the consolidation effective June 1, 2013, only five months of activity are being shown for the year ended December 31, 2013 compared to a full year in 2012 resulting in a decrease in income from unconsolidated joint ventures of approximately $9.2 million. In aggregate, the total decrease, which includes the termination income detailed below, and the decrease in income due to consolidation is approximately $21.0 million for the year ended December 31, 2013 compared to 2012.

On May 14, 2012, an unconsolidated joint venture in which we have a 60% interest entered into a lease termination agreement with an existing tenant at 767 Fifth Avenue (the General Motors Building) in New York City. Under the agreement, the tenant terminated early its lease for approximately 36,000 square feet at the building and is responsible for certain payments to the unconsolidated joint venture aggregating approximately $28.4 million through May 1, 2014 (of which our share is approximately $17.0 million). As a result of the termination, we recognized termination income totaling approximately $11.8 million (which is net of the write-off of the accrued straight-line rent balance) during the year ended ended December 31, 2012.

On May 30, 2013, a joint venture in which we have a 60% interest completed the sale of its 125 West 55th Street property located in New York City for a sale price of $470.0 million, including the assumption by the buyer of the mortgage loan collateralized by the property totaling approximately $198.6 million. The mortgage loan bore interest at a fixed rate of 6.09% per annum and was scheduled to mature on March 10, 2020. Net cash proceeds totaled approximately $253.7 million, of which our share was approximately $152.2 million, after the payment of transaction costs. 125 West 55th Street is a Class A office property totaling approximately 588,000 net rentable square feet. We had previously recognized an impairment loss on our investment in the unconsolidated joint venture. As a result, we recognized a gain on sale of real estate totaling approximately $43.2 million. Due to the sale on May 30, 2013, only five months of activity are being shown for the year ended December 31, 2013 compared to a full year in 2012 resulting in a decrease in income from unconsolidated joint ventures of approximately $2.1 million.

On April 10, 2013, we acquired the Mountain View Research Park and Mountain View Technology Park properties from the Value-Added Fund for an aggregate net purchase price of approximately $233.1 million. Prior to the acquisition, our ownership interest in the properties was approximately 39.5%. As a result of the acquisition, we own 100% of the properties and account for them on a consolidated basis. Due to the acquisition, the Value-Added Fund, excluding the gain on the sale of 300 Billerica Road in Chelmsford, Massachusetts, contributed an approximately $1.3 million loss to our share of the income for the year ended December 31, 2013 compared to 2012.

For the consolidated operating results for 767 Fifth Avenue (the General Motors Building), Mountain View Research Park and Mountain View Technology Park refer to *Results of Operations Properties Acquired Portfolio* within *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.*

Gains on Consolidation of Joint Ventures

On May 31, 2013, our two joint venture partners in 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building) in New York City) transferred all of their interests in the joint venture to third parties. In connection with the transfer we and our new joint venture partners modified our relative decision making authority and consent rights with respect to the joint venture s assets and operations. These changes resulted in us having sufficient financial and operating control over 767 Venture, LLC such that we now account for the assets, liabilities and operations of 767 Venture, LLC on a consolidated basis in our financial statements instead of under the equity method of accounting. Our ownership interest in 767 Venture, LLC remained unchanged at 60%. During the year ended December 31, 2013, we recognized a non-cash gain on our investment of approximately $359.5 million.

On April 10, 2013, we acquired the Mountain View Research Park and Mountain View Technology Park properties from the Value-Added Fund for an aggregate net purchase price of approximately $233.1 million. Prior to the acquisition, our ownership interest in the properties was approximately 39.5%. As a result of the acquisition, we own 100% of the properties and account for them on a consolidated basis. During the year ended December 31, 2013, we recognized a gain upon consolidation totaling approximately $26.5 million.

Interest and Other Income

Interest and other income decreased approximately $1.8 million for the year ended December 31, 2013 compared to 2012, of which $1.1 million was related to an insurance claim that we received during 2012 that did not recur in 2013 and the remaining decrease of approximately $0.7 million related to interest income. The decrease in interest income was due primarily to interest income that we recognized related to the loans that we made to our Value-Added Fund. On April 10, 2013 we acquired the Mountain View properties from the Value-Added Fund and the loans were repaid (Refer to Notes 3 and 5 of the Consolidated Financial Statements). The loans to the Value-Added Fund had been reflected in Related Party Note Receivable on our Consolidated Financial Statements.

Gains from Investments in Securities

Gains from investments in securities for the year ended December 31, 2013 and 2012 related to investments that we have made to reduce our market risk relating to a deferred compensation plan that we maintain for our 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 our officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The performance of these investments is recorded as gains from investments in securities. During the year ended December 31, 2013 and 2012, we recognized gains of approximately $2.9 million and $1.4 million, respectively, on these investments. By comparison, our general and administrative expense increased by approximately $2.9 million and $1.3 million during the year ended December 31, 2013 and 2012, respectively, as a result of increases 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.

Gains (Losses) from Early Extinguishments of Debt

For the year ended December 31, 2013, we had a gain from early extinguishments of debt of approximately $0.1 million due to the following transactions:

On April 15, 2013, we announced that holders of our Operating Partnership s 3.75% Exchangeable Senior Notes due 2036 (the Notes) had the right to surrender their Notes for purchase by our Operating Partnership (the Put Right) on May 18, 2013. On April 15, 2013, we also announced that our Operating Partnership issued a notice of redemption to the holders of the Notes to redeem, on May 18, 2013 (the Redemption Date), all of the Notes outstanding on the Redemption Date. In connection with the notice of redemption, holders of the Notes had the right to exchange their Notes on or prior to May 16, 2013. Notes with respect to which the Put Right was not exercised and that were not surrendered for exchange on or prior to May 16, 2013, were redeemed by our Operating Partnership at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest thereon to, but excluding, the Redemption Date. Based on final information provided to our Operating Partnership by the trustee for the Notes, no Notes were validly tendered and accepted for purchase in the Put Right. Pursuant to the notice of redemption, an aggregate principal amount of $990,000 of the Notes was redeemed on May 18, 2013. The remaining aggregate principal amount of $449,010,000 of the Notes was surrendered for exchange and, in addition to the repayment of the principal in cash, we issued an aggregate of

419,116 shares of our common stock in exchange for the Notes. We recognized a loss on early extinguishment of debt totaling approximately $0.1 million consisting of transaction costs.

On April 1, 2013, we used available cash to repay the mortgage loan collateralized by our 140 Kendrick Street property located in Needham, Massachusetts totaling approximately $47.6 million. The mortgage loan bore interest at a fixed rate of 7.51% per annum and was scheduled to mature on July 1, 2013. There was no prepayment penalty. We recognized a gain on early extinguishment of debt totaling approximately $0.3 million related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting.

For the year ended December 31, 2012, we had a loss from early extinguishments of debt of approximately $4.5 million due to the following transactions:

On September 4, 2012, we used available cash to repay the mortgage loan collateralized by our Sumner Square property located in Washington, DC totaling approximately $23.2 million. The mortgage financing bore interest at a fixed rate of 7.35% per annum and was scheduled to mature on September 1, 2013. We recognized a loss on early extinguishment of debt totaling approximately $0.3 million, which included a prepayment penalty totaling approximately $0.2 million associated with the early repayment.

On August 24, 2012, our Operating Partnership used available cash to redeem the remaining $225.0 million in aggregate principal amount of its 6.25% senior notes due 2013. The redemption price was determined in accordance with the applicable indenture and totaled approximately $231.6 million. The redemption price included approximately $1.5 million of accrued and unpaid interest to, but not including, the redemption date. Excluding such accrued and unpaid interest, the redemption price was approximately 102.25% of the principal amount being redeemed. We recognized a loss on early extinguishment of debt totaling approximately $5.2 million, which amount included the payment of the redemption premium totaling approximately $5.1 million.

On April 2, 2012, we used available cash to repay the mortgage loan collateralized by our One Freedom Square property located in Reston, Virginia totaling $65.1 million. The mortgage financing bore interest at a fixed rate of 7.75% per annum and was scheduled to mature on June 30, 2012. There was no prepayment penalty. We recognized a gain on early extinguishment of debt totaling approximately $0.3 million related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting.

On March 12, 2012, we used available cash to repay the mortgage loan collateralized by our Bay Colony Corporate Center property located in Waltham, Massachusetts totaling $143.9 million. The mortgage financing bore interest at a fixed rate of 6.53% per annum and was scheduled to mature on June 11, 2012. There was no prepayment penalty. We recognized a gain on early extinguishment of debt totaling approximately $0.9 million related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting.

In connection with the repurchase and redemption in February 2012 of our Operating Partnership s 2.875% Exchangeable Senior Notes due 2037, we recognized a loss on early extinguishment of debt of approximately $0.1 million related to the expensing of transaction related costs.

