BOSTON PROPERTIES INC
Form 10-Q
November 09, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2005

¨ 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)	**(IRS Employer Id. Number)**
111 Huntington Avenue	**02199**

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

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

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.) Yes x No ¨

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

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

Common Stock, par value $.01 per share	**112,509,359**
(Class)	**(Outstanding on November 4, 2005)**

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended September 30, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1 ***Consolidated Financial Statements.***

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except for share and par value amounts)

	September 30, 2005	December 31, 2004
ASSETS		
Real estate, at cost	$ 8,792,127	$ 9,033,858
Construction in process	144,009	35,063
Land held for future development	244,783	222,306
Real estate held for sale, net	444	
Less: accumulated depreciation	(1,237,469)	(1,143,369)
Total real estate	7,943,894	8,147,858
Cash and cash equivalents	450,577	239,344
Cash held in escrows	27,552	24,755
Investments in marketable securities	37,500	
Tenant and other receivables (net of allowance for doubtful accounts of $2,476 and $2,879, respectively)	32,463	25,500
Accrued rental income (net of allowance of $3,931 and $4,252, respectively)	292,289	251,236
Deferred charges, net	239,443	254,950
Prepaid expenses and other assets	63,859	38,630
Investments in unconsolidated joint ventures	96,311	80,955
Total assets	$ 9,183,888	$ 9,063,228
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Mortgage notes payable	$ 3,450,904	$ 3,541,131
Unsecured senior notes (net of discount of $4,037 and $4,317, respectively)	1,470,963	1,470,683
Unsecured line of credit		
Accounts payable and accrued expenses	81,730	94,451
Dividends and distributions payable	443,437	91,428
Interest rate contract		1,164
Accrued interest payable	39,443	50,670
Other liabilities	137,526	91,300
Total liabilities	5,624,003	5,340,827
Commitments and contingencies		

Minority interests	725,077	786,328
Stockholders equity:		
Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding		
Preferred stock, $.01 par value, 50,000,000 shares authorized, none issued or outstanding		
Common stock, $.01 par value, 250,000,000 shares authorized, 112,579,787 and 110,399,385 issued and 112,500,887 and 110,320,485 outstanding in 2005 and 2004, respectively	1,125	1,103
Additional paid-in capital	2,749,432	2,633,980
Earnings in excess of dividends	104,559	325,452
Treasury common stock at cost, 78,900 shares in 2005 and 2004	(2,722)	(2,722)
Unearned compensation	(5,564)	(6,103)
Accumulated other comprehensive loss	(12,022)	(15,637)
Total stockholders equity	2,834,808	2,936,073
Total liabilities and stockholders equity	$ 9,183,888	$ 9,063,228

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(in thousands, except for per share amounts)			
Revenue				
Rental:				
Base rent	$ 274,522	$ 273,603	$ 830,627	$ 790,889
Recoveries from tenants	43,969	43,381	129,165	123,228
Parking and other	13,470	15,645	41,516	42,916
Total rental revenue	331,961	332,629	1,001,308	957,033
Hotel revenue	20,139	19,768	54,207	52,112
Development and management services	4,923	5,832	13,596	15,115
Interest and other	4,763	908	9,337	9,526
Total revenue	361,786	359,137	1,078,448	1,033,786
Expenses				
Operating:				
Rental	111,112	108,754	326,051	309,715
Hotel	13,786	13,709	40,051	38,763
General and administrative	13,270	13,002	42,335	38,095
Interest	75,700	77,698	233,287	226,792
Depreciation and amortization	65,905	65,480	201,102	181,853
Losses from early extinguishments of debt			12,896	6,258
Total expenses	279,773	278,643	855,722	801,476
Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and land held for development and discontinued operations	82,013	80,494	222,726	232,310
Minority interests in property partnerships	1,527	1,447	4,651	3,124
Income from unconsolidated joint ventures	1,117	460	3,299	2,716
Income before minority interest in Operating Partnership, gains on sales of real estate and land held for development and discontinued operations	84,657	82,401	230,676	238,150
Minority interest in Operating Partnership	(27,032)	(17,178)	(57,482)	(52,169)
Income before gains on sales of real estate and land held for development and discontinued operations	57,625	65,223	173,194	185,981
Gains on sales of real estate, net of minority interest			102,175	8,132
Gains on sales of land held for development, net of minority interest			1,209	
Income before discontinued operations	57,625	65,223	276,578	194,113
Discontinued operations:				
Income (loss) from discontinued operations, net of minority interest	(74)	(831)	(574)	1,356
Gains on sales of real estate from discontinued operations, net of minority interest		4,150	8,397	26,201

Net income available to common shareholders	$ 57,551	$ 68,542	$ 284,401	$ 221,670
Basic earnings per common share:				
Income available to common shareholders before discontinued operations	$ 0.51	$ 0.60	$ 2.49	$ 1.84
Discontinued operations, net of minority interest		0.03	0.07	0.26
Net income available to common shareholders	$ 0.51	$ 0.63	$ 2.56	$ 2.10
Weighted average number of common shares outstanding	111,776	108,339	110,915	105,492
Diluted earnings per common share:				
Income available to common shareholders before discontinued operations	$ 0.50	$ 0.59	$ 2.44	$ 1.80
Discontinued operations, net of minority interest		0.03	0.07	0.25
Net income available to common shareholders	$ 0.50	$ 0.62	$ 2.51	$ 2.05
Weighted average number of common and common equivalent shares outstanding	114,090	110,581	113,195	107,718

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Net income available to common shareholders	$ 57,551	$ 68,542	$ 284,401	$ 221,670
Other comprehensive income:				
Effective portion of interest rate contracts	3,092		3,092	
Amortization of interest rate contracts	174	174	523	523
Other comprehensive income	3,266	174	3,615	523
Comprehensive income	$ 60,817	$ 68,716	$ 288,016	$ 222,193

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30,	
	2005	**2004**
	(in thousands)	
Cash flows from operating activities:		
Net income available to common shareholders	$ 284,401	$ 221,670
Adjustments to reconcile net income available to common shareholders to net cash provided by operating activities:		
Depreciation and amortization	201,288	184,206
Non-cash portion of interest expense	3,918	4,098
Non-cash compensation expense	5,640	3,166
Losses from early extinguishments of debt	2,042	
Minority interests in property partnerships	(4,651)	5,881
Distributions in excess of earnings from unconsolidated joint ventures	568	932
Minority interest in Operating Partnership	80,098	59,612
Gains on sales of real estate and land held for development	(134,509)	(50,335)
Change in assets and liabilities:		
Cash held in escrows	(2,797)	(2,816)
Tenant and other receivables, net	(11,173)	5,489
Accrued rental income, net	(52,391)	(41,237)
Prepaid expenses and other assets	(23,431)	(18,764)
Accounts payable and accrued expenses	(5,162)	(3,902)
Interest rate contract	(1,164)	(5,263)
Accrued interest payable	(11,227)	(9,924)
Other liabilities	(1,579)	(7,955)
Tenant leasing costs	(25,198)	(41,194)
Total adjustments	20,272	81,994
Net cash provided by operating activities	304,673	303,664
Cash flows from investing activities:		
Acquisitions/additions to real estate	(245,411)	(217,509)
Investments in marketable securities	(37,500)	
Net investments in unconsolidated joint ventures	(1,667)	(5,914)
Net proceeds from the sales of real estate and land held for development	472,647	103,779
Net cash provided by (used in) investing activities	188,069	(119,644)

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30,	
	2005	2004
	(in thousands)	
Cash flows from financing activities:		
Borrowings on unsecured line of credit		140,000
Repayments of unsecured line of credit		(203,000)
Proceeds from mortgage notes payable	810,003	160,019
Repayments of mortgage notes payable	(900,230)	(203,887)
Proceeds from a real estate financing transaction	47,934	
Dividends and distributions	(272,997)	(254,231)
Net proceeds from the issuance of common securities	475	291,041
Proceeds from stock option exercises	43,478	89,058
Distributions to minority interest holders, net	(5,670)	(7,308)
Deferred financing costs	(4,502)	(4,525)
Net cash provided by (used in) financing activities	(281,509)	7,167
Net increase in cash and cash equivalents	211,233	191,187
Cash and cash equivalents, beginning of period	239,344	22,686
Cash and cash equivalents, end of period	$ 450,577	$ 213,873
Supplemental disclosures:		
Cash paid for interest	$ 243,889	$ 242,746
Interest capitalized	$ 3,293	$ 10,128
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable	$ 3,263	$ 9,141
Mortgage notes payable assumed in connection with the acquisition of real estate	$	$ 107,894
Mortgage note payable assigned in connection with the sale of real estate	$	$ 5,193
Dividends and distributions declared but not paid	$ 443,437	$ 90,942
Conversions of Minority interests to Stockholders equity	$ 22,462	$ 52,814
Basis adjustment to real estate in connection with conversions of Minority interests to Stockholders equity	$ 36,864	$ 50,391
Issuance of restricted securities to employees and directors	$ 11,680	$ 9,708

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Boston Properties, Inc. (the Company), a Delaware corporation, is a self-administered and self-managed real estate investment trust (REIT). The Company is the sole general partner of Boston Properties Limited Partnership (the Operating Partnership) and at September 30, 2005 owned an approximate 80.8% (80.0% at September 30, 2004) general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as common units of partnership interest (also referred to as OP Units), long term incentive units of partnership interest (also referred to as LTIP Units) or preferred units of partnership interest (also referred to as Preferred Units).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company (Common Stock). In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 12).

At Septemebr 30, 2005, there was one series of Preferred Units outstanding (i.e., Series Two Preferred Units). The Series Two Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be converted into OP Units at the election of the holder thereof or the Operating Partnership in accordance with the amendment to the partnership agreement (See also Note 8).

All references to the Company refer to Boston Properties, Inc. and its consolidated subsidiaries, including the Operating Partnership, collectively, unless the context otherwise requires.

