

BOSTON PROPERTIES INC
Form 10-Q
August 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

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

For the transition period from _____ to _____

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

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

BOSTON PROPERTIES, INC.
BOSTON PROPERTIES LIMITED PARTNERSHIP
(Exact name of Registrants as specified in its charter)

Boston Properties, Inc.	Delaware (State or other jurisdiction of incorporation or organization)	04-2473675 (I.R.S. Employer Identification Number)
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Boston Properties Limited Partnership	Delaware (State or other jurisdiction of incorporation or organization)	04-3372948 (I.R.S. Employer Identification Number)
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Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103
(Address of principal executive offices) (Zip Code)
(617) 236-3300
(Registrants' telephone number, including area code)

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

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

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

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

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

Boston Properties, Inc.:

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

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

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

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

Boston Properties, Inc.	Common Stock, par value \$0.01 per share	153,693,464
(Registrant)	(Class)	(Outstanding on August 2, 2016)

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2016 of Boston Properties, Inc. and Boston Properties Limited Partnership. Unless stated otherwise or the context otherwise requires, references to “BXP” mean Boston Properties, Inc., a Delaware corporation and real estate investment trust (“REIT”), and references to “BPLP” and the “Operating Partnership” mean Boston Properties Limited Partnership, a Delaware limited partnership. References to the “Company,” “we,” “us” and “our” mean collectively BXP, BPLP and those entities/subsidiaries consolidated by BXP.

BPLP is the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. BXP is the sole general partner and also a limited partner of BPLP. As the sole general partner of BPLP, BXP has exclusive control of BPLP’s day-to-day management.

As of June 30, 2016, BXP owned an approximate 89.5% ownership interest in BPLP. The remaining approximate 10.5% interest is owned by limited partners. The other limited partners of BPLP are (1) persons who contributed their direct or indirect interests in properties to BPLP in exchange for common units or preferred units of limited partnership interest in BPLP or (2) recipients of long term incentive plan units of BPLP pursuant to BXP’s Stock Option and Incentive Plans. Under the limited partnership agreement of BPLP, unitholders may present their common units of BPLP for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time, generally one year from issuance). Upon presentation of a common unit for redemption, BPLP must redeem the unit for cash equal to the then value of a share of BXP’s common stock. In lieu of cash redemption by BPLP, however, BXP may elect to acquire any common units so tendered by issuing shares of BXP common stock in exchange for the common units. If BXP so elects, its common stock will be exchanged for common units on a one-for-one basis. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. BXP generally expects that it will elect to issue its common stock in connection with each such presentation for redemption rather than having BPLP pay cash. With each such exchange or redemption, BXP’s percentage ownership in BPLP will increase. In addition, whenever BXP issues shares of its common stock other than to acquire common units of BPLP, BXP must contribute any net proceeds it receives to BPLP and BPLP must issue to BXP an equivalent number of common units of BPLP. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

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

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

Shareholders’ equity, partners’ capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of BXP and BPLP. The limited partners of BPLP are accounted for as partners’ capital in BPLP’s financial statements and as noncontrolling interests in BXP’s financial statements. The noncontrolling

interests in BPLP's financial statements include the interests of unaffiliated partners in various consolidated partnerships and development joint venture partners. The noncontrolling interests in BXP's financial statements include the same noncontrolling interests at BPLP's level and limited partners of BPLP. The differences between shareholders' equity and partners' capital result from differences in the equity issued at BXP and BPLP levels.

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In addition, the consolidated financial statements of BXP and BPLP differ in total real estate assets resulting from previously applied acquisition accounting by BXP for the issuance of common stock in connection with non-sponsor redemptions of common units of BPLP. This accounting resulted in a step-up of the real estate assets at BXP. This resulted in a difference between the net real estate of BXP as compared to BPLP of approximately \$335.2 million, or 2.2% at June 30, 2016 and a corresponding difference in depreciation expense and gains on sales of real estate upon the sale of certain properties having an allocation of the real estate step-up. The acquisition accounting was nullified on a prospective basis beginning in 2009 as a result of the Company's adoption of a new accounting standard requiring any future redemptions to be accounted for solely as an equity transaction.