Table of Contents

Interest Expense

Interest expense for the Total Property Portfolio increased approximately $35.9 million for the year ended December 31, 2013 compared to 2012 as detailed below:

Component	Change in interest expense for the year ended December 31, 2013 compared to December 31, 2012 (in thousands)	
Increases to interest expense due to:		
Interest associated with the consolidation of the $1.6 billion of debt outstanding for 767 Fifth Avenue (the General Motors Building)	$	31,397
Issuance of $1.0 billion in aggregate principal of our Operating Partnership s 3.850% senior notes due 2023 on June 11, 2012		17,173
Partner s share of the interest for the outstanding Outside Members Notes Payable for 767 Fifth Avenue (the General Motors Building)		16,044
Issuance of $700 million in aggregate principal of our Operating Partnership s 3.800% senior notes due 2024 on June 27, 2013		13,634
Issuance of $500 million in aggregate principal of our Operating Partnership s 3.125% senior notes due 2023 on April 11, 2013		11,514
New mortgage/properties placed in-service financings		4,572
Total increases to interest expense	$	94,334
Decreases to interest expense due to:		
Increase in capitalized interest	$	(23,873)
Repurchases/redemption/exchange of $450.0 million in aggregate principal of our Operating Partnership s 3.75% exchangeable senior notes due 2036		(10,594)
Redemption of $225.0 million in aggregate principal of our Operating Partnership s 6.25% senior notes due 2013		(8,014)
Repayment of mortgage financings		(6,418)
Interest expense associated with the accretion of the adjustment for the equity component allocation of our unsecured exchangeable debt		(6,004)
Repurchases/redemption of $576.2 million in aggregate principal of our Operating Partnership s 2.875% exchangeable senior notes due 2037		(3,053)
Other interest expense (excluding senior notes)		(468)
Total decreases to interest expense	$	(58,424)
Total change in interest expense	$	35,910

The following property is included in the new mortgages/properties placed in-service financings line item: Fountain Square. The following properties are included in the repayment of mortgage financings line item: Bay Colony Corporate Center, One Freedom Square, Sumner Square, Kingstowne One and 140 Kendrick Street. As properties are placed in-service, we cease capitalizing interest and interest is then expensed.

Interest expense directly related to the development of rental properties is not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Interest capitalized for the year ended December 31, 2013 and 2012 was approximately $68.2 million and $44.3 million, respectively. These costs are not included in the interest expense referenced above.

We anticipate net interest expense for 2014 will be approximately $448 million to $452 million. This estimate assumes approximately $54 million to $58 million of capitalized interest. The estimates for 2014 reflect

Table of Contents

the repayment at maturity of the $747.5 million of 3.625% exchangeable senior notes ,which occurred on February 18, 2014, and assumes the repayment of $63.0 million of secured debt that matures in October 2014. These estimates also assume that we will not incur any additional indebtedness, make additional prepayments or repurchases of existing indebtedness and that there will not be any fluctuations in interest rates or any changes in our development activity.

At December 31, 2013, our variable rate debt consisted of our Operating Partnership s $1.0 billion Unsecured Line of Credit, of which no amount was outstanding at December 31, 2013. For a summary of our consolidated debt as of December 31, 2013 and December 31, 2012 refer to the heading *Liquidity and Capital Resources Capitalization Debt Financing* within *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.*

Discontinued Operations

On December 20, 2013, we completed the sale of our 10 & 20 Burlington Mall Road property located in Burlington, Massachusetts for a sale price of approximately $30.0 million. Net cash proceeds totaled approximately $29.4 million, resulting in a gain on sale of approximately $20.5 million. 10 & 20 Burlington Mall Road consists of two Class A office properties aggregating approximately 152,000 net rentable square feet. The operating results of the property through the date of sale have been classified as discontinued operations on a historical basis for all periods presented.

On December 20, 2013, we completed the sale of our One Preserve Parkway property located in Rockville, Maryland for a sale price of approximately $61.3 million. Net cash proceeds totaled approximately $59.9 million, resulting in a gain on sale of approximately $5.9 million. One Preserve Parkway is a Class A office property totaling approximately 184,000 net rentable square feet. The operating results of the property through the date of sale have been classified as discontinued operations on a historical basis for all periods presented.

On August 22, 2013, we completed the sale of our 1301 New York Avenue property located in Washington, DC for a net contract sale price of approximately $121.7 million. After adjusting for outstanding lease and other transaction costs assumed by the buyer, the gross sale price was approximately $135.0 million. Net cash proceeds totaled approximately $121.5 million, resulting in a gain on sale of approximately $86.4 million. 1301 New York Avenue is a Class A office property totaling approximately 201,000 net rentable square feet. The operating results of the property through the date of sale have been classified as discontinued operations on a historical basis for all periods presented.

On June 28, 2013, we completed the sale of our 303 Almaden Boulevard property located in San Jose, California for a sale price of $40.0 million. Net cash proceeds totaled approximately $39.3 million. 303 Almaden Boulevard is a Class A office property totaling approximately 158,000 net rentable square feet. Because we entered into the related purchase and sale agreement on March 28, 2013 and the carrying value of the property exceeded its net sale price, we recognized an impairment loss totaling approximately $3.2 million during the three months ended March 31, 2013. As a result, there was no loss on sale of real estate recognized during the year ended December 31, 2013. The impairment loss and operating results of this property have been classified as discontinued operations on a historical basis for all periods presented.

On February 20, 2013, the foreclosure sale of our Montvale Center property was ratified by the court. As a result of the ratification, the mortgage loan totaling $25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate resulting in the recognition of a gain on forgiveness of debt totaling approximately $20.2 million during the year ended December 31, 2013. The operating results of the property through the date of ratification have been classified as discontinued operations on a historical basis for all periods presented.

On May 17, 2012, we completed the sale of our Bedford Business Park properties located in Bedford, Massachusetts for approximately $62.8 million in cash. Net cash proceeds totaled approximately $62.0 million, resulting in a gain on sale of approximately $36.9 million. Bedford Business Park is comprised of two Office/Technical buildings and one Class A office building aggregating approximately 470,000 net rentable square feet. The operating results of the property through the date of sale have been classified as discontinued operations on a historical basis for all periods presented.

Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships decreased by approximately $2.4 million for the year ended December 31, 2013 compared to 2012. Noncontrolling interests in property partnerships consisted of the outside owners equity interest in the net income (loss) from our 505 9th Street, Fountain Square, 767 Fifth Avenue (the General Motors Building) and Time Square Tower properties as of December 31, 2013 and 505 9th Street and Fountain Square as of December 31, 2012.

On October 9, 2013, we completed the sale of a 45% ownership interest in our Times Square Tower property for a gross sale price of $684.0 million in cash. Net cash proceeds totaled approximately $673.1 million, after the payment of transaction costs. In connection with the sale, we formed a joint venture with the buyer and will provide customary property management and leasing services to the joint venture. Times Square Tower is an approximately 1,246,000 net rentable square foot Class A office tower located in New York City. The transaction did not qualify as a sale of real estate for financial reporting purposes because we continue to control the joint venture and will therefore continue to account for the entity on a consolidated basis in our financial statements. We have accounted for the transaction as an equity transaction and have recognized noncontrolling interest in our consolidated balance sheets totaling approximately $243.5 million, which is equal to 45% of the carrying value of the total equity of the property immediately prior to the transaction. The difference between the net cash proceeds received and the noncontrolling interest recognized, which difference totals approximately $429.6 million, has not been reflected as a gain on sale of real estate in our consolidated statements of operations and has instead been reflected as an increase to additional paid-in capital in our consolidated balance sheets. This building contributed an increase in noncontrolling interests in property partnerships of approximately $5.8 million for the year ended December 31, 2013.

On May 31, 2013, our two joint venture partners in 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building) in New York City) transferred all of their interests in the joint venture to third parties. In connection with the transfer we and our new joint venture partners modified our relative decision making authority and consent rights with respect to the joint venture s assets and operations. These changes resulted in us having sufficient financial and operating control over 767 Venture, LLC such that we now account for the assets, liabilities and operations of 767 Venture, LLC on a consolidated basis in our financial statements instead of under the equity method of accounting. Our ownership interest in 767 Venture, LLC remained unchanged at 60%. This building contributed a decrease in noncontrolling interests in property partnerships of approximately $13.5 million for the year ended December 31, 2013. This decrease was primarily due to the partners share of the interest expense for the outside member s notes payable.

On October 4, 2012, we completed the formation of a joint venture which owns and operates Fountain Square located in Reston, Virginia, adjacent to our other Reston properties. Fountain Square is an office and retail complex aggregating approximately 756,000 net rentable square feet, comprised of approximately 522,000 net rentable square feet of Class A office space and approximately 234,000 net rentable square feet of retail space. 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. We contributed cash totaling approximately $87.0 million for our 50% interest, which cash was distributed to the joint venture partner. We are consolidating this joint venture. The mortgage loan bears interest at a fixed rate of 5.71% per annum and matures on October 11, 2016. Pursuant to the joint venture agreement (i) we have rights to acquire the partner s 50% interest and (ii) the partner has the right to cause us 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 expire on January 31, 2016. This building contributed an increase in noncontrolling interests in property partnerships of approximately $6.6 million and $1.8 million for the year ended December 31, 2013 and 2012, respectively.

Table of Contents

Noncontrolling Interest Common Units of the Operating Partnership

Noncontrolling interest common units of the Operating Partnership increased by approximately $40.0 million for the year ended December 31, 2013 compared to 2012 due to a increase in allocable income partially offset by a decrease in the noncontrolling interest s ownership percentage.

Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 119 properties totaling approximately 30.9 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, 2011 and owned and in service through December 31, 2012. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or in development or redevelopment after January 1, 2011 or disposed of on or prior to December 31, 2012. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the year ended December 31, 2012 and 2011 with respect to the properties which were placed in-service, acquired or in development or redevelopment.