Properties

At September 30, 2005, the Company owned or had interests in a portfolio of 123 commercial real estate properties (125 and 126 properties at December 31, 2004 and September 30, 2004, respectively) (the Properties) aggregating approximately 42.0 million net rentable square feet (approximately 44.1 million and 44.2 million net rentable square feet at December 31, 2004 and September 30, 2004, respectively), including three properties under construction and one redevelopment/expansion project collectively totaling approximately 1.1 million net rentable square feet and structured parking for approximately 28,602 vehicles containing approximately 8.7 million square feet. At September 30, 2005, the Properties consist of:

117 office properties, including 100 Class A office properties (including three properties under construction) and 17 Office/Technical properties;

three hotels;

two retail properties; and

one industrial property.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company owns or controls undeveloped land parcels totaling approximately 530.8 acres. In addition, the Company has a 25% interest in the Boston Properties Office Value-Added Fund, L.P. (the Value-Added Fund), which is a strategic partnership with two institutional investors through which the Company intends to pursue the acquisition of value-added investments in assets within its existing markets. The Company s investments through the Value-Added Fund are not included in its portfolio information or any other portfolio level statistics. At September 30, 2005, the Value-Added Fund had one investment in an office complex in Herndon, Virginia.

The Company considers Class A office properties to be centrally located buildings that are professionally managed and maintained, that attract high-quality tenants and command upper-tier rental rates, and that are modern structures or have been modernized to compete with newer buildings. The Company considers Office/Technical properties to be properties that support office, research and development and other technical uses.

2. Basis of Presentation and Summary of Significant Accounting Policies

Boston Properties, Inc. does not have any other significant assets, liabilities or operations, other than its investment in the Operating Partnership, nor does it have employees of its own. The Operating Partnership, not Boston Properties, Inc., executes all significant business relationships. All majority-owned subsidiaries and affiliates over which the Company has financial and operating control, and variable interest entities (VIE s) in which the Company has determined it is the primary beneficiary, are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. The Company accounts for all other unconsolidated joint ventures using the equity method of accounting. Accordingly, the Company s share of the earnings of these joint ventures and companies is included in consolidated net income.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. These financial statements should be read in conjunction with the Company s financial statements and notes thereto contained in the Company s annual report on Form 10-K for its fiscal year ended December 31, 2004.

Summary of Significant Accounting Policies

Stock-based employee compensation plan

At September 30, 2005, the Company has stock-based employee compensation plans. Effective January 1, 2005, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123, using the modified prospective application method for stock compensation awards. In addition, effective January 1, 2005, the Company adopted early SFAS No. 123 (revised) (SFAS No. 123R), Share-Based Payment, which revised the fair value based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarified SFAS No. 123 s guidance in several areas, including measuring fair value, classifying an award as equity or as a

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liability and attributing compensation cost to reporting periods. In 2003, the Company transitioned to granting restricted stock and/or LTIP Units (at the election of the eligible employee), as opposed to granting stock options, as its primary vehicle for employee equity compensation under its stock-based employee compensation plan. The Company had previously accounted for its stock-based employee compensation plans under the recognition and measurement principles of the Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. All outstanding options had an exercise price equal to the market value of the underlying common stock on the date of grant, and all outstanding options are currently exercisable. As a result, the following table only illustrates the effect on net income available to common shareholders and earnings per common share if the Company had applied the fair value recognition provisions to stock-based employee compensation for the three and nine months ended September 30, 2004.

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
	(in thousands, except for per share amounts)			
Net income available to common shareholders	$ 57,551	$ 68,542	$ 284,401	$ 221,670
Deduct:				
Total stock-based employee compensation expense determined under the fair value method for all awards, net of minority interest		(390)		(1,165)
Pro forma net income available to common shareholders	$ 57,551	$ 68,152	$ 284,401	$ 220,505
Earnings per share:				
Basic as reported	$ 0.51	$ 0.63	$ 2.56	$ 2.10
Basic pro forma	$ 0.51	$ 0.63	$ 2.56	$ 2.09
Diluted as reported	$ 0.50	$ 0.62	$ 2.51	$ 2.05
Diluted pro forma	$ 0.50	$ 0.62	$ 2.51	$ 2.04

3. Real Estate Activity During the Nine Months Ended September 30, 2005

Held for Sale

On August 5, 2005, the Company executed a contract for the sale of 40-46 Harvard Street, an industrial property totaling approximately 152,000 net rentable square feet located in Westwood, Massachusetts, at a sale price of approximately $7.8 million. Effective September 20, 2005, the

Company held a non-refundable deposit from the buyer totaling $0.4 million. This property has been categorized as held for sale at September 30, 2005 in accordance with the provisions of SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. The Company completed the sale on November 7, 2005 (See Note 16). This property has been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 10).

Dispositions

On February 23, 2005, the Company sold a parcel of land at the Prudential Center located in Boston, Massachusetts for a net sale price of approximately $31.5 million and an additional obligation of the buyer to fund an estimated $18.6 million of future costs at the Prudential Center (of which approximately $17.5 million has been received as of September 30, 2005) for aggregate proceeds of $50.1 million. Due to the structure of the transaction and certain continuing involvement provisions related to the development of the property, this

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

transaction does not qualify as a sale for financial reporting purposes and has been accounted for as a financing transaction. Under the financing method, the cost of real estate and other assets totaling approximately $44.4 million continues to be reflected within the accompanying Consolidated Balance Sheets and the cash received from the buyer totaling approximately $49.0 million has been recorded in Other liabilities within the accompanying Consolidated Balance Sheets. At such time as the continuing involvement provisions expire or otherwise are terminated, the Company will record the transaction as a sale for financial reporting purposes and the gain on sale will be recognized in accordance with the provisions of SFAS No. 66 Accounting for Sales of Real Estate.

On February 28, 2005, the Company sold Decoverly Four and Five, consisting of two undeveloped land parcels located in Rockville, Maryland for net cash proceeds of approximately $5.3 million, resulting in a gain on sale of approximately $1.2 million (net of minority interest share of approximately $0.2 million).

On April 20, 2005, the Company completed the sale of the Old Federal Reserve, a Class A office property totaling approximately 150,000 net rentable square feet located in San Francisco, California, at a sale price of approximately $46.8 million. Net cash proceeds totaled approximately $45.9 million, resulting in a gain on sale of approximately $8.4 million (net of minority interest share of approximately $1.7 million). This property has been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 10).

On May 12, 2005, the Company completed the sale of 100 East Pratt Street, a 639,000 net rentable square foot Class A office property located in Baltimore, Maryland, for approximately $207.5 million. Net cash proceeds totaled approximately $92.8 million after the repayment of mortgage indebtedness of $84.0 million, a prepayment penalty of approximately $6.5 million and unfunded tenant obligations and other closing costs totaling $24.2 million, resulting in a gain on sale of approximately $45.2 million (net of minority interest share of approximately $9.2 million). Due to the Company s continuing involvement through an agreement with the buyer to manage the property for a fee after the sale, this property has not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 10).

On May 16, 2005, the Company completed the sale of Riverfront Plaza, a 910,000 net rentable square foot Class A office property located in Richmond, Virginia, for approximately $247.1 million. Net proceeds totaled approximately $129.9 million after the repayment of mortgage indebtedness of $104.0 million, a prepayment penalty of approximately $4.3 million and unfunded tenant obligations and other closing costs totaling $8.9 million, resulting in a gain on sale of approximately $57.0 million (net of minority interest share of approximately $11.5 million). Due to the Company s continuing involvement through an agreement with the buyer to manage the property for a fee after the sale, this property has not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 10).

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at September 30, 2005:

Entity	Property	Nominal % Ownership
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%(1)
BP/CRF 265 Franklin Street Holdings LLC	265 Franklin Street	35.0%
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(2)
New Jersey & H Street LLC	801 New Jersey Avenue	50.0%(3)
Wisconsin Place Entities	Wisconsin Place	23.9%(3)(4)
Boston Properties Office Value-Added Fund, L.P.	Worldgate Plaza	25.0%(2)
KEG Associates I, LLC	505 9th Street	50.0%(3)

(1) This joint venture is accounted for under the equity method due to substantive participating rights of the outside partner.
(2) The Company s economic ownership can increase based on the achievement of certain return thresholds.
(3) The property is not in operation (i.e., under construction, undeveloped land or lease of undeveloped land).
(4) Represents the Company s effective ownership interest. The Company has a 66.67%, 5% and 0% interest in the office, retail and residential joint venture entities, respectively, each of which owns a 33.33% interest in the entity developing and owning the land and infrastructure of the project.

Certain of the Company s joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures at an agreed upon fair value. Under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

On March 8, 2005, the Company entered into a joint venture with an unrelated third party to develop a build-to-suit Class A office building totaling 323,000 net rentable square feet at 505 9th Street in Washington, D.C. The joint venture partner contributed the land for a 50% interest. The joint venture subsequently entered into a 15-year lease with a law firm to occupy 230,000 net rentable square feet of the building. On September 26, 2005, the joint venture commenced construction on the project. In conjunction with the commencement of construction, the Company s Operating Partnership issued 253,860 OP Units and cash of approximately $4.9 million to the owners of its joint venture partner as consideration for the Company s 50% interest in the joint venture.

On March 11, 2005, the Wisconsin Place joint venture entity, which owns and is developing the land and infrastructure components of the project (the Land and Infrastructure Entity), obtained construction financing totaling $96.5 million collateralized by the Wisconsin Place development project in Chevy Chase, Maryland. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties. The construction financing bears interest at a variable rate equal to LIBOR plus 1.50% per annum and matures in March 2009 with a one-year extension option. The Company has guaranteed approximately $4.6 million of the loan amount on behalf of the Land and Infrastructure Entity.