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

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

- Note 9. Noncontrolling Interest;
- Note 10. Stockholders' Equity / Partners' Capital; and
- Note 11. Earnings Per Share / Common Unit;

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

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

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of BXP and BPLP in order to establish that the requisite certifications have been made and that BXP and BPLP are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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BOSTON PROPERTIES, INC. AND BOSTON PROPERTIES LIMITED PARTNERSHIP
 FORM 10-Q
 for the quarter ended June 30, 2016
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PART I. FINANCIAL INFORMATION

ITEM 1—Financial Statements.

BOSTON PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(in thousands, except for share and par value amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities (“VIEs”) of \$6,025,213 at June 30, 2016)	\$ 18,690,403	\$ 18,465,405
Construction in progress (amounts related to VIEs of \$567,609 at June 30, 2016)	865,359	763,935
Land held for future development	241,106	252,195
Less: accumulated depreciation (amounts related to VIEs of (\$712,358) at June 30, 2016)	(4,056,716)	(3,925,894)
Total real estate	15,740,152	15,555,641
Cash and cash equivalents (amounts related to VIEs of \$214,595 at June 30, 2016)	1,180,044	723,718
Cash held in escrows (amounts related to VIEs of \$3,527 at June 30, 2016)	65,654	73,790
Investments in securities	21,775	20,380
Tenant and other receivables (amounts related to VIEs of \$19,719 at June 30, 2016)	84,861	97,865
Accrued rental income (amounts related to VIEs of \$220,277 at June 30, 2016)	776,816	754,883
Deferred charges, net (amounts related to VIEs of \$320,317 at June 30, 2016)	697,823	704,867
Prepaid expenses and other assets (amounts related to VIEs of \$84,345 at June 30, 2016)	144,222	185,118
Investments in unconsolidated joint ventures	252,618	235,224
Total assets	\$ 18,963,965	\$ 18,351,486
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of \$2,046,828 at June 30, 2016)	\$ 3,189,013	\$ 3,435,242
Unsecured senior notes, net	6,257,274	5,264,819
Unsecured line of credit	—	—
Mezzanine notes payable (amounts related to VIEs of \$307,797 at June 30, 2016)	307,797	308,482
Outside members' notes payable (amounts related to VIEs of \$180,000 at June 30, 2016)	180,000	180,000
Accounts payable and accrued expenses (amounts related to VIEs of \$109,038 at June 30, 2016)	287,464	274,709
Dividends and distributions payable	113,071	327,320
Accrued interest payable (amounts related to VIEs of \$144,327 at June 30, 2016)	222,175	190,386
Other liabilities (amounts related to VIEs of \$195,437 at June 30, 2016)	508,952	483,601
Total liabilities	11,065,746	10,464,559
Commitments and contingencies	—	—
Equity:		
Stockholders' equity attributable to Boston Properties, Inc.:		
Excess stock, \$0.01 par value, 150,000,000 shares authorized, none issued or outstanding	—	—
Preferred stock, \$0.01 par value, 50,000,000 shares authorized;		
5.25% Series B cumulative redeemable preferred stock, \$0.01 par value, liquidation preference \$2,500 per share, 92,000 shares authorized, 80,000 shares issued and	200,000	200,000

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outstanding at June 30, 2016 and December 31, 2015

Common stock, \$0.01 par value, 250,000,000 shares authorized, 153,753,830 and 153,658,866 issued and 153,674,930 and 153,579,966 outstanding at June 30, 2016 and December 31, 2015, respectively	1,537	1,536
Additional paid-in capital	6,316,191	6,305,687
Dividends in excess of earnings	(702,361)	(780,952)
Treasury common stock at cost, 78,900 shares at June 30, 2016 and December 31, 2015	(2,722)	(2,722)
Accumulated other comprehensive loss	(79,748)	(14,114)
Total stockholders' equity attributable to Boston Properties, Inc.	5,732,897	5,709,435
Noncontrolling interests:		
Common units of the Operating Partnership	612,385	603,092
Property partnerships	1,552,937	1,574,400
Total equity	7,898,219	7,886,927
Total liabilities and equity	\$18,963,965	\$18,351,486