Table of Contents

	Same Property Portfolio				Properties Acquired Portfolio		Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio		Total Property Portfolio			
in thousands)	2012	2011	Increase/ (Decrease)	% Change	2012	2011	2012	2011	2012	2011	2012	2011	Increase/ (Decrease)	% Cha
Revenue:														
Revenue	$ 1,549,004	$ 1,534,210	$ 14,794	0.96%	$ 90,015	$ 19,883	$ 126,031	$ 73,792	$ (34)	$ 10,228	$ 1,765,016	$ 1,638,113	$ 126,903	
tion Income	7,047	3,638	3,409	93.71%	577	(20)		2,591	2,571	10,535	10,195	16,744	(6,549)	(3
ental Revenue	1,556,051	1,537,848	18,203	1.18%	90,592	19,863	126,031	76,383	2,537	20,763	1,775,211	1,654,857	120,354	
ate Operating s	546,936	526,083	20,853	3.96%	40,241	12,313	51,891	31,561	20	2,711	639,088	572,668	66,420	1
rating Income, g hotel	1,009,115	1,011,765	(2,650)	(0.26)%	50,351	7,550	74,140	44,822	2,517	18,052	1,136,123	1,082,189	53,934	
et Operating (1)	9,795	8,401	1,394	16.59%							9,795	8,401	1,394	1
dated Net g Income(1)	1,018,910	1,020,166	(1,256)	(0.12)%	50,351	7,550	74,140	44,822	2,517	18,052	1,145,918	1,090,590	55,328	
evenue:														
ment and ment services											34,060	33,406	654	
xpenses:														
and rative expense											90,129	87,101	3,028	
tion costs											3,653	1,987	1,666	8
ation and tion	363,237	358,957	4,280	1.19%	43,729	13,516	36,973	38,592	1,936	18,677	445,875	429,742	16,133	
her Expenses	363,237	358,957	4,280	1.19%	43,729	13,516	36,973	38,592	1,936	18,677	539,657	518,830	20,827	
g Income	655,673	661,209	(5,536)	(0.84)%	6,622	(5,966)	37,167	6,230	581	(625)	640,321	605,166	35,155	
come:														
from lidated joint											49,078	85,896	(36,818)	(4
and other											10,091	5,358	4,733	8
osses) from ents in s											1,389	(443)	1,832	41
xpenses:														
expense											410,970	391,533	19,437	
rom early shments of											4,453	1,494	2,959	19
from ng operations											285,456	302,950	(17,494)	(
nued ns:														
from nued ns											9,806	10,876	(1,070)	(

sale of real om nued ns	36,877		36,877	10
me	332,139	313,826	18,313	
me ble to rolling :				
rolling in property hips	(3,792)	(1,558)	(2,234)	(14
rolling redeemable d units of the g Partnership	(3,497)	(3,339)	(158)	(
rolling common units perating hip	(30,125)	(35,007)	4,882	1
rolling interest ntinued ns common the Operating hip	(5,075)	(1,243)	(3,832)	(30
ome ble to Boston es, Inc.	$ 289,650	$ 272,679	$ 16,971	

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 62. Hotel Net Operating Income for the year ended December 31, 2012 and 2011 are comprised of Hotel Revenue of $37,915 and $34,529 less Hotel Expenses of $28,120 and $26,128, respectively, per the Consolidated Statements of Operations.

79

Table of Contents

Same Property Portfolio

Rental Revenue

Rental revenue from the Same Property Portfolio increased approximately $14.8 million for the year ended December 31, 2012 compared to 2011. The increase was primarily the result of an increase of approximately $9.3 million in rental revenue from our leases and increases in parking and other income of approximately $3.4 million and $2.1 million, respectively. The increase in rental revenue from our leases of approximately $9.3 million was the result of our average revenue increasing by approximately $0.47 per square foot, contributing approximately $13.3 million, offset by an approximately $4.0 million decrease due to a decline in average occupancy from 92.5% to 92.2%.

Termination Income

Termination income increased by approximately $3.4 million for the year ended December 31, 2012 compared to 2011.

Termination income for the year ended December 31, 2012 related to twenty-three tenants across the Same Property Portfolio and totaled approximately $7.0 million of which approximately $3.6 million was from the settlement of a bankruptcy claim against a former tenant that rejected our lease in 2009 and approximately $0.9 million was a negotiated termination from one of our Reston, Virginia properties in order to accommodate growth of an existing tenant.

Termination income for the year ended December 31, 2011 related to fourteen tenants across the Same Property Portfolio and totaled approximately $3.6 million, which included approximately $1.8 million of termination income related to a default by a 30,000 square foot law firm tenant in one of our New York City properties.

Real Estate Operating Expenses

Operating expenses from the Same Property Portfolio increased approximately $20.9 million for the year ended December 31, 2012 compared to 2011. This increase was primarily due to (1) an increase of approximately $13.4 million, or 5.7% in real estate taxes, which primarily occurred in our Boston, New York and Washington, DC regions, (2) an approximately $3.2 million cumulative non-cash straight-line adjustment for ground rent expense (refer to Note 2 to the Consolidated Financial Statements) and (3) an approximately $4.3 million, or 1.4%, increase in other property operating expenses.

We have modified the presentation of expenses to operate our San Francisco and Princeton regional offices to reflect the growing activity in our San Francisco region and to have a consistent presentation across our company. These expenses, which totaled approximately $7.7 million and $7.5 million for the year ended December 31, 2012 and 2011, respectively, were previously included in Rental Operating Expenses and are now included in General and Administrative Expenses for all periods presented.

Depreciation and Amortization Expense

Depreciation and amortization expense for the Same Property Portfolio increased approximately $4.3 million, or 1.2%, for the year ended December 31, 2012 compared to 2011.

Properties Acquired Portfolio

On February 1, 2011, we completed the acquisition of Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately $185.0 million. Bay Colony Corporate Center is an approximately 985,000 net rentable square foot, four-building Class A office park situated on a 58-acre site in Waltham, Massachusetts.

On November 22, 2011, we acquired 2440 West El Camino Real located in Mountain View, California for a net purchase price of approximately $71.1 million. 2440 West El Camino Real is an approximately 140,000 net rentable square foot Class A office property.

On March 1, 2012, we acquired 453 Ravendale Drive located in Mountain View, California for a purchase price of approximately $6.7 million in cash. 453 Ravendale Drive is an approximately 30,000 net rentable square foot Office/Technical property.

On March 13, 2012, we acquired 100 Federal Street in Boston, Massachusetts for an aggregate investment of approximately $615.0 million in cash. In connection with the transaction, we entered into a long-term lease with an affiliate of Bank of America for approximately 732,000 square feet. 100 Federal Street is an approximately 1,265,000 net rentable square foot, 37-story Class A office tower.

On October 4, 2012, we completed the formation of a joint venture which owns and operates Fountain Square located in Reston, Virginia, adjacent to our other Reston properties. Fountain Square is an office and retail complex aggregating approximately 756,000 net rentable square feet, comprised of approximately 522,000 net rentable square feet of Class A office space and approximately 234,000 net rentable square feet of retail space. We own 50% of, and are consolidating, the joint venture.

Rental Revenue

Rental revenue from our Properties Acquired Portfolio increased approximately $70.7 million for the year ended December 31, 2012 compared to 2011, as detailed below:

Property	Date Acquired	Rental Revenue for the year ended December 31, 2012	2011	Change
		(in thousands)		
Bay Colony Corporate Center	February 1, 2011	$ 20,778	$ 19,047	$ 1,731
2440 West El Camino Real	November 22, 2011	8,122	816	7,306
453 Ravendale Drive	March 1, 2012	494		494
100 Federal Street	March 13, 2012	52,529		52,529
Fountain Square	October 4, 2012	8,669		8,669
Total		$ 90,592	$ 19,863	$ 70,729

Real Estate Operating Expenses

Real estate operating expenses from our Properties Acquired Portfolio increased approximately $27.9 million for the year ended December 31, 2012 compared to 2011, as detailed below:

Property	Date Acquired	Real Estate Operating Expenses for the year ended December 31, 2012	2011	Change
			(in thousands)	
Bay Colony Corporate Center	February 1, 2011	$ 12,410	$ 12,008	$ 402
2440 West El Camino Real	November 22, 2011	2,453	305	2,148
453 Ravendale Drive	March 1, 2012	149		149
100 Federal Street	March 13, 2012	22,141		22,141
Fountain Square	October 4, 2012	3,088		3,088
Total		$ 40,241	$ 12,313	$ 27,928

Table of Contents

Depreciation and Amortization Expense

Depreciation and amortization expense for our Properties Acquired Portfolio increased by approximately $30.2 million for the year ended December 31, 2012 compared to 2011 as a result of the acquisition of properties after December 31, 2011, as well as the additional depreciation expense incurred for the year ended December 31, 2012 associated with Bay Colony Corporate Center and 2440 West El Camino Real, which were acquired on February 1, 2011 and November 22, 2011, respectively, and, as a result, were not recognizing depreciation expense for the full year ended December 31, 2011.

Properties Placed In-Service Portfolio

At December 31, 2012, we had six properties totaling approximately 2.3 million square feet that were placed in-service or partially placed in-service between January 1, 2011 and December 31, 2012.