The Company placed-in-service 901 New York Avenue, a 539,000 net rentable square foot Class A office property located in Washington, D.C., in which the Company has a 25% interest. At September 30, 2005, the property was 96% leased.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The combined summarized balance sheets of the unconsolidated joint ventures are as follows:

	September 30, 2005	December 31, 2004
	(in thousands)	
ASSETS		
Real estate and development in process, net	$ 708,666	$ 639,257
Other assets	77,303	86,756
Total assets	$ 785,969	$ 726,013
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable (1)	$ 560,410	$ 531,492
Other liabilities	11,365	10,535
Members /Partners equity	214,194	183,986
Total liabilities and members /partners equity	$ 785,969	$ 726,013
Company s share of equity	$ 93,578	$ 78,177
Basis differentials (2)	2,733	2,778
Carrying value of the Company s investments in unconsolidated joint ventures	$ 96,311	$ 80,955

(1) The Company and its partner in the 901 New York Avenue venture had agreed to guarantee up to $3.0 million and $9.0 million, respectively, of mortgage financing on behalf of the joint venture entity. The joint venture partner had pledged cash for its $9.0 million guarantee. The guarantees were released by the lender in April 2005.

The Company and its third-party joint venture partners in the Wisconsin Place ventures have guaranteed the seller financing totaling $23.5 million related to the acquisition of the land by the Land and Infrastructure Entity. The fair value of the Company s stand-ready obligation related to the issuance of this guarantee is immaterial. In addition, the Company has agreed to guarantee up to approximately $4.6 million of the construction loan on behalf of the Land and Infrastructure Entity.

(2) This amount represents the aggregate difference between the Company s historical cost basis reflected and the basis reflected at the joint venture level, which is typically amortized over the life of the related asset. Basis differentials occur primarily upon the transfer of assets that were previously owned by the Company into a joint venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the joint venture level.

The combined summarized statements of operations of the joint ventures are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
	(in thousands)		(in thousands)	
Total revenue	$ 23,972	$ 14,882	$ 71,295	$ 49,231
Expenses				
Operating	7,847	5,146	23,125	15,359
Interest	8,166	5,032	24,103	15,941
Depreciation and amortization	5,773	3,527	16,686	10,808
Total expenses	21,786	13,705	63,914	42,108
Net income	$ 2,186	$ 1,177	$ 7,381	$ 7,123
Company s share of net income	$ 1,117	$ 460	$ 3,299	$ 2,716

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Mortgage Notes Payable

On February 17, 2005, the Company obtained construction financing of up to $47.2 million collateralized by the Capital Gallery property in Washington, D.C. Capital Gallery is a Class A office property currently totaling approximately 397,000 net rentable square feet. The purpose of the financing is to fund a portion of the cost of an expansion project at the property. The expansion project entails removing a three-story low-rise section of the property comprised of 100,000 net rentable square feet from in-service status and redeveloping it into a ten-story office building. Upon completion, the total complex size will approximate 610,000 net rentable square feet. The construction financing bears interest at a variable rate equal to LIBOR plus 1.65% per annum and matures in February 2008. At September 30, 2005, the outstanding balance on the construction loan facility was $8.5 million. The construction financing is provided by the same lender as the existing mortgage loan collateralized by the property, which, at September 30, 2005, had an outstanding principal balance of approximately $51.0 million and bears interest at a fixed rate equal to 8.24% per annum with a maturity in August 2006. The agreement with the lender provides an extension provision for the existing mortgage loan to coincide with the February 2008 maturity date of the construction financing.

On April 12, 2005, the Company obtained construction financing of up to $125.0 million collateralized by its Seven Cambridge Center development project located in Cambridge, Massachusetts. Seven Cambridge Center is a fully-leased, build-to-suit project with approximately 231,000 net rentable square feet of office, research laboratory and retail space plus parking for approximately 800 cars. The construction financing bears interest at a variable rate equal to LIBOR plus 1.25% per annum and matures in April 2007 with a one-year extension option. At September 30, 2005, the outstanding balance on the construction loan facility was $73.6 million.

In connection with the sale of the Old Federal Reserve on April 20, 2005, the Company modified the mortgage loans collateralized by Embarcadero Center One, Two and the Old Federal Reserve properties totaling approximately $293.8 million. The modification consisted solely of the release of the Old Federal Reserve property from the collateral in exchange for the payment of a release fee totaling approximately $0.6 million. As the modification was not considered substantial, the Company has amortized the release fee and remaining unamortized deferred financing costs over the remaining term of the modified mortgage loans using the effective interest method.

On May 12, 2005, the Company modified its $83.8 million mortgage loan collateralized by 601 and 651 Gateway Boulevard located in South San Francisco, California. The loan required monthly payments equal to the net cash flow from the property which was allocated first to interest based on a rate of 3.50% per annum with the remainder applied to principal. The loan was scheduled to mature in September 2006 with an option held by the lender, subject to certain conditions, to extend the term to October 2010. If extended, the loan was to require payments of principal and interest at a fixed interest rate of 8.00% per annum based on a 27-year amortization period. The loan provided for the payment of contingent interest up to a maximum of $10.8 million, under certain circumstances, during the extension period. The modified mortgage loan of $83.8 million matures on December 31, 2005 and continues to require monthly payments equal to the net cash flow from the property, which will be allocated first to interest based on a rate of 3.50% per annum with the remainder applied to principal, through the end of the term, with a balloon payment due at maturity. In addition, the Operating Partnership has guaranteed the repayment of the mortgage loan. The Company has not recognized any gain or loss as a result of the modification, and has accounted for the modified terms prospectively.

In connection with the sale of 100 East Pratt Street on May 12, 2005, the Company repaid the mortgage loans collateralized by the property totaling approximately $84.0 million. During the nine months ended September 30, 2005, the Company recognized a loss from early

extinguishment of debt totaling approximately $6.7 million, consisting of prepayment fees of approximately $6.5 million and the write-off of unamortized

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deferred financing costs of approximately $0.2 million. The mortgage loans bore interest at a fixed rate of 6.73% per annum and were scheduled to mature in November 2008.

In connection with the sale of Riverfront Plaza on May 16, 2005, the Company repaid the mortgage loan collateralized by the property totaling approximately $104.0 million. During the nine months ended September 30, 2005, the Company recognized a loss from early extinguishment of debt totaling approximately $4.3 million, consisting of a prepayment fee. The mortgage loan bore interest at a fixed rate of 6.61% per annum and was scheduled to mature in February 2008.

On June 21, 2005, the Company refinanced its construction loan facility collateralized by Times Square Tower located in New York City. The original construction loan facility totaled $475.0 million and was comprised of two tranches. The first tranche consisted of a $300.0 million loan commitment bearing interest at LIBOR plus 0.90% per annum and maturing in January 2006. The first tranche included a provision for a one-year extension at the option of the Company. The second tranche consisted of a $175.0 million term loan bearing interest at LIBOR plus 1.00% per annum and maturing in January 2007. On June 21, 2005, the outstanding balance under the construction loan facility was $448.4 million. During the nine months ended September 30, 2005, the Company recognized a loss from early extinguishment of debt totaling approximately $1.8 million, consisting of the write-off of unamortized deferred financing costs. The new mortgage loan totaling $475.0 million bears interest at a variable rate equal to LIBOR plus 0.50% per annum and matures on July 9, 2008. The new mortgage loan includes provisions for two one-year extensions at the option of the Company. In addition, the Company entered into an agreement to cap the interest rate at 10.5% per annum.

On July 19, 2005, the Company refinanced at maturity its mortgage loan collateralized by 599 Lexington Avenue located in New York City. The mortgage loan totaling $225.0 million bore interest at a fixed rate of 7.00% per annum. The mortgage loan was refinanced through a $225.0 million secured draw from the Company s revolving credit facility.

During August 2005, the Company entered into forward-starting interest rate swap contracts which fix the ten-year treasury rate for a financing in February 2007 at a weighted-average rate of 4.32% per annum on notional amounts aggregating $425.0 million, which go into effect in February 2007 and expire in February 2017. The Company entered into the interest rate swap contracts designated and qualifying as a cash flow hedges to reduce its exposure to the variability in future cash flows attributable to changes in the Treasury rate in contemplation of obtaining ten-year fixed-rate financing in early 2007. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments. The Company has formally documented all of its relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses and documents, both at the hedging instrument s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. All components of the forward-starting interest rate swap contracts were included in the assessment of hedge effectiveness. At September 30, 2005, derivatives with a fair value of $3.4 million were included in Prepaid Expenses and Other Assets and derivatives with a fair value of $0.3 million were included in Other Liabilities within the Company s Consolidated Balance Sheets. The Company has recorded the changes in fair value of the swap contracts related to the effective portion of the interest rate contracts totaling approximately $3.1 million in Accumulated Other Comprehensive Income (Loss) within the Company s Consolidated Balance Sheets. The amount of hedge ineffectiveness was not material. The accumulated comprehensive income (loss) will be reclassified to interest expense over the term of the forecasted fixed-rate debt. The Company does not expect to reclassify any amounts recorded within accumulated other comprehensive income (loss) relating to the forward-starting interest rate swap contracts within the next twelve months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Unsecured Line of Credit

On May 19, 2005, the Company modified its $605.0 million unsecured revolving credit facility (the Unsecured Line of Credit) by extending the maturity date from January 17, 2006 to October 30, 2007, with a provision for a one-year extension at the option of the Company, subject to certain conditions, and by reducing the per annum variable interest rate on outstanding balances from Eurodollar plus 0.70% to Eurodollar plus 0.65% per annum. Under the Unsecured Line of Credit, a facility fee equal to 15 basis points per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in the Operating Partnership s unsecured debt ratings. The Unsecured Line of Credit involves a syndicate of lenders. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a reduced Eurodollar rate. For those lenders that participated in both the original facility and the modified facility, the initial direct debt issuance costs and the costs incurred with the modification are being amortized over the new term of the facility. For the lender that did not participate in the modification, the Company has reflected the write-off of the unamortized initial direct debt issuance costs as an extinguishment of debt, which did not have a significant impact on the Company s Consolidated Financial Statements. At September 30, 2005, the Company had an outstanding balance of $225.0 million which is collateralized by the Company s 599 Lexington Avenue property and therefore is included in Mortgage Notes Payable in the Company s Consolidated Balance Sheet.