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

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	\$493,386	\$486,609	\$1,029,514	\$977,291
Recoveries from tenants	85,706	86,795	175,292	175,388
Parking and other	26,113	26,552	50,938	51,340
Total rental revenue	605,205	599,956	1,255,744	1,204,019
Hotel revenue	12,808	13,403	21,565	22,488
Development and management services	5,533	4,862	12,222	10,190
Total revenue	623,546	618,221	1,289,531	1,236,697
Expenses				
Operating				
Rental	217,938	214,464	437,110	435,814
Hotel	7,978	8,495	15,612	16,071
General and administrative	25,418	22,284	54,771	51,075
Transaction costs	913	208	938	535
Depreciation and amortization	153,175	167,844	312,623	322,067
Total expenses	405,422	413,295	821,054	825,562
Operating income	218,124	204,926	468,477	411,135
Other income (expense)				
Income from unconsolidated joint ventures	2,234	3,078	4,025	17,912
Interest and other income	1,524	1,293	3,029	2,700
Gains (losses) from investments in securities	478	(24)	737	369
Interest expense	(105,003)	(108,534)	(210,312)	(217,291)
Income before gains on sales of real estate	117,357	100,739	265,956	214,825
Gains on sales of real estate	—	—	67,623	95,084
Net income	117,357	100,739	333,579	309,909
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(6,814)	(9,264)	(17,278)	(24,472)
Noncontrolling interest—redeemable preferred units of the Operating Partnership	—	(3)	—	(6)
Noncontrolling interest—common units of the Operating Partnership	(11,357)	(9,394)	(32,771)	(29,530)
Net income attributable to Boston Properties, Inc.	99,186	82,078	283,530	255,901
Preferred dividends	(2,589)	(2,618)	(5,207)	(5,207)
Net income attributable to Boston Properties, Inc. common shareholders	\$96,597	\$79,460	\$278,323	\$250,694
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	\$0.63	\$0.52	\$1.81	\$1.63
Weighted average number of common shares outstanding	153,662	153,450	153,644	153,341
Diluted earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Net income	\$0.63	\$0.52	\$1.81	\$1.63

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Weighted average number of common and common equivalent shares outstanding	153,860	153,815	153,889	153,845
Dividends per common share	\$0.65	\$0.65	\$1.30	\$1.30

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

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BOSTON PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income	\$117,357	\$100,739	\$333,579	\$309,909
Other comprehensive loss:				
Effective portion of interest rate contracts	(32,351)	15,639	(90,997)	12,106
Amortization of interest rate contracts (1)	628	628	1,255	1,255
Other comprehensive income (loss)	(31,723)	16,267	(89,742)	13,361
Comprehensive income	85,634	117,006	243,837	323,270
Net income attributable to noncontrolling interests	(18,171)	(18,661)	(50,049)	(54,008)
Other comprehensive income (loss) attributable to noncontrolling interests	8,681	(2,512)	24,108	(2,209)
Comprehensive income attributable to Boston Properties, Inc.	\$76,144	\$95,833	\$217,896	\$267,053

(1) Amounts reclassified from comprehensive income primarily to interest expense within the Boston Properties, Inc.'s Consolidated Statements of Operations.

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

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BOSTON PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited and in thousands)

	Common Stock		Preferred Stock	Additional Paid-in Capital	Dividends in Excess of Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount							
Equity, December 31, 2015	153,580	\$1,536	\$200,000	\$6,305,687	\$(780,952)	\$(2,722)	\$(14,114)	\$2,177,492	\$7,886,927
Redemption of operating partnership units to common stock	78	1	—	2,663	—	—	—	(2,664)	—
Allocated net income for the year	—	—	—	—	283,530	—	—	50,049	333,579
Dividends/distributions declared	—	—	—	—	(204,939)	—	—	(23,713)	(228,652)
Shares issued pursuant to stock purchase plan	3	—	—	332	—	—	—	—	332
Net activity from stock option and incentive plan	14	—	—	1,772	—	—	—	14,877	16,649
Sale of interests in property partnerships	—	—	—	1,320	—	—	—	(1,320)	—
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	5,040	5,040
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(25,914)	(25,914)
Effective portion of interest rate contracts	—	—	—	—	—	—	(66,759)	(24,238)	(90,997)
Amortization of interest rate contracts	—	—	—	—	—	—	1,125	130	1,255
Reallocation of noncontrolling interest	—	—	—	4,417	—	—	—	(4,417)	—
Equity, June 30, 2016	153,675	\$1,537	\$200,000	\$6,316,191	\$(702,361)	\$(2,722)	\$(79,748)	\$2,165,322	\$7,898,219
Equity, December 31, 2014	153,114	\$1,531	\$200,000	\$6,270,257	\$(762,464)	\$(2,722)	\$(9,304)	\$2,205,638	\$7,902,936
Redemption of operating partnership units to common stock	322	4	—	10,839	—	—	—	(10,843)	—
Allocated net income for the year	—	—	—	—	255,901	—	—	49,561	305,462
Dividends/distributions declared	—	—	—	—	(204,676)	—	—	(23,578)	(228,254)
	2	—	—	313	—	—	—	—	313