Rental Revenue

Rental revenue from our Properties Placed In-Service Portfolio increased approximately $49.6 million for the year ended December 31, 2012 compared to 2011, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Rental Revenue for the year ended December 31, 2012	2011	Change
			(in thousands)		
2200 Pennsylvania Avenue	First Quarter, 2011	Third Quarter, 2011	$ 31,052	$ 17,656	$ 13,396
Residences on The Avenue	Second Quarter, 2011	Third Quarter, 2011	16,632	5,632	11,000
The Lofts at Atlantic Wharf	Third Quarter, 2011	Third Quarter, 2011	3,936	985	2,951
Atlantic Wharf Office	First Quarter, 2011	Fourth Quarter, 2011	49,235	36,775	12,460
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	19,577	7,270	12,307
One Patriots Park	Second Quarter, 2012	Second Quarter, 2012	5,599	8,065	(2,466)
Total			$ 126,031	$ 76,383	$ 49,648

Termination Income

Included in rental revenue above is approximately $2.6 million of termination income for the year ended December 31, 2011 related to lease amendments we signed on July 1, 2011 with the existing tenant at our three-building complex on Sunrise Valley Drive in Reston, Virginia. Under the agreements, the existing tenant terminated early its leases for approximately 523,000 square feet at the complex and was responsible for certain payments to us aggregating approximately $15.7 million. During the year ended December 31, 2011, we recognized approximately $13.1 million of termination income related to these agreements, of which approximately $10.5 million is included within the Development or Redevelopment Portfolio. One of the three buildings, One Patriots Park, has been redeveloped and placed back in-service and is now occupied by a new tenant.

Real Estate Operating Expenses

Real estate operating expenses from our Properties Placed In-Service Portfolio increased approximately $20.3 million for the year ended December 31, 2012 compared to 2011, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Real Estate Operating Expenses for the year ended December 31, 2012	2011 (in thousands)	Change
2200 Pennsylvania Avenue	First Quarter, 2011	Third Quarter, 2011	$ 18,307	$ 11,326	$ 6,981
Residences on The Avenue	Second Quarter, 2011	Third Quarter, 2011	9,317	4,958	4,359
The Lofts at Atlantic Wharf	Third Quarter, 2011	Third Quarter, 2011	1,675	521	1,154
Atlantic Wharf Office	First Quarter, 2011	Fourth Quarter, 2011	15,005	10,804	4,201
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	6,223	2,995	3,228
One Patriots Park	Second Quarter, 2012	Second Quarter, 2012	1,364	957	407
Total			$ 51,891	$ 31,561	$ 20,330

Real estate operating expenses for 2200 Pennsylvania Avenue and the Residences on The Avenue include ground rent expense, which includes the non-cash straight-lining of the ground rent expense of approximately $11.1 million and $5.1 million, respectively, for the year ended December 31, 2012 and $6.7 million and $2.8 million, respectively, for the year ended December 31, 2011.

Depreciation and Amortization Expense

Depreciation and amortization expense for our Properties Placed In-Service Portfolio decreased by approximately $1.6 million for the year ended December 31, 2012 compared to 2011. Approximately $17.6 million of the decrease in depreciation expense for One Patriots Park was the result of the acceleration of depreciation expense during the year ended December 31, 2011 in conjunction with the building being taken out of service for redevelopment. This decrease was partially offset by an increase of approximately $16.0 million in depreciation expense at the other buildings that were placed in-service.

Properties in Development or Redevelopment Portfolio

At December 31, 2012 and 2011, the Properties in Development or Redevelopment Portfolio consisted primarily of our 250 West 55th Street development project located in New York City and our Two Patriots Park property located in Reston, Virginia.

On February 6, 2009, we announced that we were suspending construction on our 989,000 square foot office project at 250 West 55th Street in New York City. During December 2009, we completed the construction of foundations and steel/deck to grade to facilitate a restart of construction in the future and as a result ceased interest capitalization on the project. During the year ended December 31, 2011, we recognized approximately $0.8 million of additional costs associated with the suspension and ongoing maintenance of the development project. On May 24, 2011, we signed a lease with the law firm of Morrison & Foerster LLP for approximately 184,000 square feet at 250 West 55th Street and resumed construction of the project. As a result of our decision to resume development, in May 2011 we began interest capitalization and are no longer expensing costs associated with this project.

On July 1, 2011, we entered into lease amendments with the existing tenant at our three-building complex on Sunrise Valley Drive in Reston, Virginia, which will be redeveloped as the headquarters for a government related tenant. Under the agreements, the existing tenant terminated early its leases for approximately 523,000 square feet at the complex and was responsible for certain payments to us aggregating approximately $15.7 million. We recognized approximately $13.1 million of such termination income during 2011 of which approximately $2.6 million is included within the Placed In-Service Portfolio. We recognized the remaining approximately $2.6 million during the year ended December 31, 2012. On January 3, 2012, we commenced the redevelopment of our Two Patriots Park property at the complex, which is expected to be completed during the second quarter of 2013. During the year ended December 31, 2011, this building had revenue, excluding the $10.5 million of termination income, of approximately $10.2 million and operating expenses of approximately $1.7 million. During the year ended December 31, 2012, excluding termination income, this building had de minimis revenue and operating expenses. In addition, the decrease in depreciation of approximately $16.7 million is the result of the acceleration of depreciation expense during the year ended December 31, 2011 in conjunction with the redevelopment of this building.

Other Operating Income and Expense Items

Hotel Net Operating Income

Net operating income for the Cambridge Center Marriott hotel property increased by approximately $1.4 million for the year ended December 31, 2012 compared to 2011 due primarily to improvements in revenue per available room (REVPAR) and occupancy.

The following reflects our occupancy and rate information for the Cambridge Center Marriott hotel for the year ended December 31, 2012 and 2011.

	2012	2011	Percentage Change
Occupancy	78.8%	78.2%	0.8%
Average daily rate	$ 226.58	$ 210.45	7.7%
Revenue per available room, REVPAR	$ 178.66	$ 164.15	8.8%

Development and Management Services

Development and management services income increased approximately $0.7 million for the year ended December 31, 2012 compared to 2011. The increase was primarily due to an increase in development fee income of approximately $2.5 million partially offset by a decrease in management fee income of approximately $1.8 million. The increase in development fees is primarily due to an increase in fees associated with tenant improvement project management. The decrease in management fees is due to a decrease in leasing fees and management fees earned from our joint venture and third-party managed properties, as a result of decreases in leasing activity and third-party properties that we managed.

General and Administrative

General and administrative expenses increased approximately $3.0 million for the year ended December 31, 2012 compared to 2011. We recognized approximately $4.5 million of expense during the first quarter of 2012 in connection with the resignation of E. Mitchell Norville, our Chief Operating Officer, on February 29, 2012. This increase was partially offset by the acceleration of the remaining unrecognized compensation expense totaling approximately $4.3 million associated with the termination of the 2008 OPP Awards during the first quarter of 2011, which did not recur in 2012. The remaining increase was primarily due to (1) an approximately $3.0 million increase related to the issuance of the 2012 OPP Awards and non-qualified stock options and (2) an approximately $1.5 million increase in the value of our deferred compensation plan, partially offset by an approximately $1.7 million decrease in other general and administrative expenses, which includes a decrease in compensation expense.

We have modified the presentation of expenses to operate our San Francisco and Princeton regional offices to reflect the growing activity in our San Francisco region and to have a consistent presentation across our company. These expenses, which totaled approximately $7.7 million and $7.5 million for the year ended December 31, 2012 and 2011, respectively, were previously included in Rental Operating Expenses and are now included in General and Administrative Expenses for all periods presented.

Wages directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Capitalized wages for the year ended December 31, 2012 and 2011 were approximately $12.7 million and $11.0 million, respectively. These costs are not included in the general and administrative expenses discussed above.

Transaction Costs

During the year ended December 31, 2012 we incurred approximately $3.7 million of transaction costs of which approximately $0.6 million related to the acquisition of 680 Folsom Street in San Francisco, California, approximately $0.5 million related to the acquisition of Fountain Square in Reston, Virginia, approximately $0.3 million related to the forming of a joint venture to pursue the acquisition of land in San Francisco, California to construct the Transbay Tower, approximately $0.6 million related to the acquisition of 100 Federal Street in Boston, Massachusetts and approximately $1.7 million related to the pursuit of other transactions. During the year ended December 31, 2011, we incurred approximately $2.0 million of transaction pursuit costs.

Table of Contents

Other Income and Expense Items

Income from Unconsolidated Joint Ventures

For the year ended December 31, 2012 compared to 2011, income from unconsolidated joint ventures decreased by approximately $36.8 million. This decrease was primarily due to the sale of Two Grand Central Tower during the year ended December 31, 2011, in which we recognized a gain of approximately $46.2 million, partially offset by an increase of approximately $2.0 million in our share of the net income from 767 Fifth Avenue (The General Motors Building) and an increase of approximately $7.4 million in our share of net income from our other unconsolidated joint ventures. The increase at 767 Fifth Avenue (The General Motors Building) was primarily due to a lease termination agreement with an existing tenant and lower amortization expense of approximately $6.7 million due to expiring leases. Under that agreement, the tenant terminated early its lease for approximately 36,000 square feet at the building and is responsible for certain payments aggregating approximately $28.4 million through May 1, 2014 (of which our share is approximately $17.0 million). As a result of the termination, we recognized termination income totaling approximately $11.8 million (which is net of the write-off of the accrued straight-line rent balance) during the year ended December 31, 2012. This increase was partially offset by a decrease in above- and below-market lease income of approximately $13.8 million and accrued straight-line rent of approximately $2.7 million at 767 Fifth Avenue (The General Motors Building).