The terms of the Unsecured Line of Credit require that the Company maintain a number of customary financial and other covenants on an ongoing basis, including: (1) a leverage ratio not to exceed 60%, however for a single period of not more than five consecutive quarters the leverage ratio can exceed 60% (but may not exceed 65%), (2) a secured debt leverage ratio not to exceed 55%, (3) a fixed charge coverage ratio of at least 1.40, (4) an unsecured leverage ratio not to exceed 60%, (5) a minimum net worth requirement, (6) an unsecured interest coverage ratio of at least 1.75 and (7) limitations on permitted investments, development, partially owned entities, business outside of commercial real estate and commercial non-office properties.

7. Commitments and Contingencies

General

In the normal course of business, the Company guarantees its performance of services or indemnifies third parties against its negligence.

The Company has letter of credit and performance obligations of approximately $19.7 million related to lender and development requirements.

The Company and its third-party joint venture partners have guaranteed the seller financing totaling $23.5 million related to the acquisition of the land by the WP Project Developer LLC, the Land and Infrastructure Entity of the Wisconsin Place joint venture entities. In addition, the

Company has agreed to guarantee up to approximately $4.6 million of the construction loan on behalf of WP Project Developer LLC.

The Company had agreed to guarantee up to $3.0 million of mortgage financing on behalf of its 901 New York Avenue joint venture entity. The guarantee was released by the lender in April 2005.

The Company s agreement for its Citigroup Center joint venture includes a provision whereby, after a certain specified time, the joint venture partner has the right to initiate a purchase or sale of its interest in the joint venture. Under this provision, the Company is compelled to purchase, at fair value, the joint venture partner s interest. Certain of the Company s other joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures. Under

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

these other provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

Insurance

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act, or TRIA, was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute) through December 31, 2004, which date was extended to December 31, 2005 by the United States Department of Treasury on June 18, 2004. TRIA expires on December 31, 2005, and the Company cannot currently anticipate whether it will be extended. Effective as of April 15, 2005, the Company s property insurance program per occurrence limits were increased from $890 million to $1 billion, including coverage for both certified and non-certified acts of terrorism as defined by TRIA. The Company also carries nuclear, biological and chemical terrorism insurance coverage (NBC Coverage) for certified acts of terrorism as defined by TRIA, which is provided by IXP, Inc. as a direct insurer. Effective as of April 1, 2005, the Company extended the NBC Coverage to March 1, 2006 and the per occurrence limit for the NBC Coverage was increased from $640 million to $890 million. Effective as of May 2, 2005, this limit for NBC Coverage was increased to $1 billion. Under TRIA, the NBC Coverage is backstopped by the Federal Government after the payment of the required deductible and 10% coinsurance. In the event TRIA is not extended beyond December 31, 2005, (1) the NBC Coverage provided by IXP will terminate, and (2) a portion of the Company s coverage for what would have constituted certified and non-certified acts of terrorism (other than NBC Coverage) had TRIA not expired will terminate and the Company will have the right to replace a portion of such terminated coverage. In the event TRIA is extended on terms which could expose IXP to a material increase in risk, the Company may elect to terminate the NBC coverage provided by IXP. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain insurance in amounts and on terms that are commercially reasonable.

The Company also currently carries earthquake insurance on its properties located in areas known to be subject to earthquakes in an amount and subject to deductibles and self-insurance that it believes is commercially reasonable. Specifically, the Company currently carries earthquake insurance which covers its San Francisco portfolio with a $120 million per occurrence limit and a $120 million aggregate limit, $20 million of which is provided by IXP, Inc., as a direct insurer. The amount of the Company s earthquake insurance coverage may not be sufficient to cover losses from earthquakes. As a result of increased costs of coverage and limited availability, the amount of third-party earthquake insurance that the Company may be able to purchase on commercially reasonable terms may be reduced. In addition, the Company may discontinue earthquake insurance on some or all of its properties in the future if the premiums exceed the Company s estimation of the value of the coverage.

In January 2002, the Company formed a wholly-owned taxable REIT subsidiary, IXP, Inc., or IXP, to act as a captive insurance company and be one of the elements of its overall insurance program. IXP acts as a direct insurer with respect to a portion of the Company s earthquake insurance coverage for its Greater San Francisco properties and its NBC Coverage for certified acts of terrorism under TRIA. Insofar as the Company owns IXP, it is responsible for its liquidity and capital resources, and the accounts of IXP are part of the Company s consolidated financial statements. If the Company experiences a loss and IXP is required to pay under its insurance policy, the Company would ultimately record the loss to the extent of IXP s required payment. Therefore, insurance coverage provided by IXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

The Company continues to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but it cannot anticipate what coverage will be available on

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

commercially reasonable terms in future policy years. There are other types of losses, such as from wars or the presence of mold at the Company s properties, for which it cannot obtain insurance at all or at a reasonable cost. With respect to such losses and losses from acts of terrorism, earthquakes or other catastrophic events, if the Company experiences a loss that is uninsured or that exceeds policy limits, it could lose the capital invested in the damaged properties, as well as the anticipated future revenues from those properties. Depending on the specific circumstances of each affected property, it is possible that the Company could be liable for mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect the Company s business and financial condition and results of operations.

8. Minority Interests

Minority interests relate to the interest in the Operating Partnership not owned by the Company and interests in property partnerships not wholly-owned by the Company. As of September 30, 2005, the minority interest in the Operating Partnership consisted of 21,413,724 OP Units, 380,820 LTIP Units and 3,701,335 Series Two Preferred Units (or 4,857,395 OP Units on an as converted basis) held by parties other than the Company.

The minority interests in property partnerships consist of the outside equity interests in the ventures that own Citigroup Center and the office entity at Wisconsin Place. These ventures are consolidated with the financial results of the Company because the Company exercises control over the entities that own the properties. The equity interests in the ventures that are not owned by the Company, totaling approximately $19.1 million and $26.9 million at September 30, 2005 and December 31, 2004, respectively, are included in Minority Interests on the accompanying Consolidated Balance Sheets. The minority interest holder s share of income for Citigroup Center is reflective of the Company s preferential return on and of its capital.

On August 15, 2005, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.89239 per unit.

During August 2005, 381,000 Series Two Preferred Units of the Operating Partnership were converted by the holders into 500,000 OP Units. The OP Units were subsequently presented by the holders for redemption and were redeemed by the Company in exchange for an equal number of shares of Common Stock. The aggregate book value of the Preferred Units that were converted, as measured for each Preferred Unit on the date of its conversion, was approximately $13.2 million. The difference between the aggregate book value and the purchase price of these Preferred Units was approximately $22.3 million, which increased the recorded value of the Company s net assets. In addition, the Company paid the accrued preferred distributions due to the holders of Preferred Units that were converted.

The Preferred Units at September 30, 2005 consist solely of 3,701,335 Series Two Preferred Units, which bear a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) an increasing rate, ranging from 5.00% to 7.00% per annum (7.00% for the three months ended September 30, 2005 and 2004) on a liquidation preference of $50.00 per unit, and are convertible into OP Units at a rate of $38.10 per Preferred Unit (1.312336 OP Units for each Preferred Unit). Distributions to holders of Preferred Units are recognized on a straight-line basis that approximates the effective interest method.

On July 21, 2005, Boston Properties, Inc., as general partner of the Operating Partnership, declared a special cash distribution on the OP Units and LTIP Units in the amount of $2.50 per unit payable on October 31, 2005 to unitholders of record as of the close of business on September 30, 2005. The special cash distribution is in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

addition to the regular quarterly distribution of $0.68 per unit which was declared by Boston Properties, Inc., as general partner of the Operating Partnership, on September 19, 2005 and paid on October 31, 2005 to unitholders of record as of the close of business on September 30, 2005.

Holders of Series Two Preferred Units will participate in the special cash distribution on an as-converted basis in connection with their regular February 2006 distribution payment as provided for in the Operating Partnership s partnership agreement. As a result, the Company has accrued approximately $12.1 million related to the special cash distribution payable to holders of the Series Two Preferred Units and has allocated earnings to the Series Two Preferred Units of approximately $12.1 million, which amount has been reflected in Minority Interest in Operating Partnership within the Consolidated Statements of Operations for the three and nine months ended September 30, 2005.

On July 29, 2005, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit to holders of record as of the close of business on June 30, 2005.

On September 26, 2005, the Operating Partnership issued 253,860 OP Units to the owners of its joint venture partner as consideration for the Company s 50% interest in the joint venture which is developing 505 9 Street in Washington, D.C.

9. Stockholders Equity

As of September 30, 2005, the Company had 112,500,887 shares of Common Stock outstanding.

On July 21, 2005, the Board of Directors of the Company declared a special cash dividend of $2.50 per share of Common Stock payable on October 31, 2005 to shareholders of record as of the close of business on September 30, 2005. The special cash dividend is in addition to the regular quarterly dividend of $0.68 per share of Common Stock which was declared by the Company s Board of Directors on September 19, 2005 and paid on October 31, 2005 to shareholders of record as of the close of business on September 30, 2005.

On July 29, 2005, the Company paid a dividend in the amount of $0.68 per share of Common Stock to shareholders of record as of the close of business on June 30, 2005.

During the nine months ended September 30, 2005, the Company issued 913,976 shares of its Common Stock in connection with the redemption of an equal number of OP Units.

During the nine months ended September 30, 2005, the Company issued 1,240,060 shares of its Common Stock upon the exercise of options to purchase Common Stock by certain employees.

10. Discontinued Operations

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

At September 30, 2005, the Company had designated as held for sale 40-46 Harvard Street, an industrial property totaling approximately 152,000 net rentable square feet located in Westwood, Massachusetts. The

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company completed the sale on November 7, 2005 (See Note 16). The sale price exceeded the carrying value of the property. The Company has presented this property as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented.

During the nine months ended September 30, 2005, the Company sold the following operating properties:

Old Federal Reserve, a Class A office property totaling approximately 150,000 net rentable square feet located in San Francisco, California;

100 East Pratt Street, a Class A office property totaling approximately 639,000 net rentable square feet located in Baltimore, Maryland; and

Riverfront Plaza, a Class A office property totaling approximately 910,000 net rentable square feet located in Richmond, Virginia.