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Shares issued pursuant to stock purchase plan									
Net activity from stock option and incentive plan	36	—	—	3,407	—	—	—	24,155	27,562
Contributions from noncontrolling interests in property partnerships	—	—	—	—	—	—	—	1,089	1,089
Distributions to noncontrolling interests in property partnerships	—	—	—	—	—	—	—	(34,022)	(34,022)
Effective portion of interest rate contracts	—	—	—	—	—	—	10,027	2,079	12,106
Amortization of interest rate contracts	—	—	—	—	—	—	1,125	130	1,255
Reallocation of noncontrolling interest	—	—	—	8,740	—	—	—	(8,740)	—
Equity, June 30, 2015	153,474	\$1,535	\$200,000	\$6,293,556	\$(711,239)	\$(2,722)	\$1,848	\$2,205,469	\$7,988,447

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

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

	For the six months ended June 30,	
	2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	\$333,579	\$309,909
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	312,623	322,067
Non-cash compensation expense	17,647	16,480
Income from unconsolidated joint ventures	(4,025)	(17,912)
Distributions of net cash flow from operations of unconsolidated joint ventures	11,399	5,769
Gains from investments in securities	(737)	(369)
Non-cash portion of interest expense	(19,330)	(21,852)
Gains on sales of real estate	(67,623)	(95,084)
Change in assets and liabilities:		
Cash held in escrows	632	(175)
Tenant and other receivables, net	13,963	(8,588)
Accrued rental income, net	(5,294)	(40,173)
Prepaid expenses and other assets	62,752	63,545
Accounts payable and accrued expenses	9,236	(5,973)
Accrued interest payable	31,789	15,016
Other liabilities	(71,805)	(56,580)
Tenant leasing costs	(40,655)	(43,004)
Total adjustments	250,572	133,167
Net cash provided by operating activities	584,151	443,076
Cash flows from investing activities:		
Acquisition of real estate	(78,000)	—
Construction in progress	(242,944)	(154,430)
Building and other capital improvements	(48,306)	(48,133)
Tenant improvements	(116,935)	(51,444)
Proceeds from sales of real estate	104,816	194,821
Proceeds from sales of real estate placed in escrow	(104,696)	(200,612)
Proceeds from sales of real estate released from escrow	104,696	441,903
Cash placed in escrow for land sale contracts	—	(7,111)
Cash released from escrow for land sale contracts	781	758
Cash released from escrow for investing activities	6,694	—
Deposits on real estate	(25,000)	(5,000)
Capital contributions to unconsolidated joint ventures	(26,040)	(14,989)
Capital distributions from unconsolidated joint ventures	—	24,527
Investments in securities, net	(658)	(1,125)
Net cash provided by (used in) investing activities	(425,592)	179,165