On October 25, 2011, an unconsolidated joint venture in which we have a 60% interest completed the sale of Two Grand Central Tower located in New York City for approximately $401.0 million, including the assumption by the buyer of approximately $176.6 million of mortgage indebtedness. Net cash proceeds totaled approximately $210.0 million, of which our share was approximately $126.0 million, after the payment of transaction costs of approximately $14.4 million. Two Grand Central Tower is an approximately 650,000 net rentable square foot Class A office tower. The unconsolidated joint venture s carrying value of the net assets of the property aggregated approximately $427.1 million. As a result, pursuant to the provisions of ASC 360 Property, Plant and Equipment (ASC 360), the unconsolidated joint venture recognized a non-cash impairment loss and loss on sale of real estate aggregating approximately $40.5 million during the year ended December 31, 2011, which is equal to the difference between (1) the sale price less cost to sell and (2) the carrying value of the net assets of the property. Separately, in 2008 we had recognized an impairment loss on our investment in the unconsolidated joint venture totaling approximately $74.3 million under the provisions of ASC 323 Investments-Equity Method and Joint Ventures (ASC 323). As a result, we recognized a gain on sale of real estate totaling approximately $46.2 million, which is included within income from unconsolidated joint ventures on our Consolidated Statements of Operations.

Interest and Other Income

Interest and other income increased approximately $4.7 million for the year ended December 31, 2012 compared to 2011. Interest income for the year ended December 31, 2012 compared to 2011 increased approximately $1.3 million due primarily to the approximately $0.9 million of interest income that we recognized related to the loans that we made to our Value-Added Fund and an increase in the average cash balance that was partially offset by overall lower interest rates. The loans to the Value-Added Fund have been reflected in Related Party Note Receivable on our Consolidated Financial Statements. The average daily cash balances for the year ended December 31, 2012 and December 31, 2011 were approximately $1.2 billion and $1.1 billion, respectively.

Other income for the year ended December 31, 2012 compared to 2011 increased by approximately $3.4 million of which (1) approximately $2.9 million related to the sale of historic tax credits at our Lofts at Atlantic Wharf, (2) approximately $1.1 million was related to an insurance claim that we received during 2012 and (3) approximately $0.2 million related to a sales deposit we retained due to a prospective buyer of 164 Lexington Road canceling the contract, partially offset by the approximately $0.8 million recognized during 2011 related to 280 Park Avenue (as detailed below). On October 20, 2010, we closed a transaction with a financial institution (the HTC Investor) related to the historic rehabilitation of the residential component of our Atlantic Wharf

development in Boston, Massachusetts (the residential project). The HTC Investor has contributed an aggregate of approximately $15 million to the project. As part of its contribution, the HTC Investor will receive substantially all of the benefits derived from the tax credits. Beginning in July 2012 to July 2016, we recognized and will recognize the cash received as revenue over the five-year tax credit recapture period as defined in the Internal Revenue Code. During the year ended December 31, 2012, we recognized approximately $2.9 million of the $15 million that the HTC Investor had contributed to us.

On June 6, 2006, we sold 280 Park Avenue in New York City. In connection with the sale, in lieu of a closing adjustment in favor of the buyer for certain unfunded tenant improvements, we retained the obligation to pay for the improvements, subject to the tenant initiating the request for reimbursement. The total amount of unfunded tenant improvements at closing was approximately $1.0 million and has yet to be requested by the tenants. During the year ended December 31, 2011, a tenant s lease expired for which we had unfunded tenant improvement liabilities of approximately $0.8 million, resulting in the recognition of other income in that amount.

Gains (Losses) from Investments in Securities

Gains (losses) from investments in securities for the year ended December 31, 2012 and 2011 related to investments that we have made to reduce our market risk relating to a deferred compensation plan that we maintain for our 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 our 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 year ended December 31, 2012 and 2011, we recognized gains (losses) of approximately $1.4 million and $(0.4) million, respectively, on these investments. By comparison, our general and administrative expense increased (decreased) by approximately $1.3 million and $(0.3) million during the year ended December 31, 2012 and 2011, 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.

Losses from Early Extinguishments of Debt

Losses from early extinguishments of debt increased by approximately $3.0 million for the year ended December 31, 2012 compared to 2011. This increase is related to the following transactions that occurred during the years ended December 31, 2012 and 2011:

On September 4, 2012, we used available cash to repay the mortgage loan collateralized by our Sumner Square property located in Washington, DC totaling approximately $23.2 million. The mortgage financing bore interest at a fixed rate of 7.35% per annum and was scheduled to mature on September 1, 2013. We recognized a loss on early extinguishment of debt totaling approximately $0.3 million, which included a prepayment penalty totaling approximately $0.2 million associated with the early repayment.

On August 24, 2012, our Operating Partnership used available cash to redeem the remaining $225.0 million in aggregate principal amount of its 6.25% senior notes due 2013. The redemption price was determined in accordance with the applicable indenture and totaled approximately $231.6 million. The redemption price included approximately $1.5 million of accrued and unpaid interest to, but not including, the redemption date. Excluding such accrued and unpaid interest, the redemption price was approximately 102.25% of the principal amount being redeemed. We recognized a loss on early extinguishment of debt totaling approximately $5.2 million, which amount included the payment of the redemption premium totaling approximately $5.1 million.

Table of Contents

On April 2, 2012, we used available cash to repay the mortgage loan collateralized by our One Freedom Square property located in Reston, Virginia totaling $65.1 million. The mortgage financing bore interest at a fixed rate of 7.75% per annum and was scheduled to mature on June 30, 2012. There was no prepayment penalty. We recognized a gain on early extinguishment of debt totaling approximately $0.3 million related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting.

On March 12, 2012, we used available cash to repay the mortgage loan collateralized by our Bay Colony Corporate Center property located in Waltham, Massachusetts totaling $143.9 million. The mortgage financing bore interest at a fixed rate of 6.53% per annum and was scheduled to mature on June 11, 2012. There was no prepayment penalty. We recognized a gain on early extinguishment of debt totaling approximately $0.9 million related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting.

In connection with the repurchase and redemption in February 2012 of our Operating Partnership s 2.875% Exchangeable Senior Notes due 2037, we recognized a loss on early extinguishment of debt of approximately $0.1 million related to the expensing of transaction related costs.

On November 9, 2011, our Operating Partnership repurchased $50.0 million aggregate principal amount of its 2.875% exchangeable senior notes due 2037 for approximately $50.2 million. The repurchased notes had an aggregate carrying value of approximately $49.6 million at the time of repurchase resulting in the recognition of a loss on early extinguishment of debt of approximately $0.6 million.

On November 9, 2011, we used available cash to repay the mortgage loan collateralized by our Reservoir Place property located in Waltham, Massachusetts totaling $50.0 million. The mortgage financing bore interest at a variable rate equal to Eurodollar plus 2.20% per annum and was scheduled to mature on July 30, 2014. There was no prepayment penalty. We recognized a loss from early extinguishment of debt totaling approximately $0.5 million consisting of the write-off of unamortized deferred financing costs.

On November 16, 2011, we terminated the construction loan facility collateralized by our Atlantic Wharf property, located in Boston, Massachusetts, totaling $192.5 million. The construction loan facility bore interest at a variable rate equal to LIBOR plus 3.00% per annum and was scheduled to mature on April 21, 2012 with two, one-year extension options, subject to certain conditions. We did not draw any amounts under the facility. We recognized a loss from early extinguishment of debt totaling approximately $0.4 million consisting of the write-off of unamortized deferred financing costs.

Table of Contents

Interest Expense

Interest expense for the Total Property Portfolio increased approximately $19.4 million for the year ended December 31, 2012 compared to 2011 as detailed below:

Component		Change in interest expense for the year ended December 31, 2012 compared to December 31, 2011 (in thousands)
Increases to interest expense due to:		
Issuance by our Operating Partnership of $850 million in aggregate principal of 3.700% senior notes due 2018 on November 10, 2011	$	27,213
New mortgages/properties placed in-service/acquisition financings		23,490
Issuance by our Operating Partnership of $1.0 billion in aggregate principal of 3.850% senior notes due 2023 on June 11, 2012		21,501
Decrease in capitalized interest due to properties being placed in-service		3,890
Other interest expense (excluding senior notes) partially offset by principal amortization of continuing debt		853
Total increases to interest expense	$	76,947
Decreases to interest expense due to:		
Repayment of mortgage financings	$	(22,468)
Repurchases/redemption of $576.2 million in aggregate principal of 2.875% exchangeable senior notes due 2037		(17,912)
Interest expense associated with the accretion of the adjustment for the equity component allocation of our unsecured exchangeable debt		(9,734)
Redemption of $225.0 million in aggregate principal of 6.25% unsecured senior notes due 2013		(6,136)
Interest on our Operating Partnership s Unsecured Line of Credit		(1,260)
Total decreases to interest expense	$	(57,510)
Total change in interest expense	$	19,437

The following properties are included in the new mortgages/properties placed in-service/acquisition financings line item: 601 Lexington Avenue and Fountain Square. The following properties are included in the repayment of mortgage financings line item: 601 Lexington Avenue, Reservoir Place, Atlantic Wharf, 510 Madison Avenue, Bay Colony Corporate Center, One Freedom Square and Sumner Square. Included within the interest on our Operating Partnership s Unsecured Line of Credit line item is the interest expense associated with our borrowing that had been secured by 601 Lexington Avenue. As properties are placed in-service, we cease capitalizing interest and interest is then expensed.

