

BOSTON PROPERTIES INC
Form 10-K
February 29, 2008
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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, 2007

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.

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(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction)	04-2473675 (I.R.S. Employer
of incorporation or organization)	Identification Number)
Prudential Center, 800 Boylston Street, Suite 1900	
Boston, Massachusetts (Address of principal executive offices)	02199-8103 (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 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

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 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):

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Large accelerated filer 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

As of June 30, 2007, the aggregate market value of the 116,518,476 shares of common stock held by non-affiliates of the Registrant was \$11,900,031,954 based upon the last reported sale price of \$102.13 per share on the New York Stock Exchange on June 29, 2007. (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 22, 2008, there were 119,489,042 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 12, 2008 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, 2007.

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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 are concentrated in five markets Boston, Washington, D.C., midtown Manhattan, San Francisco and Princeton, NJ. We conduct substantially all of our business through our subsidiary, Boston Properties Limited Partnership. At December 31, 2007, we owned or had interests in 139 properties, totaling approximately 33.9 million net rentable square feet and structured parking for vehicles containing approximately 9.9 million square feet. Our properties consisted of:

135 office properties comprised of 115 Class A office properties (including 13 properties under construction) and 20 Office/Technical properties;

one hotel; and

three retail properties.

We own or control undeveloped land totaling approximately 605.2 acres, which will support approximately 13.1 million square feet of development. In addition, we have a minority interest in the Boston Properties Office Value-Added Fund, L.P., which we refer to as the Value-Added Fund, which is a strategic partnership with two institutional investors through which we have pursued the acquisition of assets within our existing markets that have deficiencies in property characteristics which provide an opportunity to create value through repositioning, refurbishment or renovation. Our investments through the Value-Added Fund are not included in our portfolio information tables or any other portfolio level statistics. At December 31, 2007, the Value-Added Fund had investments in an office complex in San Carlos, California, and an office property in Chelmsford, Massachusetts. On January 7, 2008, we transferred our Mountain View, California properties to the Value-Added Fund. The Mountain View properties were not included in our property information set forth above as of December 31, 2007.

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, 2007, we had approximately 660 employees. Our thirty-three senior officers have an average of twenty-four years experience in the real estate industry and an average of fifteen years of experience with us. Our principal executive office and Boston regional office is 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 505 9th Street, NW, Washington, D.C. 20004; 599 Lexington Avenue, New York, New York 10022; Four Embarcadero Center, San Francisco, California 94111; and 302 Carnegie Center, Princeton, New Jersey 08540.

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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. The name Boston Properties and our logo (consisting of a stylized b) are registered service marks of Boston Properties Limited Partnership.

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Boston Properties Limited Partnership, or BPLP, 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 22, 2008, the owner of approximately 84.0% 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 2008 Outperformance Awards assuming all conditions have been met for the conversion of the LTIP units. An LTIP Unit is generally the economic equivalent of a share of our restricted common stock, although LTIP units issued in the form of 2008 Outperformance awards are only entitled to receive one-tenth (1/10th) of the regular quarterly distributions (and no special distributions) prior to being earned. See 2008 Outperformance Awards on page 6. 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 the Second Amendment and Restatement of our 1997 Stock Option and Incentive Plan (the 1997 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 Boston Properties Limited Partnership, 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, including the right to convert into common units of BPLP, as are set forth in an amendment to the limited partnership agreement of BPLP. As of December 31, 2007 and February 22, 2008, BPLP had one series of its preferred units outstanding. The Series Two preferred units have a liquidation preference of \$50.00 per unit (or an aggregate of approximately \$55.7 million at December 31, 2007 and February 22, 2008). 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 7.0% until May 12, 2009 and 6.0% thereafter. If distributions on the number of common units into which the Series Two preferred units are convertible are greater than distributions calculated using the rates described in the preceding sentence for the applicable quarterly period, then the greater distributions are payable instead. Since May 2005, distributions have been made at the greater rate determined on the basis of distributions paid on the common units into which the Series Two preferred units are convertible. The terms of the Series Two preferred units provide that they may be redeemed for cash in six annual tranches, beginning on May 12, 2009, at our election or at the election of the holders. We also have the right to convert into common units of BPLP any Series Two preferred units that are not redeemed when they are eligible for redemption.