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

	For the six months ended June 30,	
	2016	2015
	(in thousands)	
Cash flows from financing activities:		
Repayments of mortgage notes payable	(222,535)	(12,909)
Proceeds from unsecured senior notes	997,080	—
Proceeds from real estate financing transaction	—	6,000
Payments on real estate financing transactions	(4,290)	(1,523)
Deferred financing costs	(8,047)	(163)
Net proceeds from equity transactions	(666)	332
Redemption of preferred units	—	(633)
Dividends and distributions	(442,901)	(997,840)
Contributions from noncontrolling interests in property partnerships	5,040	1,089
Distributions to noncontrolling interests in property partnerships	(25,914)	(36,922)
Net cash provided by (used in) financing activities	297,767	(1,042,569)
Net increase (decrease) in cash and cash equivalents	456,326	(420,328)
Cash and cash equivalents, beginning of period	723,718	1,763,079
Cash and cash equivalents, end of period	\$1,180,044	\$1,342,751
Supplemental disclosures:		
Cash paid for interest	\$217,021	\$240,942
Interest capitalized	\$19,168	\$16,815
Non-cash investing and financing activities:		
Write-off of fully depreciated real estate	\$(52,708)	\$(17,871)
Additions to real estate included in accounts payable and accrued expenses	\$(14,471)	\$17,604
Dividends and distributions declared but not paid	\$113,071	\$112,892
Conversions of noncontrolling interests to stockholders' equity	\$2,664	\$10,843
Issuance of restricted securities to employees	\$33,711	\$43,363

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(in thousands, except for unit amounts)	
ASSETS		
Real estate, at cost (amounts related to variable interest entities (“VIEs”) of \$5,945,815 at June 30, 2016)	\$ 18,272,679	\$ 18,045,011
Construction in progress (amounts related to VIEs of \$567,609 at June 30, 2016)	865,359	763,935
Land held for future development	241,106	252,195
Less: accumulated depreciation (amounts related to VIEs of (\$696,690) at June 30, 2016)	(3,974,168)	(3,846,816)
Total real estate	15,404,976	15,214,325
Cash and cash equivalents (amounts related to VIEs of \$214,595 at June 30, 2016)	1,180,044	723,718
Cash held in escrows (amounts related to VIEs of \$3,527 at June 30, 2016)	65,654	73,790
Investments in securities	21,775	20,380
Tenant and other receivables (amounts related to VIEs of \$19,719 at June 30, 2016)	84,861	97,865
Accrued rental income (amounts related to VIEs of \$220,277 at June 30, 2016)	776,816	754,883
Deferred charges, net (amounts related to VIEs of \$320,317 at June 30, 2016)	697,823	704,867
Prepaid expenses and other assets (amounts related to VIEs of \$84,345 at June 30, 2016)	144,222	185,118
Investments in unconsolidated joint ventures	252,618	235,224
Total assets	\$ 18,628,789	\$ 18,010,170
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net (amounts related to VIEs of \$2,046,828 at June 30, 2016)	\$ 3,189,013	\$ 3,435,242
Unsecured senior notes, net	6,257,274	5,264,819
Unsecured line of credit	—	—
Mezzanine notes payable (amounts related to VIEs of \$307,797 at June 30, 2016)	307,797	308,482
Outside members' notes payable (amounts related to VIEs of \$180,000 at June 30, 2016)	180,000	180,000
Accounts payable and accrued expenses (amounts related to VIEs of \$109,038 at June 30, 2016)	287,464	274,709
Distributions payable	113,071	327,320
Accrued interest payable (amounts related to VIEs of \$144,327 at June 30, 2016)	222,175	190,386
Other liabilities (amounts related to VIEs of \$195,437 at June 30, 2016)	508,952	483,601
Total liabilities	11,065,746	10,464,559
Commitments and contingencies	—	—
Noncontrolling interests:		
Redeemable partnership units—17,184,629 and 16,097,473 common units and 912,605 and 1,831,714 long term incentive units outstanding at redemption value at June 30, 2016 and December 31, 2015, respectively	2,387,025	2,286,689
Capital:		
5.25% Series B cumulative redeemable preferred units, liquidation preference \$2,500 per unit, 80,000 units issued and outstanding at June 30, 2016 and December 31, 2015	193,623	193,623
Boston Properties Limited Partnership partners' capital—1,717,722 and 1,715,092 general partner units and 151,957,208 and 151,864,874 limited partner units outstanding at June 30, 2016 and December 31, 2015, respectively	3,429,458	3,490,899
Noncontrolling interests in property partnerships	1,552,937	1,574,400

Total capital	5,176,018	5,258,922
Total liabilities and capital	\$18,628,789	\$18,010,170