Interest expense directly related to the development of rental properties is not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Interest capitalized for the year ended December 31, 2012 and 2011 was approximately $44.3 million and $48.2 million, respectively. These costs are not included in the interest expense referenced above.

At December 31, 2012, our variable rate debt consisted of our Operating Partnership s $750.0 million Unsecured Line of Credit, of which no amount was outstanding at December 31, 2012.

Table of Contents

Discontinued Operations

On May 17, 2012, we completed the sale of our Bedford Business Park properties located in Bedford, Massachusetts for approximately $62.8 million in cash. Net cash proceeds totaled approximately $62.0 million, resulting in a gain on sale of approximately $36.9 million. Bedford Business Park is comprised of two Office/Technical buildings and one Class A office building aggregating approximately 470,000 net rentable square feet. The operating results of the property through the date of sale have been classified as discontinued operations on a historical basis for all periods presented. Refer to Note 3 of the Consolidated Financial Statements for additional details regarding the sale and operating results.

Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships increased by approximately $2.2 million for the year ended December 31, 2012 compared to 2011. Noncontrolling interests in property partnerships consisted of the outside owners equity interest in the income from our 505 9th Street and Fountain Square properties as of December 31, 2012 and only 505 9th Street as of December 31, 2011.

On October 4, 2012, we completed the formation of a joint venture which owns and operates Fountain Square located in Reston, Virginia, adjacent to our other Reston properties. Fountain Square is an office and retail complex aggregating approximately 756,000 net rentable square feet, comprised of approximately 522,000 net rentable square feet of Class A office space and approximately 234,000 net rentable square feet of retail space. 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. We contributed cash totaling approximately $87.0 million for our 50% interest, which cash was distributed to the joint venture partner. We are consolidating this joint venture. The mortgage loan bears interest at a fixed rate of 5.71% per annum and matures on October 11, 2016. Pursuant to the joint venture agreement (i) we have rights to acquire the partner s 50% interest and (ii) the partner has the right to cause us 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 expire on January 31, 2016.

Noncontrolling Interest Common Units of the Operating Partnership

Noncontrolling interest-common units of the Operating Partnership decreased by approximately $5.0 million for the year ended December 31, 2012 compared to 2011 due to a decrease in allocable income and a decrease in the noncontrolling interest s ownership percentage.

Liquidity and Capital Resources

General

Our principal liquidity needs for the next twelve months and beyond are to:

fund normal recurring expenses;

meet debt service and principal repayment obligations, including balloon payments on maturing debt;

fund capital expenditures, including major renovations, tenant improvements and leasing costs;

fund development costs;

fund possible property acquisitions; and

make the minimum distribution required to maintain our REIT qualification under the Internal Revenue Code of 1986, as amended.

Table of Contents

We expect to satisfy these needs using one or more of the following:

- cash flow from operations;
- distribution of cash flows from joint ventures;
- cash and cash equivalent balances;
- issuances of our equity securities and/or additional preferred or common units of partnership interest in our Operating Partnership;
- our Operating Partnership s Unsecured Line of Credit or other short-term bridge facilities;
- construction loans;
- long-term secured and unsecured indebtedness (including unsecured exchangeable indebtedness); and
- sales of real estate.

We draw on multiple financing sources to fund our long-term capital needs. Our Operating Partnership s Unsecured Line of Credit is utilized primarily as a bridge facility to fund acquisition opportunities, refinance outstanding indebtedness and meet short-term development and working capital needs. Although we generally seek to fund our development projects with construction loans, which may be guaranteed by our Operating Partnership, the financing for each particular project ultimately depends on several factors, including, among others, the project s size and duration, the extent of pre-leasing and our available cash and access to cost effective capital at the given time.

The following table presents information on properties under construction as of December 31, 2013 (dollars in thousands):

Construction Properties	Estimated Stabilization Date	Location	# of Buildings	Square feet	Investment to Date(1)	Estimated Total Investment(1)	Percentage Leased(2)
Office							
Annapolis Junction Building Seven (50% ownership) (3)	First Quarter, 2015	Annapolis, MD	1	125,000	$ 11,580	$ 17,500	100%
680 Folsom Street (4)	Third Quarter, 2015	San Francisco, CA	2	524,509	279,923	340,000	96%
250 West 55th Street(5)	Fourth Quarter, 2015	New York, NY	1	989,000	840,317	1,050,000	61%
804 Carnegie Center	First Quarter, 2016	Princeton, NJ	1	130,000	1,970	40,410	100%
535 Mission Street	Third Quarter, 2016	San Francisco, CA	1	307,000	113,275	215,000	%
601 Massachusetts Avenue	Fourth Quarter, 2017	Washington, DC	1	478,000	155,310	360,760	79%
Transbay Tower (95% ownership) (6)	N/A	San Francisco, CA	1	N/A	244,082	340,000	N/A
Total Office Properties under Construction			8	2,553,509	$ 1,646,457	$ 2,363,670	68%

Residential							
The Avant at Reston Town Center (359 units) (7)	Fourth Quarter, 2015	Reston, VA	1	355,327	$ 109,194	$ 137,250	21%
Total Properties under Construction			9	2,908,836	$ 1,755,651	$ 2,500,920	63%

(1) Represents our share. Includes net revenue during lease up period, acquisition expenses and approximately $53.9 million of construction cost and leasing commission accruals.
(2) Represents percentage leased as of February 21, 2014, includes leases with future commencement dates.
(3) This development project has a construction loan.
(4) As of February 21, 2014, this property was 1% placed in-service.
(5) Investment to Date excludes approximately $24.8 million of costs that were expensed in prior periods in connection with the suspension of development activities. Estimated Total Investment includes approximately $230 million of interest capitalization. As of February 21, 2014, this property was 6% placed in-service.
(6) On March 26, 2013, the joint venture completed the acquisition of a land parcel in San Francisco which will support a 60-story, 1.4 million square foot office tower known as Transbay Tower. The Estimated Total Investment represents only the cost to build to grade.
(7) The square footage amount includes approximately 26,000 square feet of retail space that is 100% leased. As of February 21, 2014, this property was fully placed in-service.

Table of Contents

Contractual rental revenue, recoveries from tenants, other income from operations, available cash balances and draws on our Operating Partnership s Unsecured Line of Credit are our principal sources of capital used to pay operating expenses, debt service, recurring capital expenditures and the minimum distribution required to enable us to maintain our REIT qualification. We seek to maximize income from our existing properties by maintaining quality standards for our properties that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. Our sources of revenue also include third-party fees generated by our property management, leasing, and development and construction businesses, as well as the sale of assets from time to time. We believe our revenue, together with our cash balances and proceeds from financing activities, will continue to provide the necessary funds for our short-term liquidity needs.

Material adverse changes in one or more sources of capital may adversely affect our net cash flows. Such changes, in turn, could adversely affect our ability to fund dividends and distributions, debt service payments and tenant improvements. In addition, a material adverse change in the cash provided by our operations may affect our ability to comply with the financial covenants under our Operating Partnership s Unsecured Line of Credit and unsecured senior notes.

Since January 1, 2013, we raised net proceeds of approximately $1.4 billion in the capital markets. Specifically, we issued $200 million of 5.25% Series B Cumulative Redeemable Preferred Stock, and our Operating Partnership issued $500 million aggregate principal amount of 3.125% senior unsecured notes due 2023 and $700 million aggregate principal amount of 3.800% senior unsecured notes due 2024. In addition, we repaid approximately $65 million of secured debt, and we redeemed/repurchased our Operating Partnership s $450 million 3.75% exchangeable senior notes due 2036 and repaid $747.5 million of our Operating Partnership s 3.625% exchangeable senior notes due February 2014 and our Operating Partnership redeemed 861,400 Series Four Preferred Units at a redemption price of $50.00 per unit plus accrued and unpaid distributions. In addition, we refinanced the loans secured by 540 Madison Avenue and 500 North Capitol Street, which aggregate approximately $225 million (of which our share is approximately $104 million), obtained $22 million of construction financing for our Annapolis Junction Building Seven development project and exercised an option to extend the maturity date on an approximately $14 million loan for our Annapolis Junction Building Six property (of which our share is approximately $7 million). On July 26, 2013, our Operating Partnership amended and restated the revolving credit agreement governing its Unsecured Line of Credit, which, among other things, (1) increased the total commitment from $750.0 million to $1.0 billion, (2) extended the maturity date from June 24, 2014 to July 26, 2018 and (3) reduced per annum variable rates and other fees.