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Transactions During 2007

Real Estate Acquisitions/Dispositions

In January 2007, we acquired 6601 and 6605 Springfield Center Drive, consisting of two office/technical properties aggregating approximately 97,000 net rentable square feet located in Springfield, Virginia for an aggregate purchase price of approximately \$16.5 million. On April 11, 2007, we acquired an adjacent parcel of land for a purchase price of approximately \$25.6 million. The acquisitions were financed with available cash. The acquisition of this property was completed as part of a like-kind exchange under Section 1031 of the Internal Revenue Code.

In January and February 2007, we acquired parcels of land located at 250 West 55th Street in New York City, through a majority-owned venture, for an aggregate purchase price of approximately \$228.8 million. The acquisitions were financed with a \$160.0 million mortgage loan, which bore interest at a variable rate equal to LIBOR plus 0.40% per annum and was scheduled to mature in January 2009, and member capital contributions. The loan was collateralized by mortgages totaling approximately \$13.6 million. On February 26, 2007, we entered into an agreement to redeem the outside members' equity interest in the limited liability company that owns 250 West 55th Street for an aggregate redemption price of approximately \$23.4 million, of which approximately \$21.0 million has been paid. On May 9, 2007, we used available cash to repay the mortgage loan.

On January 29, 2007, we acquired 103 Fourth Avenue, an approximately 62,000 net rentable square foot office/technical property located in Waltham, Massachusetts, for a purchase price of approximately \$14.3 million. The acquisition was financed with available cash. The acquisition of this property was completed as part of a like-kind exchange under Section 1031 of the Internal Revenue Code.

On February 15, 2007, we sold the long-term leasehold interest in 5 Times Square in New York City and related credits, for approximately \$1.28 billion in cash. 5 Times Square is a Class A office tower that contains approximately 1,101,779 net rentable square feet. Net cash proceeds totaled approximately \$1.23 billion, resulting in a gain on sale of approximately \$605.4 million (net of minority interest share of approximately \$108.1 million). In conjunction with the sale, we agreed to provide to the buyer monthly revenue support from the closing date until December 31, 2008.

On March 23, 2007, we sold the Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts, for approximately \$231.0 million. Net cash proceeds totaled approximately \$225.6 million, resulting in a gain on sale of approximately \$162.4 million (net of minority interest share of approximately \$28.5 million). This property has been categorized as discontinued operations in the accompanying Consolidated Statements of Operations. The sale of this property was completed as part of a like-kind exchange under Section 1031 of the Internal Revenue Code.

On March 30, 2007, we acquired Kingstowne Towne Center, a mixed-use property located in Alexandria, Virginia, at a purchase price of approximately \$134.0 million. This property is comprised of two Class A office properties totaling approximately 307,000 net rentable square feet and a retail/movie theater complex totaling approximately 88,000 net rentable square feet. The acquisition was financed with the assumption of mortgage indebtedness totaling \$65.3 million and available cash. The acquisition of this property was completed as part of a like-kind exchange under Section 1031 of the Internal Revenue Code.

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On March 30, 2007, we acquired Russia Wharf, a land parcel located in Boston, Massachusetts, for a purchase price of approximately \$105.5 million. The acquisition was financed with available cash. The land parcel will support a mixed-use development of approximately 815,000 net rentable square feet, anchored by office space. The acquisition of this property was completed as part of a like-kind exchange under Section 1031 of the Internal Revenue Code.

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On April 5, 2007, we sold Newport Office Park, an approximately 172,000 net rentable square foot Class A office property located in Quincy, Massachusetts, for approximately \$37.0 million. Net cash proceeds totaled approximately \$33.7 million, resulting in a gain on sale of approximately \$11.5 million (net of minority interest share of approximately \$2.1 million).

On April 12, 2007, we entered into an agreement for the sale of a parcel of land located in Washington, D.C. for approximately \$33.7 million. In addition, we entered into a development management agreement with the buyer to develop a Class A office property on the parcel totaling approximately 165,000 net rentable square feet. The sale is subject to the satisfaction of customary closing conditions and there can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

On June 1, 2007, our Value-Added Fund sold Worldgate Plaza located in Herndon, Virginia for approximately \$109.0 million. Worldgate Plaza is an office complex consisting of approximately 322,000 net rentable square feet. Net cash proceeds totaled approximately \$50.5 million, of which our share was approximately \$20.3 million, after the repayment of the mortgage indebtedness of \$57.0 million and closing costs of approximately \$1.5 million, resulting in a gain on sale of approximately \$32.8 million. Our share of the gain on sale was approximately \$15.5 million, which amount reflects the achievement of certain return thresholds as provided for in the joint venture agreement.