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in thousands, except for per unit amounts)			
Revenue				
Rental				
Base rent	\$493,386	\$486,609	\$1,029,514	\$977,291
Recoveries from tenants	85,706	86,795	175,292	175,388
Parking and other	26,113	26,552	50,938	51,340
Total rental revenue	605,205	599,956	1,255,744	1,204,019
Hotel revenue	12,808	13,403	21,565	22,488
Development and management services	5,533	4,862	12,222	10,190
Total revenue	623,546	618,221	1,289,531	1,236,697
Expenses				
Operating				
Rental	217,938	214,464	437,110	435,814
Hotel	7,978	8,495	15,612	16,071
General and administrative	25,418	22,284	54,771	51,075
Transaction costs	913	208	938	535
Depreciation and amortization	151,191	165,846	308,652	318,070
Total expenses	403,438	411,297	817,083	821,565
Operating income	220,108	206,924	472,448	415,132
Other income (expense)				
Income from unconsolidated joint ventures	2,234	3,078	4,025	17,912
Interest and other income	1,524	1,293	3,029	2,700
Gains (losses) from investments in securities	478	(24)	737	369
Interest expense	(105,003)	(108,534)	(210,312)	(217,291)
Income before gains on sales of real estate	119,341	102,737	269,927	218,822
Gains on sales of real estate	—	—	69,792	95,084
Net income	119,341	102,737	339,719	313,906
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(6,814)	(9,264)	(17,278)	(24,472)
Noncontrolling interest—redeemable preferred units	—	(3)	—	(6)
Net income attributable to Boston Properties Limited Partnership	112,527	93,470	322,441	289,428
Preferred distributions	(2,589)	(2,618)	(5,207)	(5,207)
Net income attributable to Boston Properties Limited Partnership common unitholders	\$109,938	\$90,852	\$317,234	\$284,221
Basic earnings per common unit attributable to Boston Properties Limited Partnership common unitholders				
Net income	\$0.64	\$0.53	\$1.85	\$1.66
Weighted average number of common units outstanding	171,370	171,146	171,339	171,116
Diluted earnings per common unit attributable to Boston Properties Limited Partnership common unitholders				
Net income	\$0.64	\$0.53	\$1.85	\$1.66
Weighted average number of common and common equivalent units outstanding	171,568	171,511	171,584	171,620

Distributions per common unit	\$0.65	\$0.65	\$1.30	\$1.30
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The accompanying notes are an integral part of these consolidated financial statements.

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income	\$119,341	\$102,737	\$339,719	\$313,906
Other comprehensive loss:				
Effective portion of interest rate contracts	(32,351)	15,639	(90,997)	12,106
Amortization of interest rate contracts (1)	628	628	1,255	1,255
Other comprehensive income (loss)	(31,723)	16,267	(89,742)	13,361
Comprehensive income	87,618	119,004	249,977	327,267
Comprehensive income attributable to noncontrolling interests	(793)	(10,183)	(731)	(25,394)
Comprehensive income attributable to Boston Properties Limited Partnership	\$86,825	\$108,821	\$249,246	\$301,873

(1) Amounts reclassified from comprehensive income primarily to interest expense within the Boston Properties Limited Partnership's Consolidated Statements of Operations.

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

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BOSTON PROPERTIES LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(Unaudited and in thousands)

	Total Partners' Capital
Balance at December 31, 2015	\$3,684,522
Contributions	2,871
Net income allocable to general and limited partner units	289,670
Distributions	(204,939)
Accumulated other comprehensive loss	(65,634)
Unearned compensation	553
Conversion of redeemable partnership units	2,664
Adjustment to reflect redeemable partnership units at redemption value	(86,626)
Balance at June 30, 2016	\$3,623,081
Balance at December 31, 2014	\$3,639,916
Contributions	4,659
Net income allocable to general and limited partner units	259,898
Distributions	(204,676)
Accumulated other comprehensive income	11,152
Unearned compensation	(939)
Conversion of redeemable partnership units	10,843
Adjustment to reflect redeemable partnership units at redemption value	148,001
Balance at June 30, 2015	\$3,868,854

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

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

	For the six months ended June 30,	
	2016	2015
	(in thousands)	
Cash flows from operating activities:		
Net income	\$339,719	\$313,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	308,652	318,070