The completion of our ongoing developments, through 2017, has remaining costs to fund of approximately $0.7 billion. We have approximately $77 million of secured debt (of which our share is approximately $70 million) expiring through the end of 2014. We believe that our strong liquidity, including available cash as of February 21, 2014 of approximately $0.9 billion, the approximately $989.4 million available under our Operating Partnership s Unsecured Line of Credit and proceeds from potential asset sales provide sufficient capacity to meet our debt obligations and fund our remaining capital requirements on existing development projects, our foreseeable potential development activity and pursue additional attractive investment opportunities. Given the relatively low interest rates currently available to us in the debt markets, we may seek to enhance our liquidity in the future, which may result in us carrying additional cash and cash equivalents pending our Operating Partnership s use of the proceeds. In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may, from time to time, purchase unsecured senior notes and unsecured exchangeable senior notes for cash in open market purchases or privately negotiated transactions, or both. We will evaluate any such potential transactions in light of then-existing market conditions, taking into account the trading prices of the notes, our current liquidity and prospects for future access to capital.

REIT Tax Distribution Considerations

Dividend

As a REIT we are subject to a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our annual taxable income. Our policy is to distribute at least 100% of our taxable income to avoid paying federal tax. On December 2, 2013, we announced that our Board of Directors declared a special cash dividend of $2.25 per common share payable on January 29, 2014 to shareholders of record as of the close of business on December 31, 2013. The decision to declare a special dividend was primarily a result of the sale of a 45% interest in our Times Square Tower property in October 2013. The Board of Directors did not make any change in our policy with respect to regular quarterly dividends. Holders of common units of limited partnership interest in Boston Properties Limited Partnership, our Operating Partnership, as of the close of business on December 31, 2013 received the same distribution on January 29, 2014. On November 8, 2012, our Board of Directors increased our quarterly dividend from $0.55 per common share to $0.65 per common share. Our Board of Directors will continue to evaluate our dividend rate in light of our actual and projected taxable income, liquidity requirements and other circumstances, and there can be no assurance that the future dividends declared by our Board of Directors will not differ materially.

Sales

To the extent that we sell assets at a gain and cannot efficiently use the proceeds in a tax deferred manner for either our development activities or attractive acquisitions, we would, at the appropriate time, decide whether it is better to declare a special dividend, adopt a stock repurchase program, reduce our indebtedness or retain the cash for future investment opportunities. Such a decision will depend on many factors including, among others, the timing, availability and terms of development and acquisition opportunities, our then-current and anticipated leverage, the cost and availability of capital from other sources, the price of our common stock and REIT distribution requirements. At a minimum, we expect that we would distribute at least that amount of proceeds necessary for us to avoid paying corporate level tax on the applicable gains realized from any asset sales.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Cash and cash equivalents were approximately $2.4 billion and $1.0 billion at December 31, 2013 and 2012, respectively, representing an increase of approximately $1.4 billion. The following table sets forth changes in cash flows:

	Year ended December 31,		
	2013	**2012**	**Increase (Decrease)**
		(in thousands)	
Net cash provided by operating activities	$ 777,926	$ 642,949	$ 134,977
Net cash used in investing activities	(532,640)	(1,278,032)	745,392
Net cash provided by (used in) financing activities	1,077,873	(146,147)	1,224,020

Our principal source of cash flow is related to the operation of our office properties. The average term of our in-place tenant leases, including our unconsolidated joint ventures, is approximately 6.6 years with occupancy rates historically in the range of 91% to 94%. Our properties generate a relatively consistent stream of cash flow that provides us with resources to pay operating expenses, debt service and fund quarterly dividend and distribution payment requirements. In addition, over the past several years, we have raised capital through the sale of some of our properties, secured and unsecured borrowings and equity offerings.

Cash is used in investing activities to fund acquisitions, development, net investments in unconsolidated joint ventures and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings to enhance or maintain their market position. Cash used in investing activities for the year ended December 31, 2013 and 2012 consisted primarily of funding our development projects and the acquisitions of 453 Ravendale Drive, 100 Federal Street, Fountain Square, 680 Folsom Street, 535 Mission Street and the Mountain View Research and Technology Parks and the Transbay Tower and Reston, Virginia land parcels, offset by cash from the disposition of 10 & 20 Burlington Mall Road, One Preserve Parkway, 1301 New York Avenue, 303 Almaden Boulevard and Bedford Business Park, as detailed below:

	Year ended December 31, 2013	2012
	(in thousands)	
Acquisitions of real estate	$ (522,900)	$ (788,052)
Construction in progress	(396,835)	(356,397)
Building and other capital improvements	(73,821)	(49,943)
Tenant improvements	(105,425)	(139,662)
Proceeds from sales of real estate	250,078	61,963
Cash recorded upon consolidation	79,468	
Issuance of notes receivable, net	12,491	(2,049)
Capital contributions to unconsolidated joint ventures		(6,214)
Capital distributions from unconsolidated joint ventures	225,862	3,557
Investments in securities, net	(1,558)	(1,235)
Net cash used in investing activities	$ (532,640)	$ (1,278,032)

Cash used in investing activities changed primarily due to the following:

On March 1, 2012, we acquired 453 Ravendale Drive located in Mountain View, California for a purchase price of approximately $6.7 million in cash.

On March 13, 2012, we acquired 100 Federal Street in Boston, Massachusetts for an aggregate investment of approximately $615.0 million in cash.

On August 29, 2012, we acquired the development project located at 680 Folsom Street in San Francisco, California. The consideration paid by us to the seller consisted of approximately $62.2 million in cash.

On October 4, 2012, we completed the formation of a consolidated joint venture which owns and operates Fountain Square located in Reston, Virginia for an aggregate cash investment from us of approximately $100.0 million.

On February 6, 2013, we completed the acquisition of 535 Mission Street, a development site, in San Francisco, California for an aggregate purchase price of approximately $71.0 million in cash, including work completed and materials purchased to date.

On March 26, 2013, the consolidated joint venture in which we have a 95% interest completed the acquisition of a land parcel in San Francisco, California which will support a 60-story, 1.4 million square foot office tower known as Transbay Tower. The purchase price for the land was approximately $192.0 million.

On March 29, 2013, we completed the acquisition of a parcel of land located in Reston, Virginia for a purchase price of approximately $27.0 million. The land parcel is commercially zoned for 250,000 square feet of office space.

On April 10, 2013, we acquired the Mountain View Research Park and Mountain View Technology Park properties from our Value-Added Fund for an aggregate net purchase price of approximately $233.1 million. Mountain View Research Park is a 16-building complex of Office/Technical properties aggregating approximately 604,000 net rentable square feet. Mountain View Technology Park is a seven-building complex of Office/Technical properties aggregating approximately 135,000 net rentable square feet.

Construction in progress for the year ended December 31, 2012 includes expenditures associated with our 510 Madison Avenue and One Patriots Park developments, which were fully placed in-service during the year ended December 31, 2012. In addition, we incurred costs associated with the continued development and redevelopment of Two Patriots Park, Seventeen Cambridge Center, The Avant at Reston Town Center, the Cambridge Center Connector, 250 West 55th Street and 680 Folsom Street. Construction in progress for the year ended December 31, 2013 includes ongoing expenditures associated with our Two Patriots Park and Seventeen Cambridge Center properties and the Cambridge Center Connector, which were fully placed in-service during the year ended December 31, 2013. In addition, we incurred costs associated with our continued development of The Avant at Reston Town Center, 250 West 55th Street, 680 Folsom Street, 535 Mission Street, 601 Massachusetts Avenue, 804 Carnegie Center and Transbay Tower.

Our capital expenditures for the year ended December 31, 2013 and 2012 were approximately $73.6 million and $47.0 million, respectively. Included in our 2013 amount is approximately $15.8 million of non-recurring capital expenditures related to our repositioning of Bay Colony Corporate Center in Waltham, Massachusetts.

Tenant improvement costs decreased by approximately $34.2 million due to the completion of large tenant projects in 2012.

On May 17, 2012, we completed the sale of our Bedford Business Park properties located in Bedford, Massachusetts for approximately $62.8 million in cash. Net cash proceeds totaled approximately $62.0 million.

On June 28, 2013, we completed the sale of our 303 Almaden Boulevard property located in San Jose, California for a sale price of $40.0 million. Net cash proceeds totaled approximately $39.3 million.

On August 22, 2013, we completed the sale of our 1301 New York Avenue property located in Washington, DC for a net contract sale price of approximately $121.7 million. After adjusting for outstanding lease and other transaction costs assumed by the buyer, the gross sale price was approximately $135.0 million. Net cash proceeds totaled approximately $121.5 million.

On December 20, 2013, we completed the sale of our 10 & 20 Burlington Mall Road property located in Burlington, Massachusetts for a sale price of approximately $30.0 million. Net cash proceeds totaled approximately $29.4 million.

On December 20, 2013, we completed the sale of our One Preserve Parkway property located in Rockville, Maryland for a sale price of approximately $61.3 million. Net cash proceeds totaled approximately $59.9 million, resulting in a gain on sale of approximately $5.9 million.

We recorded approximately $79.5 million of cash upon consolidating the joint venture that owns 767 Fifth Avenue (the General Motors Building) (See Note 3 to the Consolidated Financial Statements).

Capital distributions from unconsolidated joint ventures increased by approximately $222.3 million due to the sale of the Eighth Avenue and 46th Street project and 125 West 55th Street in New York City and the Value-Added Fund selling Mountain View Research and Technology Parks.