During the year ended December 31, 2004, the Company sold the following operating properties:

430 Rozzi Place, an industrial property totaling 20,000 net rentable square feet located in South San Francisco, California;

Hilltop Office Center, a complex of nine office/technical properties totaling approximately 143,000 net rentable square feet located in South San Francisco, California;

Sugarland Business Park Building Two, an office/technical property totaling approximately 59,000 net rentable square feet located in Herndon, Virginia;

Decoverly Two, Three, Six and Seven, consisting of Two Class A office properties totaling approximately 155,000 net rentable square feet and two land parcels, one of which is subject to a ground lease, located in Rockville, Maryland;

The Arboretum, a Class A office property totaling approximately 96,000 net rentable square feet located in Reston, Virginia;

38 Cabot Boulevard, an industrial property totaling approximately 161,000 net rentable square feet located in Langhorne, Pennsylvania;

Sugarland Business Park Building One, an office/technical property totaling approximately 52,000 net rentable square feet located in Herndon, Virginia;

204 Second Avenue, a Class A office property totaling approximately 41,000 net rentable square feet located in Waltham, Massachusetts; and

560 Forbes Boulevard, an industrial property totaling approximately 40,000 net rentable square feet located in South San Francisco, California.

Due to the Company s continuing involvement in the management, for a fee, of the 100 East Pratt Street, Riverfront Plaza and Hilltop Office Center properties through agreements with the buyers, these properties are not categorized as discontinued operations in the accompanying Consolidated Statements of Operations. As a result, the gains on sales related to 100 East Pratt Street, Riverfront Plaza and Hilltop Office Center have been reflected under the caption Gains on sales of real estate, net of minority interest, in the Consolidated Statements of Operations. The Company has presented the other properties listed above as discontinued operations in its Consolidated Statements of Operations for the three and nine months ended September 30, 2005 and 2004, as applicable.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes income from discontinued operations (net of minority interests) and the related realized gains on sales of real estate from discontinued operations (net of minority interests) for the three and nine months ended September 30, 2005 and 2004 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
Total revenue	$ 19	$ 933	$ 223	$ 7,251
Operating expenses	(105)	(798)	(723)	(3,096)
Interest expense				
Depreciation and amortization	(2)	(1,080)	(186)	(2,353)
Minority interest in property partnership		(53)		(164)
Minority interest in Operating Partnership	14	167	112	(282)
Income (loss) from discontinued operations (net of minority interests)	$ (74)	$ (831)	$ (574)	$ 1,356
Realized gains on sales of real estate	$	$ 5,009	$ 10,141	$ 33,184
Minority interest in property partnership				(1,512)
Minority interest in Operating Partnership		(859)	(1,744)	(5,471)
Realized gains on sales of real estate (net of minority interests)	$	$ 4,150	$ 8,397	$ 26,201

The Company s application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2005 and 2004 as income from discontinued operations for the three and nine months ended September 30, 2005 and 2004. In addition, SFAS No. 144 results in the gains on sale of these qualifying properties to be reflected as gains on sales of real estate from discontinued operations in the accompanying Consolidated Statements of Operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

11. Earnings Per Share

Earnings per share (EPS) has been computed pursuant to the provisions of SFAS No. 128. The following table provides a reconciliation of both the net income and the number of common shares used in the computation of basic EPS, which is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. During 2004, the Company adopted EITF 03-6 Participating Securities and the Two-Class Method under FASB 128 (EITF 03-6), which provides further guidance on the definition of participating securities. Pursuant to EITF 03-6, the Operating Partnership s Series Two Preferred Units, which are reflected as Minority Interests in the Company s Consolidated Balance Sheets, are considered participating securities and are included in the computation of basic and

diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. The terms of the Series Two Preferred Units enable the holders to obtain OP Units of the Operating Partnership, as well as Common Stock of the Company. Accordingly, for the reporting periods in which the Operating Partnership s net income is in excess of distributions paid on the OP Units, LTIP Units and Series Two Preferred Units, such income is allocated to the OP Units, LTIP Units and Series Two Preferred Units in proportion to their respective interests and the impact is included in the Company s consolidated basic and diluted earnings per share computation due to its holding of the Operating Partnership s securities. Prior periods of the Company have been restated to conform to the provisions of EITF 03-6. There were no amounts required to be allocated to the Series Two

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Preferred Units for the three and nine months ended September 30, 2005 and the three months ended September 30, 2004. For the nine months ended September 30, 2004, approximately $0.5 million was allocated to the Series Two Preferred Units in excess of distributions paid during the reporting period and is included in the Company s computation of basic and diluted earnings per share. Other potentially dilutive common shares, including securities of the Operating Partnership that are exchangeable for the Company s Common Stock, and the related impact on earnings are considered when calculating diluted EPS.

	For the three months ended September 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings	$ 57,625	111,776	$ 0.51
Discontinued operations, net of minority interest	(74)		
Allocation of undistributed earnings			
Net income available to common shareholders	57,551	111,776	0.51
Effect of Dilutive Securities:			
Stock Based Compensation		2,314	(0.01)
Diluted Earnings:			
Net income	$ 57,551	114,090	$ 0.50

	For the three months ended September 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings	$ 65,223	108,339	$ 0.60
Discontinued operations, net of minority interest	3,319		0.03
Allocation of undistributed earnings			
Net income available to common shareholders	68,542	108,339	0.63
Effect of Dilutive Securities:			
Stock Based Compensation		2,242	(0.01)

Diluted Earnings:			
Net income	$ 68,542	110,581	$ 0.62

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the nine months ended September 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings	$ 276,578	110,915	$ 2.49
Discontinued operations, net of minority interest	7,823		0.07
Allocation of undistributed earnings			
Net income available to common shareholders	284,401	110,915	2.56
Effect of Dilutive Securities:			
Stock Based Compensation		2,280	(0.05)
Diluted Earnings:			
Net income	$ 284,401	113,195	$ 2.51

	For the nine months ended September 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings	$ 194,113	105,492	$ 1.84
Discontinued operations, net of minority interest	27,557		0.26
Allocation of undistributed earnings	(543)		
Net income available to common shareholders	221,127	105,492	2.10
Effect of Dilutive Securities:			
Stock Based Compensation		2,226	(0.05)
Diluted Earnings:			
Net income	$ 221,127	107,718	$ 2.05

12. Stock Option and Incentive Plan

During the nine months ended September 30, 2005, the Company issued 12,317 shares of restricted stock and 211,408 LTIP Units under the stock option and incentive plan. The shares of restricted stock and LTIP Units were valued at an aggregate of approximately $0.7 million and $10.5 million, respectively, based on observable market prices for similar instruments. An LTIP Unit is generally the economic equivalent of a share of restricted stock in the Company. The aggregate value of the LTIP Units is not included in Unearned Compensation within Stockholders Equity because they are securities in the Operating Partnership and have been included in Minority Interests in the Consolidated Balance Sheets. Employees vest in restricted stock and LTIP Units over a five-year term. Restricted stock and LTIP Units are measured at fair value on the date of grant based on the number of shares or units granted, as adjusted for estimated forfeitures, and recognized as expense over the requisite service period. Dividends or distributions paid on both vested and unvested shares and units of restricted stock and LTIP Units are charged directly to Earnings in Excess of Dividends and Minority Interests, respectively, in the Consolidated Balance Sheets. In addition, in accordance with the modified prospective application transition provisions of SFAS No. 123R, the Company has recognized compensation expense of approximately $50,000 relating to its unvested

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stock options for the nine months ended September 30, 2005. All outstanding stock options are currently exercisable. Stock-based compensation expense, which is reflected in General and Administrative Expense in the Consolidated Statements of Operations, associated with all equity compensation plans was approximately $1.5 million and $1.0 million for the three months ended September 30, 2005 and 2004, respectively, and $5.2 million and $3.2 million during the nine months ended September 30, 2005 and 2004, respectively.

In connection with the declaration of the special cash dividend of $2.50 per share of Common Stock paid on October 31, 2005 to shareholders of record on September 30, 2005, the Company s Board of Directors approved adjustments to all its outstanding stock option awards that were intended to ensure that its employees, directors and other persons who hold such stock options are not disadvantaged by the planned special cash dividend. The exercise prices and number of all outstanding options were adjusted such that each option had the same fair value to the holder before and after giving effect to the payment of the special cash dividend. Accordingly, pursuant to the provisions of SFAS No. 123R, no compensation cost has been recognized in the Consolidated Statements of Operations in connection with such adjustments. As a result, effective as of the close of business on September 27, 2005, 4,325,656 outstanding stock options with a weighted-average exercise price of $38.96 were adjusted to 4,481,864 outstanding options with a weighted-average exercise price of $37.61. There were no other adjustments to the terms of the outstanding stock option awards.

13. Segment Information

The Company s segments are based on the Company s method of internal reporting which classifies its operations by both geographic area and property type. The Company s segments by geographic area are Greater Boston, Greater Washington, D.C., Midtown Manhattan, Greater San Francisco and New Jersey. Segments by property type include: Class A Office, Office/Technical, Industrial and Hotels.

Asset information by segment is not reported because the Company does not use this measure to assess performance. Therefore, depreciation and amortization expense is not allocated among segments. Interest and other income, development and management services, general and administrative expenses, interest expense, depreciation and amortization expense and losses from early extinguishments of debt are not included in Net Operating Income as the internal reporting addresses these items on a corporate level.