On July 24, 2007, we acquired 701 Carnegie Center, a land parcel located in Princeton, New Jersey, for a purchase price of approximately \$3.1 million with the title transferring pending subdivision approval. The purchase price was financed with available cash. We entered into a lease agreement on June 11, 2007 with The Trustees of Princeton University for a build-to-suit project on the site for approximately 120,000 net rentable square feet of Class A office space. We expect that the building will be complete and available for occupancy during the fourth quarter of 2009.

On August 7, 2007, we sold Democracy Center in Bethesda, Maryland, for approximately \$280.5 million. Democracy Center is a Class A office complex that contains an aggregate of approximately 685,000 net rentable square feet. Net cash proceeds totaled approximately \$184.5 million, after the repayment of the mortgage indebtedness of approximately \$94.6 million and closing costs of approximately \$1.4 million, resulting in a gain on sale of approximately \$168.3 million (net of minority interest share of approximately \$29.9 million). The sale of this property was completed as part of a like-kind exchange under Section 1031 of the Internal Revenue Code.

On November 20, 2007, we sold our Orbital Sciences Campus and Broad Run Business Park, Building E properties located in Loudon County, Virginia, for approximately \$126.7 million in cash. The Orbital Sciences Campus and Broad Run Business Park, Building E properties are comprised of three Class A office properties aggregating approximately 337,000 net rentable square feet and an office/technical property totaling approximately 127,000 net rentable square feet, respectively. Net cash proceeds totaled approximately \$125.4 million, resulting in a gain on sale of approximately \$46.5 million (net of minority interest share of approximately \$8.5 million).

On November 27, 2007, we acquired Mountain View Research Park for \$183.0 million and Mountain View Technology Park for \$40.0 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 601,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. The acquisition was financed with available cash. On January 7, 2008, we transferred the properties to our Value-Added Fund for an aggregate of approximately \$223.2 million, consisting of approximately \$100.2 million of cash and a promissory note having a principal amount of \$123.0 million.

On December 13, 2007, we acquired North First Business Park located in San Jose, California, at a purchase price of approximately \$71.5 million. This property is comprised of five office properties aggregating approximately 191,000 net rentable square feet and three vacant

properties all located on approximately 24 acres

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of land. The acquisition was financed with available cash. We expect to redevelop this site into approximately 1.3 million net rentable square feet of Class A office space.

Developments

As of December 31, 2007, we had thirteen buildings under construction, which aggregate an estimated total investment of \$2.1 billion and 3.9 million square feet. The investment to date and estimated total investment for our properties under construction as of December 31, 2007 is detailed below (in thousands):

Properties Under Construction	Estimated Stabilization Date	Location	Investment to Date(1)	Estimated Total Investment(1)
250 West 55 th Street	Fourth Quarter 2010	New York, NY	\$ 298,000	\$ 910,000
Russia Wharf	Third Quarter 2011	Boston, MA	127,500	525,000
South of Market (Phase I)	Third Quarter 2009	Reston, VA	153,300	213,800
Wisconsin Place (66.67% ownership)(2)	Fourth Quarter 2010	Chevy Chase, MD	40,700	93,500
South of Market (Phase II)	Third Quarter 2010	Reston, VA	19,400	87,200
77 CityPoint	First Quarter 2009	Waltham, MA	61,600	79,700
505 9 th Street (50% ownership)	First Quarter 2008	Washington, D.C.	66,200	65,000
One Preserve Parkway	Fourth Quarter 2009	Rockville, MD	37,700	60,500
701 Carnegie Center	Third Quarter 2009	Princeton, NJ	6,200	34,000
Annapolis Junction (50% ownership)	Fourth Quarter 2009	Annapolis, MD	8,600	32,600
Total			\$ 819,200	\$ 2,101,300

(1) Represents our share of the investment.

(2) Includes costs associated with the land and infrastructure project in which we have a 23.89% interest.

Equity Transactions

During the year ended December 31, 2007, holders of Series Two preferred units of BPLP converted 606,186 Series Two preferred units into 795,519 common units of limited partnership interest. The common units of limited partnership interest were subsequently presented by the holders for redemption and 794,768 common units were acquired by us in exchange for an equal number of shares of common stock and 751 common units were acquired by us in exchange for cash. In addition, during the year ended December 31, 2007, we acquired an aggregate of 547,458 common units of limited partnership interest, including 653 common units issued upon the conversion of LTIP units, presented by the holders for redemption, in exchange for an equal number of shares of common stock. During the year ended December 31, 2007, we issued 659,798 shares of common stock as a result of stock options being exercised.