Cash provided by financing activities for the year ended December 31, 2013 totaled approximately $1.1 billion. This consisted primarily of us selling a 45% ownership interest in our Time Square Tower building in New York City, us issuing $200 million of 5.25% Series B Cumulative Redeemable Preferred Stock, the issuance by our Operating Partnership of $500 million aggregate principal amount of 3.125% senior unsecured notes due 2023 and the issuance by our Operating Partnership of $700 million aggregate principal amount of 3.800% senior unsecured notes due 2024, partially offset by the redemption of our Operating Partnership s $450 million 3.75% exchangeable senior notes due 2036, which were redeemable in May 2013, the redemption of Series Four Preferred Units, the payments of dividends and distributions to our shareholders and the unitholders of our Operating Partnership and the repayment of mortgage notes payable. Future debt payments are discussed below under the heading Capitalization Debt Financing.

Table of Contents

Capitalization

At December 31, 2013, our total consolidated debt was approximately $11.3 billion. The GAAP weighted-average annual interest rate on our consolidated indebtedness was 4.60% (with a coupon/stated rate of 4.93%) and the weighted-average maturity was approximately 5.4 years.

Consolidated debt to total consolidated market capitalization ratio, defined as total consolidated debt as a percentage of the value of our outstanding equity securities plus our total consolidated debt, is a measure of leverage commonly used by analysts in the REIT sector. Our total consolidated market capitalization was approximately $28.7 billion at December 31, 2013. Our total consolidated market capitalization was calculated using the December 31, 2013 closing stock price of $100.37 per common share and the following: (1) 152,983,101 shares of our common stock, (2) 15,583,370 outstanding common units of partnership interest in our Operating Partnership (excluding common units held by us), (3) an aggregate of 874,168 common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in our Operating Partnership, (4) an aggregate of 1,455,761 common units issuable upon conversion of all outstanding LTIP Units, assuming all conditions have been met for the conversion of the LTIP Units, (5) 360,126 Series Four Preferred Units of partnership interest in our Operating Partnership multiplied by the fixed liquidation preference of $50 per unit, (6) 80,000 shares (8,000,000 depositary shares, each representing 1/100th of a share), of our 5.25% Series B Cumulative Redeemable Preferred Stock, at a price of $2,500 per share ($25 per depositary share) and (7) our consolidated debt totaling approximately $11.3 billion. Our total consolidated debt, which excludes debt collateralized by our unconsolidated joint ventures, at December 31, 2013, represented approximately 39.50% of our total consolidated market capitalization.

Following the consolidation of 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building)), effective June 1, 2013, our consolidated debt increased significantly compared to prior periods even though our economic interest in 767 Venture, LLC remained substantially unchanged. As a result, we believe the presentation of total adjusted debt may provide investors with a more complete picture of our share of consolidated and unconsolidated debt. Total adjusted debt is defined as our total consolidated debt, plus our share of unconsolidated joint venture debt, minus our joint venture partners share of consolidated debt, and was approximately $10.8 billion at December 31, 2013. In addition, in light of the difference between our total consolidated debt and our total adjusted debt, we believe that also presenting our total adjusted debt to total adjusted market capitalization ratio may provide investors with a more complete picture of our leverage in relation to the overall size of our company. The calculation of the total adjusted debt to total adjusted market capitalization ratio is the same as consolidated debt to total consolidated market capitalization ratio except that the total adjusted debt balance is used in lieu of the total consolidated debt balance. Our total adjusted debt at December 31, 2013, represented approximately 38.31% of our total adjusted market capitalization.

The calculation of total consolidated and adjusted market capitalization does not include 396,500 2011 OPP Units, 396,150 2012 OPP Units and 316,325 2013 MYLTIP Units because, unlike other LTIP Units, they are not earned until certain return thresholds are achieved. These percentages will fluctuate with changes in the market value of our common stock and does not necessarily reflect our capacity to incur additional debt to finance our activities or our ability to manage our existing debt obligations. However, for a company like ours, whose assets are primarily income-producing real estate, the consolidated debt to total consolidated market capitalization ratio and the adjusted debt to total adjusted market capitalization ratio may provide investors with an alternate indication of leverage, so long as it is evaluated along with other financial ratios and the various components of our outstanding indebtedness.

For a discussion of our unconsolidated joint venture indebtedness, see *Liquidity and Capital Resources Capitalization Off-Balance Sheet Arrangements Joint Venture Indebtedness* within *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.*

Table of Contents

Debt Financing

As of December 31, 2013, we had approximately $11.3 billion of outstanding consolidated indebtedness, representing approximately 39.50% of our total consolidated market capitalization as calculated above consisting of approximately (1) $5.836 billion (net of discount) in publicly traded unsecured senior notes (excluding exchangeable senior notes) having a weighted-average interest rate of 4.44% per annum and maturities in 2015, 2018, 2019, 2020, 2021, 2023 and 2024; (2) $744.9 million (net of discount and the adjustment for the equity component allocation) of exchangeable senior notes having a GAAP interest rate of 6.555% per annum (an effective rate of 4.037%, excluding the effect of the adjustment for the equity component allocation) and maturing in 2014; (3) $4.4 billion of property-specific mortgage debt having a GAAP weighted-average interest rate of 4.31% per annum and weighted-average term of 4.2 years and (4) $0.3 million of mezzanine notes payable associated with 767 Fifth Avenue (the General Motors Building), having a GAAP interest rate of 5.53% per annum and maturing in 2017. The table below summarizes our mortgage and mezzanine notes payable, our unsecured senior notes and our Unsecured Line of Credit at December 31, 2013 and December 31, 2012:

	2013	2012
	(Dollars in thousands)	
Debt Summary:		
Balance		
Fixed rate mortgage notes payable	$ 4,449,734	$ 3,102,485
Variable rate mortgage notes payable		
Unsecured senior notes, net of discount	5,835,854	4,639,528
Unsecured exchangeable senior notes, net of discount and adjustment for the equity component allocation	744,880	1,170,356
Unsecured Line of Credit		
Mezzanine notes payable	311,040	
Total	$ 11,341,508	$ 8,912,369
Percent of total debt:		
Fixed rate	100.00%	100.00%
Variable rate	%	%
Total	100.00%	100.00%
GAAP Weighted-average interest rate at end of period:		
Fixed rate	4.60%	5.13%
Variable rate	%	%
Total	4.60%	5.13%
Coupon/Stated Weighted-average interest rate at end of period:		
Fixed rate	4.93%	4.89%
Variable rate	%	%
Total	4.93%	4.89%

Unsecured Line of Credit

On July 26, 2013, our Operating Partnership amended and restated the revolving credit agreement governing its Unsecured Line of Credit, which, among other things, (1) increased the total commitment from $750.0 million to $1.0 billion, (2) extended the maturity date from June 24, 2014 to July 26, 2018 and (3) reduced the per annum variable interest rates and other fees. Our Operating Partnership may increase the total commitment to $1.5 billion, subject to syndication of the increase and other conditions. At our Operating Partnership s option, loans outstanding under the Unsecured Line of Credit will bear interest at a rate per annum equal to (1), in the case of loans denominated in Dollars, Euro or Sterling, LIBOR or, in the case of loans denominated in Canadian Dollars, CDOR, in each case, plus a margin ranging from 0.925% to 1.70% based on our Operating Partnership s credit rating or (2) an alternate base rate equal to the greatest of (a) the Administrative Agent s prime rate, (b) the Federal Funds rate plus 0.5% or (c) LIBOR for a one month period plus 1.00%, in each case, plus a margin ranging from 0.0% to 0.70% based on our Operating Partnership s credit rating. The Unsecured Line of Credit also contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to our Operating Partnership at a reduced interest rate. In addition, our Operating Partnership is also obligated to pay (1) in quarterly installments a facility fee on the total commitment at a rate per annum ranging from 0.125% to 0.35% based on our Operating Partnership s credit rating and (2) an annual fee on the undrawn amount of each letter of credit equal to the LIBOR margin. Based on our Operating Partnership s current credit rating, the LIBOR and CDOR margin is 1.00%, the alternate base rate margin is 0.0% and the facility fee is 0.15%. Our ability to borrow under our Operating Partnership s Unsecured Line of Credit is subject to our compliance with a number of customary financial and other covenants on an ongoing basis, including:

- a leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within one year;
- a secured debt leverage ratio not to exceed 55%;
- a fixed charge coverage ratio of at least 1.40;
- an unsecured leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within one year;
- an unsecured debt interest coverage ratio of at least 1.75; and
- limitations on permitted investments.

We believe we are in compliance with the financial and other covenants listed above.

As of December 31, 2013, we had no borrowings and outstanding letters of credit totaling approximately $10.6 million outstanding under the Unsecured Line of Credit, with the ability to borrow approximately $989.4 million. As of February 21, 2014, we had no borrowings and outstanding letters of credit totaling approximately $10.6 million outstanding under the Unsecured Line of Credit, with the ability to borrow approximately $989.4 million.

Unsecured Senior Notes

The following summarizes the unsecured senior notes outstanding as of December 31, 2013 (dollars in thousands):

	Coupon/ Stated Rate	**Effective Rate(1)**	**Principal Amount**	**Maturity Date(2)**
12 Year Unsecured Senior Notes	5.625%	5.693%	$ 300,000	April 15, 2015

12 Year Unsecured Senior Notes	5.000%	5.194%	250,000	June 1, 2015
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%			