Net Operating Income is not a measure of operating results or cash flows from operating activities as measured by accounting principles generally accepted in the United States of America, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. All companies may not calculate Net Operating Income in the same manner. The Company considers Net Operating Income to be an appropriate supplemental measure to net income because it helps both investors and management to understand the core operations of the Company s properties.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information by geographic area and property type:

Three months ended September 30, 2005 (dollars in thousands):

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	$ 73,206	$ 51,382	$ 135,490	$ 49,395	$ 16,646	$ 326,119
Office/Technical	2,026	3,816				5,842
Industrial						
Hotels	20,139					20,139
Total	95,371	55,198	135,490	49,395	16,646	352,100
% of Total	27.08%	15.68%	38.48%	14.03%	4.73%	100.00%
Operating Expenses:						
Class A	26,381	13,447	44,095	18,970	7,010	109,903
Office/Technical	429	780				1,209
Industrial						
Hotels	13,786					13,786
Total	40,596	14,227	44,095	18,970	7,010	124,898
% of Total	32.51%	11.39%	35.30%	15.19%	5.61%	100.00%
Net Operating Income	$ 54,775	$ 40,971	$ 91,395	$ 30,425	$ 9,636	$ 227,202
% of Total	24.11%	18.03%	40.23%	13.39%	4.24%	100.00%

Three months ended September 30, 2004 (dollars in thousands):

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey	Total

Rental Revenue:						
Class A	$ 72,875	$ 62,048	$ 126,589	$ 49,339	$ 16,016	$ 326,867
Office/Technical	2,088	3,674				5,762
Industrial						
Hotels	19,768					19,768
Total	94,731	65,722	126,589	49,339	16,016	352,397
% of Total	26.89%	18.65%	35.92%	14.00%	4.54%	100.00%
Operating Expenses:						
Class A	25,554	16,942	40,102	18,425	6,557	107,580
Office/Technical	467	707				1,174
Industrial						
Hotels	13,709					13,709
Total	39,730	17,649	40,102	18,425	6,557	122,463
% of Total	32.44%	14.41%	32.75%	15.05%	5.35%	100.00%
Net Operating Income	$ 55,001	$ 48,073	$ 86,487	$ 30,914	$ 9,459	$ 229,934
% of Total	23.93%	20.91%	37.61%	13.44%	4.11%	100.00%

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Nine months ended September 30, 2005 (dollars in thousands):

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	$ 220,331	$ 171,120	$ 393,657	$ 149,011	$ 49,580	$ 983,699
Office/Technical	6,384	11,225				17,609
Industrial						
Hotels	54,207					54,207
Total	280,922	182,345	393,657	149,011	49,580	1,055,515
% of Total	26.61%	17.28%	37.29%	14.12%	4.70%	100.00%
Operating Expenses:						
Class A	79,307	45,256	122,342	54,685	20,725	322,315
Office/Technical	1,417	2,319				3,736
Industrial						
Hotels	40,051					40,051
Total	120,775	47,575	122,342	54,685	20,725	366,102
% of Total	32.99%	12.99%	33.42%	14.94%	5.66%	100.00%
Net Operating Income	$ 160,147	$ 134,770	$ 271,315	$ 94,326	$ 28,855	$ 689,413
% of Total	23.23%	19.55%	39.35%	13.68%	4.19%	100.00%

Nine months ended September 30, 2004 (dollars in thousands):

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	$ 213,752	$ 178,109	$ 352,447	$ 143,514	$ 52,164	$ 939,986
Office/Technical	6,425	10,488		134		17,047
Industrial						
Hotels	52,112					52,112

Total	272,289	188,597	352,447	143,648	52,164	1,009,145
% of Total	26.98%	18.69%	34.93%	14.23%	5.17%	100.00%
Operating Expenses:						
Class A	73,775	49,481	108,311	$ 53,220	21,065	305,852
Office/Technical	1,572	2,255		36		3,863
Industrial						
Hotels	38,763					38,763
Total	114,110	51,736	108,311	53,256	21,065	348,478
% of Total	32.75%	14.85%	31.08%	15.28%	6.04%	100.00%
Net Operating Income	$ 158,179	$ 136,861	$ 244,136	$ 90,392	$ 31,099	$ 660,667
% of Total	23.94%	20.72%	36.95%	13.68%	4.71%	100.00%

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a reconciliation of net operating income to net income available to common shareholders:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(in thousands)		(in thousands)	
Net operating income	$ 227,202	$ 229,934	$ 689,413	$ 660,667
Add:				
Development and management services income	4,923	5,832	13,596	15,115
Interest and other income	4,763	908	9,337	9,526
Minority interests in property partnerships	1,527	1,447	4,651	3,124
Income from unconsolidated joint ventures	1,117	460	3,299	2,716
Gains on sales of real estate, net of minority interest			102,175	8,132
Gains on sales of land held for development, net of minority interest			1,209	
Income (loss) from discontinued operations, net of minority interest	(74)	(831)	(574)	1,356
Gains on sales of real estate from discontinued operations, net of minority interest		4,150	8,397	26,201
Less:				
General and administrative expense	(13,270)	(13,002)	(42,335)	(38,095)
Interest expense	(75,700)	(77,698)	(233,287)	(226,792)
Depreciation and amortization expense	(65,905)	(65,480)	(201,102)	(181,853)
Losses from early extinguishments of debt			(12,896)	(6,258)
Minority interest in Operating Partnership	(27,032)	(17,178)	(57,482)	(52,169)
Net income available to common shareholders	$ 57,551	$ 68,542	$ 284,401	$ 221,670

14. Newly Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment (SFAS No. 123R). SFAS No. 123R replaces SFAS No. 123, Accounting for Stock Issued to Employees. SFAS No. 123R requires the compensation cost relating to share-based payment transactions be recognized in financial statements and be measured based on the fair value of the equity instrument issued. SFAS No. 123R is effective as of the first annual reporting period beginning after June 15, 2005. The Company adopted the fair value recognition provisions of SFAS No. 123R prospectively to all employee awards granted, modified, or settled on or after January 1, 2005, and applied the modified prospective application transition provisions, upon adoption. All of the Company s remaining unvested stock options vested on January 17, 2005. As a result, the Company s adoption of SFAS No. 123R did not have a material impact on the Company s cash flows, results of operations, financial position, or liquidity.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and SFAS Statement No. 3 (SFAS No. 154). SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring retrospective application to prior periods financial statements of the change in accounting principle, unless it is impracticable to do so. SFAS No. 154 also requires that a change in depreciation or amortization for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS No. 154 to have a material impact on the Company s cash flows, results of operations, financial position, or liquidity.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) regarding EITF 04-5, Investor s Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights (EITF 04-5). The conclusion provides a framework for addressing the question of when a sole general partner, as defined in EITF 04-5, should consolidate a limited partnership. Pursuant to EITF 04-5, the general partner of a limited partnership should consolidate a limited partnership unless the limited partners have either (a) the substantive ability to dissolve the limited partnership or otherwise remove the general partners without cause, or (b) substantive participating rights. In addition, EITF 04-5 concluded that the guidance should be expanded to include all limited partnerships, including those with multiple general partners. EITF 04-5 is effective for reporting periods in fiscal years beginning after December 15, 2005. The Company is currently evaluating and assessing the impact of this pronouncement.

15. Related Party Transaction

An entity controlled by Mr. Mortimer B. Zuckerman, Chairman of the Board of Directors of Boston Properties, Inc., owned an office building located at 2400 N Street, N.W. in Washington, D.C., in which a company affiliated with Mr. Zuckerman leased 100% of the building. The Company had entered into an agreement with an entity controlled by Mr. Zuckerman to manage this property on terms comparable with other third-party property management agreements that the Company currently has in place. The disinterested members of the Company s Board of Directors had approved the management agreement between the Company and Mr. Zuckerman s affiliate. Under the management agreement, the Company had also agreed to provide consulting services and assistance in connection with a possible sale of this property in exchange for a fee of $100,000 payable upon the closing of the sale of the property. During the nine months ended September 30, 2005, the entity controlled by Mr. Zuckerman closed on the sale of the property and pursuant to the management agreement the Company received and recognized $100,000 for consulting services and assistance in connection with the sale.

16. Subsequent Events

On October 1, 2005, the Company placed-in-service the West Garage phase of its Seven Cambridge Center development project located in Cambridge, Massachusetts. Seven Cambridge Center is a fully-leased, build-to-suit project with approximately 231,000 square feet of office, research laboratory and retail space plus parking for approximately 800 cars. The Company has signed a lease for 100% of the space with the Massachusetts Institute of Technology for occupancy by its affiliate, the Eli and Edythe L. Broad Institute.

On October 4, 2005, the Company repaid the mortgage loan collateralized by its Embarcadero Center West Tower property totaling approximately $90.8 million using approximately $72.8 million of available cash and $18.0 million drawn under the Company s Unsecured Line of Credit. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.50% per annum and was scheduled to mature on January 1, 2006.

On November 4, 2005, the Company sold the Residence Inn by Marriot®, a 221-room extended-stay hotel property located in Cambridge, Massachusetts, at a gross sale price of approximately $68.0 million, less customary closing costs and a credit of approximately $3.0 million representing the property controlled furniture, fixtures and equipment escrow set aside for planned property upgrades. The sale price exceeded

the carrying value of the property.

On November 7, 2005, the Company sold 40-46 Harvard Street, an industrial property totaling approximately 152,000 net rentable square feet located in Westwood, Massachusetts, at a sale price of approximately $7.8 million. The sale price exceeded the carrying value of the property.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 9, 2005, the Company executed a contract for the sale of Embarcadero Center West Tower, a Class A office property totaling approximately 475,000 net rentable square feet located in San Francisco, California, at a gross sale price of approximately $205.8 million, less customary closing costs and unfunded tenant obligations. The sale is subject to the satisfaction of customary closing conditions. The anticipated sale price exceeds the carrying value of the property.

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ITEM 2 ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

As used herein, the terms we, us, our or the Company refer to Boston Properties, Inc., a Delaware corporation organized in 1997, individually o together with its subsidiaries, including Boston Properties Limited Partnership, a Delaware limited partnership, and our predecessors.

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. We caution investors that any forward-looking statements presented in this report, or which management may make orally or in writing from time to time, are based on management s beliefs and assumptions made by, and information currently available to, management. When used, the words anticipate, believe, estimate, expect, intend, may, might, plan, project, result, should, will and similar expressions which do not relate solely to hi 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:

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments including the risk associated with interest rates impacting the cost and/or availability of financing;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;
- 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 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;
- risks associated with the impact on our insurance program if TRIA, which expires on December 31, 2005, is not extended, or is extended on different terms;
- 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, and possible adverse changes in tax and environmental laws;

risks associated with possible state and local tax audits;

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risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in our most recently filed annual report on Form 10-K, including those described under the caption Risk Factors.