Exchangeable Notes Offering

On February 6, 2007, our Operating Partnership completed an offering of \$862.5 million in aggregate principal amount (including \$112.5 million as a result of the exercise by the initial purchasers of their over-allotment option) of its 2.875% exchangeable senior notes due 2037. The

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notes were priced at 97.433333% of their face amount, resulting in an effective interest rate of approximately 3.438% per annum and net proceeds to us of approximately \$840.0 million. The notes mature on February 15, 2037, unless earlier repurchased, exchanged or redeemed.

Special Dividend

On December 17, 2007, our Board of Directors (the Board) declared a special cash dividend of \$5.98 per common share which was paid on January 30, 2008 to shareholders of record as of the close of business on December 31, 2007. The decision to declare a special dividend was the result of the sales of assets in 2007, including 5 Times Square, Orbital Sciences Campus, Broad Run Business Park Building E, Worldgate Plaza and Newport Office Park. The Board did not make any change in our policy with respect to regular quarterly dividends. The special cash dividend was in addition to the regular quarterly dividend of \$0.68 per share resulting in a total payment of \$6.66 per share paid on January 30, 2008.

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2008 Outperformance Awards

On January 24, 2008, our Compensation Committee (the Committee) of our Board approved outperformance awards under the 1997 Plan to officers and key employees. These awards (the 2008 OPP Awards) are part of a new broad-based, long-term incentive compensation program designed to provide our management team at several levels within the organization with the potential to earn equity awards subject to our outperforming and creating shareholder value in a pay-for-performance structure. 2008 OPP Awards utilize total return to shareholders (TRS) over a three-year measurement period as the performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2008 OPP Awards will share in an outperformance pool if our TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 5, 2008 to February 5, 2011, based on the average closing price of a share of our common stock for the five trading days prior to and including February 5, 2008. The aggregate reward that recipients of all 2008 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of \$110 million, although OPP awards for an aggregate of up to approximately \$104.8 million have been allocated to date and were granted on February 5, 2008. The balance remains available for future grants, with OPP awards exceeding a potential reward of \$1 million requiring the approval of the Committee (See Note 22 to the Consolidated Financial Statements).

Business and Growth Strategies

Business Strategy

Our primary business objective is to maximize return on investment so as to provide our investors with the greatest possible total return. Our strategy to achieve this objective is:

to concentrate on a few carefully selected geographic markets, including Boston, Washington, D.C., midtown Manhattan, San Francisco and Princeton, NJ, and to be one of the leading, if not the leading, owners and developers in each of those markets. We select markets and submarkets 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 space;

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

to concentrate on high-quality real estate designed to meet the demands of today's tenants who require sophisticated telecommunications and related infrastructure and support services, 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 and 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 re-leasing as existing leases terminate;

to explore joint venture opportunities primarily with existing owners of land parcels 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 as well as partners with expertise in mixed-use opportunities;

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to pursue on a selective basis the sale of properties, including core properties, to take advantage of our value creation and the demand for our premier properties;

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.

Growth Strategies

External Growth

We believe that our development experience and our organizational depth position us to continue to selectively develop a range of property types, including low-rise suburban office properties, high-rise urban developments, mixed-use developments and research and laboratory space, within budget and on schedule. 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 will support approximately 13.1 million square feet of new office, retail, hotel and residential development;

our reputation gained through 38 years of successful operations and the stability and strength of our existing portfolio of properties;

our relationships with leading national corporations 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 provides 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 continued development of well-positioned office buildings will be justified in many of our submarkets. We believe in acquiring land after taking into consideration timing factors relating to economic cycles and in

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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 38-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.

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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 relatively low leverage and our liquidity and access to capital may provide us with a competitive advantage when pursuing acquisitions in the current credit-constrained environment. 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. We may 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 for cash 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 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

We believe that significant opportunities will exist to increase cash flow from our existing properties because they are of high quality and in desirable locations. In addition, our properties are in markets where, in general, the creation of new supply is limited by the lack of available sites, the difficulty of receiving the necessary approvals for development on vacant land and the difficulty of obtaining 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 and contraction maximizing the cash flow from our assets. We believe that our office properties will add to our internal growth because of their desirable locations and the fact that our in-place rents are currently lower than market rents. 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.

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We had an average lease term of 7.4 years at December 31, 2007 and 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, 2007, leases with respect to 5.5% of the total square feet in our portfolio will expire in calendar year 2008.

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 markets Boston, Washington, D.C., midtown Manhattan, San Francisco and Princeton, NJ. 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.

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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 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 its full investment. Although we currently do not have any investments in mortgages or deeds of trust, we may invest in participating or convertible mortgages if we conclude that we may benefit from the cash flow or any appreciation in value of the property.

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

Subject to the percentage of ownership limitations and gross income 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 disposition 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 and Edward H. Linde, would 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 the 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.

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.

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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. 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.

Energy and Natural Resource Conservation

As one of the largest owners and developers of office properties in the United States, we strive to control our energy and natural resource consumption through active management at our properties. On an annual basis, our property managers identify capital improvement projects and building systems enhancements that have the potential to reduce the use of energy at each property. The identified projects and enhancements are then reviewed with senior management, and the projects and enhancements that offer material energy or resource savings and meet our investment criteria are then implemented.

During 2007, we continued implementing numerous improvement projects and system enhancements, including, without limitation, the following:

installation of higher efficiency lighting in public spaces, garages, stairways and elevators;

installation of new, high-efficiency motors, air compressors, chillers and other heating, ventilation and air conditioning (HVAC) system components;

replacing and upgrading energy management systems, including installation of carbon dioxide controls;

installation of solar reflective window film to reduce solar heat gain, glare and ultraviolet radiation, and adding wall and ceiling insulation to reduce thermal losses;

modernizing cooling towers with high-efficiency fill and distribution pans;

implementing programs to minimize waste of water and reclaim steam condensate for our cooling towers;

upgrading water treatment, plumbing and irrigation operations; and

implementing extensive recycling programs.

In addition to the physical improvements and systems enhancements described above, our property managers also benchmark building energy consumption with the goal of optimizing equipment use and operation, provide training for our property management staff and strive to make our tenants more aware of energy codes and energy saving opportunities. For example, we have worked collaboratively with our tenants at many of our buildings to implement new policies for providing HVAC on weekends only upon request. We also continue to increase the use of shuttle services between certain of our properties and the local bus and subway stations to encourage the use of mass transportation. These management initiatives are intended to not only help reduce energy consumption in the short term, but also heighten awareness of the issue to help ensure energy efficiency over the long term.

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We believe our efforts described above have led to a meaningful reduction in the number of kilowatt-hours (kWh) used in the operation of our properties and a reduction in our operating expenses. We estimate that the efforts we undertook in 2007 alone will reduce the amount of electrical usage throughout our portfolio by more than 2.4 million kWh per year. Our efforts have also been recognized by third parties as we have achieved the Environmental Protection Agency's Energy Star® designation at several of our buildings and have earned energy conservation awards and recognition at properties located throughout our portfolio.

In addition to the efforts described above, we participate in utility rebate programs when making significant capital improvements and, when economically practicable, we subscribe to long-term, fixed utility contracts on a regional basis.

On an annual basis, we intend to continue to explore ways of reducing our energy consumption and related expenses, and conserving natural resources, across our portfolio.

Environmentally Sound Development

Green buildings are designed, constructed, and operated to provide greater environmental, economic, health and productivity performance than conventional buildings. As a developer, we participate in the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program. The LEED Green Building Rating System® is a voluntary, consensus-based national standard of design guidelines for high-performance, sustainable Green buildings. The USGBC's LEED certification follows a rigorous registration process which evaluates and gives Certified, Silver, Gold, and Platinum ratings to green buildings.

We currently have LEED registered projects under development throughout our portfolio, including the following:

250 West 55th Street This 1,000,000 square foot Class A office tower in New York, NY has been pre-certified with a Gold LEED rating.

Annapolis Junction This 117,600 square foot Class A office property in Annapolis, MD has been pre-certified with a Gold LEED rating.

77 CityPoint This 210,000 square foot Class A office property in Waltham, MA has been pre-certified with a Silver LEED rating.

We also have several other development projects that have been designed to achieve LEED certification. These include Russia Wharf, an 815,000 square foot office tower in Boston, MA, and 701 Carnegie Center, a 120,000 square foot office property in Princeton, NJ. We expect to apply for official LEED pre-certification of these projects in due course. In addition, we actively seek opportunities to achieve LEED ratings on commercial interiors as tenants build-out or renovate their space. We have numerous commercial interior projects either planned or currently under construction that have been designed to achieve LEED certification, and we have already completed various projects that either already received, or we expect will receive, LEED certifications, including our new headquarters in the Prudential Center in Boston.

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Many of the local jurisdictions in which we operate and develop buildings are also making efforts to promote environmentally sound developments by adopting aspects of the LEED program. As a result, we intend to continue to be proactive in evaluating each new development to determine whether it is physically practical and economically feasible to produce a LEED certified building.