The risks set forth above are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can it 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 annual reports on Form 10-K and our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise. 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 real estate investment trust (REIT) and one of the largest owners and developers of Class A office properties in the United States. Our properties are concentrated in five markets Boston, midtown Manhattan, Washington, D.C., Princeton, New Jersey and San Francisco. We generate revenue and cash primarily by leasing our Class A office space to our tenants. Factors we consider when we lease space include creditworthiness of the tenant, the length of the lease, the rental rate to be paid, costs of tenant improvements, operating costs and real estate taxes, vacancy, current and anticipated future demand for office space and general economic factors.

The office markets in which we operate continued to show signs of improvement during the third quarter of 2005. In addition, our portfolio experienced strong rental rate growth over the past twelve month period in our New York City, San Francisco, Northern Virginia and Waltham, MA. markets and each of our markets has shown positive absorption.

We believe that investors will continue to place a premium on high-quality, well-located office buildings resulting in a reduction in total return expectations and higher valuations. We continue to review our portfolio with the possibility of additional sales. However, these conditions also make it more difficult to acquire assets at what we believe to be attractive rates of return over our long term investment horizon.

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Given current market conditions, we believe the returns we can generate from development are generally greater than those we could expect to realize from acquisitions. As a result, we continue to pursue new development opportunities, which is one of our core capabilities. We are also considering alternative uses (i.e., non-office) for some of our land holdings and may participate or undertake alternative development projects. In the third quarter of 2005, we commenced construction on our joint venture project located at 505 9th Street in Washington, D.C. We currently have five active construction projects underway, which aggregate an estimated total investment of $357.4 million, as well as several opportunities within our pipeline. Our Seven Cambridge and Parcel E (12290 Sunrise Valley) projects are fully leased to Massachusetts Institute of Technology and Lockheed Martin Corporation, respectively. Our overall leased percentage for Properties Under Construction is 82% as of November 4, 2005. Our estimated total investment for our properties under construction as of September 30, 2005 is detailed below:

Properties Under Construction	Location	Estimated Total Investment
		(in thousands)
Seven Cambridge Center and West Garage	Cambridge, MA	$ 145,934
Parcel E (12290 Sunrise Valley)	Reston, VA	45,754
Capital Gallery Expansion	Washington, D.C.	69,100
Wisconsin Place Land and Infrastructure (23.89% ownership)	Chevy Chase, MD	31,626
505 9th Street (50% ownership)	Washington, D.C.	65,000
Total Properties Under Construction		$ 357,414

The highlights of the three months ended September 30, 2005 included the following:

On July 19, 2005, we refinanced at maturity our mortgage loan collateralized by 599 Lexington Avenue located in New York City. The mortgage loan totaling $225.0 million bore interest at a fixed rate of 7.0% per annum. The mortgage loan was refinanced through a $225.0 million secured draw from our revolving credit facility.

On July 21, 2005, our Board of Directors declared a special cash dividend of $2.50 per common share which was paid on October 31, 2005 to shareholders of record as of the close of business on September 30, 2005. The special cash dividend was in addition to the regular quarterly dividend of $0.68 per common share that was paid on October 31, 2005. The holders of common units of limited partnership interest in our Operating Partnership received the same amount, at the same time. Holders of Series Two Preferred Units of limited partnership interest will participate in the special cash dividend on an as-converted basis in connection with their regular February 2006 distribution payment as provided in the Operating Partnership s partnership agreement.

From August 3, 2005 through September 21, 2005, we entered into nine forward-starting interest rate swap contracts which fix the 10-year treasury rate for a financing in February 2007 at a weighted average rate of 4.32% per annum on notional amounts aggregating $425 million. The swaps go into effect in February 2007 and expire in February 2017.

On August 5, 2005, we executed a contract for the sale of 40-46 Harvard Street, an industrial property totaling approximately 152,000 net rentable square feet located in Westwood, Massachusetts, at a sale price of approximately $7.8 million. We completed the sale on November 7, 2005.

On September 26, 2005, we commenced construction on the previously announced joint venture project consisting of a build-to-suit Class A office property located at 505 9th Street in Washington, D.C. totaling 323,000 net rentable square feet, of which 230,000 net rentable square feet have been pre-leased to a law firm for a 15-year term. In conjunction with the commencement of construction, our Operating Partnership issued approximately 254,000 common units of limited partnership interest and cash of approximately $4.9

million to the owners of our joint venture partner as consideration for our 50% interest in the joint venture. The joint venture partner had contributed the land for its 50% interest.

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Transactions completed subsequent to September 30, 2005:

On October 1, 2005, we placed-in-service the West Garage phase of our Seven Cambridge Center development project located in Cambridge, Massachusetts. Seven Cambridge Center is a fully-leased, build-to-suit project with approximately 231,000 square feet of office, research laboratory and retail space plus parking for approximately 800 cars. We have signed a lease for 100% of the space with the Massachusetts Institute of Technology for occupancy by its affiliate, the Eli and Edythe L. Broad Institute. We expect the remaining development to be completed in the first quarter of 2006.

On October 4, 2005, we repaid the mortgage loan collateralized by our Embarcadero Center West Tower property totaling approximately $90.8 million using approximately $72.8 million of available cash and $18.0 million drawn under our Unsecured Line of Credit. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.50% per annum and was scheduled to mature on January 1, 2006.

On November 4, 2005, we sold the Residence Inn by Marriot®, a 221-room extended-stay hotel property located in Cambridge, Massachusetts, at a gross sale price of approximately $68.0 million, less customary closing costs and a credit of approximately $3.0 million representing the property controlled furniture, fixtures and equipment escrow set aside for planned property upgrades.

On November 9, 2005, we executed a contract for the sale of Embarcadero Center West Tower, a Class A office property totaling approximately 475,000 net rentable square feet located in San Francisco, California, at a gross sale price of approximately $205.8 million, less customary closing costs and unfunded tenant obligations. The sale is subject to the satisfaction of customary closing conditions.

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, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above- and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost. We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, 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 tenant s credit quality and

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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. 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.

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition 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.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. An asset is considered impaired when the undiscounted future cash flows are not sufficient to recover the asset s carrying value. If such impairment is 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 as defined by SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) 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. No such impairment losses have been recognized to date.

SFAS No. 144, which was adopted on January 1, 2002, 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) on the eventual disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan which will be repaid or assigned upon sale). Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of our properties. After 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 is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on our development properties is guided by SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and Initial Rental Operations of Real Estate Projects. The costs of land and building under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential 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 consider a construction project as substantially completed and held available for

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occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portions substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portions under construction.

Investments in Unconsolidated Joint Ventures

Except for ownership interests in a variable interest entity, we account for our investments in joint ventures under the equity method of accounting because we exercise significant influence over, but do not control, these entities. These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and are subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over 40 years. Under the equity method of accounting, our net equity is reflected on the consolidated balance sheets, and our share of net income or loss from the joint ventures is included on 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. For ownership interests in variable interest entities, we consolidate those in which we are the primary beneficiary.

Revenue Recognition

Base rental revenue is reported on a straight-line basis over the terms of our respective leases. In accordance with SFAS No. 141, 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 represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements.

Our leasing strategy is generally to secure financially stable 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 values. When assessing a tenant s credit quality, we:

- review relevant financial information regarding the tenant, including:
  - financial ratios;
  - net worth;
  - debt to market capitalization; 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:

low risk tenants;

the tenant s credit is such that we require collateral in which case we:

require security deposit; and/or

reduce up-front tenant improvement investment; or

the tenant s credit is below our acceptable parameters.

We maintain a rigorous process of monitoring 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

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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 1-4 with a rating of 1 representing the highest possible rating with no allowance recorded and a rating of 4 representing the lowest credit rating, recording a full reserve against the receivable balance. Among the factors considered in determining the credit ratings are:

- 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.

If our estimates of collectibility 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 was approximately 7.4 years as of September 30, 2005 calculated on a weighted average, based on net rentable square feet. 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 ongoing 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 Emerging Issues Task Force, or EITF, Issue 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent, or Issue 99-19. Issue 99-19 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.

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

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.

Gains on sales of real estate are recognized pursuant to the provisions of SFAS No. 66, Accounting for Sales of Real Estate. The specific timing of the sale is measured against various criteria in SFAS No. 66 related to the terms of the transactions and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, 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. In accordance with SFAS No. 141, we allocate the acquisition cost of real estate to land, building, tenant improvements, acquired above- and below-market leases, origination costs and acquired in-place leases based on management s assessment of their fair values 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.

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Results of Operations

The following discussion is based on our Consolidated Financial Statements for the three and nine months ended September 30, 2005 and 2004.

At September 30, 2005 and September 30, 2004, we owned or had interests in a portfolio of 123 and 126 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 are necessarily meaningful. Therefore, the comparison of operating results for the three and nine months ended September 30, 2005 and 2004 show separately the changes attributable to the properties that were owned by us throughout each period compared (the Same Property Portfolio) and the changes attributable to the Total Property Portfolio.

In our analysis of operating results, particularly to make comparisons of net operating income between periods meaningful, it is important to provide information for properties that were in-service and owned by us throughout each period presented. We refer to properties acquired or placed in-service prior to the beginning of the earliest period presented and owned by us 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 repositioned 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 available to common shareholders, the most directly comparable GAAP financial measure, plus minority interest in Operating Partnership, losses from early extinguishments of debt, depreciation and amortization, interest expense and general and administrative expenses, less gains on sales of real estate from discontinued operations (net of minority interest), income (loss) from discontinued operations (net of minority interest), gains on sales of real estate and land held for development (net of minority interest), income from unconsolidated joint ventures, minority interests in property partnerships, interest and other income and development and management services income. 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 perspective not immediately apparent from net income. NOI excludes certain components from net income 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 as presented in our consolidated financial statements. NOI should not be considered as an alternative to net income as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions.

Comparison of the nine months ended September 30, 2005 to the nine months ended September 30, 2004.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of the 112 properties totaling approximately 29.2 million net rentable square feet of office space (excluding approximately 8.7 million square feet of

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structured parking for approximately 28,602 vehicles). Same Property Portfolio includes three hotel properties, properties acquired or placed in-service on or prior to January 1, 2004 and owned through September 30, 2005. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after January 1, 2004 or disposed of on or prior to September 30, 2005. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the nine months ended September 30, 2005 and 2004 with respect to the properties which were acquired, placed in-service, repositioned or sold.

In September 2004, we commenced the redevelopment of our Capital Gallery property in Washington, D.C. Capital Gallery is a Class A office property currently totaling approximately 397,000 net rentable square feet. The project entails removing a three-story low-rise section of the property, which is comprised of 100,000 net rentable square feet, from in-service status and developing it into a ten-story office building resulting in a total complex size of approximately 610,000 net rentable square feet upon completion. This property is included in Properties Repositioned for the nine months ended September 30, 2005 and September 30, 2004.

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llars in usands)	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	Increase/ (Decrease)	% Change
tal Revenue:																
tal Revenue	$ 888,278	$ 872,757	$ 15,521	1.78%	$ 17,114	$ 34,088	$ 19,925	$ 12,905	$ 58,661	$ 22,793	$ 9,888	$ 11,133	$ 993,866	$ 953,676	$ 40,190	4.21
mination ome	7,273	3,348	3,925	117.23%		9			169				7,442	3,357	4,085	121.69
al Rental venue	895,551	876,105	19,446	2.22%	17,114	34,097	19,925	12,905	58,830	22,793	9,888	11,133	1,001,308	957,033	44,275	4.63
erating penses	304,276	289,483	14,793	5.11%	5,826	11,971	4,246	2,814	9,133	2,055	2,570	3,392	326,051	309,715	16,336	5.27
Operating ome, luding hotels	591,275	586,622	4,653	0.79%	11,288	22,126	15,679	10,091	49,697	20,738	7,318	7,741	675,257	647,318	27,939	4.32
el Net erating ome (1)	14,156	13,349	807	6.05%									14,156	13,349	807	6.05
nsolidated Operating ome (1)	605,431	599,971	5,460	0.91%	11,288	22,126	15,679	10,091	49,697	20,738	7,318	7,741	689,413	660,667	28,746	4.35
er Revenue:																
velopment Management vices													13,596	15,115	(1,519)	(10.05
erest and er													9,337	9,526	(189)	(1.98
al Other venue													22,933	24,641	(1,708)	(6.93
er Expenses:																
neral and ministrative ense													42,335	38,095	4,240	11.13
erest													233,287	226,792	6,495	2.86
preciation and ortization	179,564	164,800	14,764	8.96%	2,289	6,121	3,993	2,489	13,923	4,121	1,333	4,322	201,102	181,853	19,249	10.58
ses from y nguishments debt													12,896	6,258	6,638	106.07
al Other penses	179,564	164,800	14,764	8.96%	2,289	6,121	3,993	2,489	13,923	4,121	1,333	4,322	489,620	452,998	36,622	8.08
ome before nority erests	$ 425,867	$ 435,171	(9,304)	(2.14)%	8,999	$ 16,005	11,686	$ 7,602	35,774	$ 16,617	5,985	$ 3,419	$ 222,726	$ 232,310	(9,584)	(4.13
ome from onsolidated	$ 1,993	$ 2,397	$ (404)	(16.85)%	$	$ 303	$ 67	$ 4	$ 1,239	$ 12	$	$	3,299	2,716	583	21.47

t ventures									
ome (loss) m continued rations, net minority rest	$ (168)	$ (254)	$ 86	33.86%	$ (406)	$ 1,610	(574)	1,356	(1,930)	(142.33
nority rests in perty nerships							4,651	3,124	1,527	48.88
nority interest Operating nership							(57,482)	(52,169)	(5,313)	(10.18
ns on sales of estate, net of nority interest							102,175	8,132	94,043	1,156.46
ns on sales of d held for elopment, net minority rest							1,209		1,209	100.0
ns on sales of estate from continued rations, net minority rest							8,397	26,201	(17,804)	(67.95
Income ilable to mmon reholders							$ 284,401	$ 221,670	$ 62,731	28.30

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 35.

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Rental Revenue

The increase of $40.2 million in the Total Property Portfolio is comprised of increases and decreases within the five categories that represent our Total Property Portfolio. Rental revenue from Properties Placed In-Service increased approximately $35.9 million, Same Property Portfolio increased approximately $15.5 million, Properties Acquired increased approximately $7.0 million, Properties Sold decreased approximately $17.0 million and Properties Repositioned decreased approximately $1.2 million.

The increase in rental revenue from Properties Placed In-Service relates to placing Times Square Tower and New Dominion Technology Park, Building Two in-service during the third quarter of 2004, as detailed below:

Property	Date Placed in Service	Rental Revenue for the nine months ended September 30, 2005	2004	Change
			(in thousands)	
Times Square Tower	3rd Quarter 2004	$ 51,518	$ 20,770	$ 30,748
New Dominion Technology Park, Building Two	3rd Quarter 2004	7,143	2,023	5,120
Total		$ 58,661	$ 22,793	35,868

The purchase of the remaining interest in 140 Kendrick Street as of March 24, 2004 and the acquisition of 1330 Connecticut Avenue on April 1, 2004 increased revenue from Properties Acquired by approximately $7.0 million, as detailed below:

Property	Date Acquired	Rental Revenue for the nine months ended September 30, 2005	2004	Change
			(in thousands)	
1330 Connecticut Avenue	April 1, 2004	$ 11,132	$ 7,219	$ 3,913
140 Kendrick Street	March 24, 2004	8,793	5,686	3,107
Total		$ 19,925	$ 12,905	$ 7,020

Rental revenue from the Same Property Portfolio increased $15.5 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Included in rental revenue is an overall increase in base rental revenue of approximately $4.7 million, as well as an increase in straight-line rents of approximately $3.2 million. Approximately $7.6 million of the increase from the Same Property Portfolio was due to an increase in recoveries from tenants attributed to higher operating expenses. With respect to leases that expire during the next 15 months, we anticipate that the estimated market rents on those spaces indicate a roll-down of approximately 9%. We currently expect net operating income from the Same Property Portfolio to increase modestly, up to approximately 2%, in 2006 compared to 2005.

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In May 2005, we completed the sales of 100 East Pratt Street in Baltimore, Maryland and Riverfront Plaza in Richmond, Virginia for net cash proceeds of approximately $92.8 million and $129.9 million, respectively. These properties are included in Properties Sold for the nine months ended September 30, 2005 and September 30, 2004 due to our continuing involvement as the property manager for each property. In addition, Hilltop Office Center, which was sold in February 2004 is included in Properties Sold for the nine months ended September 30, 2004. Revenue from Properties Sold decreased by approximately $17.0 million, as detailed below:

Property	Date Sold	Rental Revenue for the nine months ended September 30, 2005	2004	Change
			(in thousands)	
Riverfront Plaza	May 16, 2005	$ 8,684	$ 17,483	$ (8,799)
100 East Pratt Street	May 12, 2005	8,430	16,471	(8,041)
Hilltop Office Center	February 4, 2004		134	(134)
Total		$ 17,114	$ 34,088	$ (16,974)

Termination Income

Termination income for the nine months ended September 30, 2005 was related to twenty-one tenants across the Total Portfolio that terminated their leases and we recognized termination income totaling approximately $7.4 million. This compared to termination income earned for the nine months ended September 30, 2004 related to sixteen tenants totaling $3.4 million. During 2005 we have completed some complex leasing transactions which involved taking space back from tenants with resulting termination income and releasing the space at higher rents. We currently anticipate realizing approximately $1.0 million in termination income for the remainder of 2005 and approximately $4.0 million in termination income for the year ended 2006.

Operating Expenses

The $16.3 million increase in property operating expenses in the Total Property Portfolio (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) is comprised of increases and decreases within the five categories that represent our Total Property Portfolio. Operating expenses for the Same Property Portfolio increased approximately $14.8 million, Properties Placed In-Service increased approximately $7.1 million, Properties Acquired increased approximately $1.4 million, Properties Sold decreased approximately $6.1 million and Properties Repositioned decreased approximately $0.9 million.

We placed Times Square Tower and New Dominion Technology Park, Building Two in-service during the third quarter of 2004 which increased operating expenses by approximately $7.1 million, as detailed below:

	Date Placed in Service	Operating Expenses for the nine months ended September 30,

Property		2005	2004	Change
			(in thousands)	
Times Square Tower	3rd Quarter 2004	$ 8,096	$ 1,918	$ 6,178
New Dominion Technology Park, Building Two	3rd Quarter 2004	1,037	137	900
Total		$ 9,133	$ 2,055	$ 7,078

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In addition, approximately $1.4 million of the increase in Total Property Portfolio operating expenses primarily relates to the acquisitions of 140 Kendrick Street and 1330 Connecticut Avenue, as detailed below:

Property	Date Acquired	Operating Expenses nine months ended September 30, 2005	2004	Change
			(in thousands)	
1330 Connecticut Avenue	April 1, 2004	$ 3,163	$ 1,986	$ 1,177
140 Kendrick Street	March 24, 2004	1,083	828	255
Total		$ 4,246	$ 2,814	$ 1,432

Operating expenses from the Same Property Portfolio increased approximately $14.8 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Included in Same Property Portfolio operating expenses is an increase to real estate tax expense of approximately $7.0 million for the nine months ended September 30, 2005 due to increased real estate tax assessments, with approximately half of this increase specifically attributed to properties located in New York City. In addition, an increase of approximately $4.1 million, to the Same Property Portfolio is related to increases in utility expenses, an increase of approximately 7.4% over the prior year utility expense. Remaining increases to the Same Property operating expenses are related to an increase to repairs and maintenance expenses for the nine months ended September 30, 2005.

A decrease of approximately $6.1 million in Total Property Portfolio operating expenses relates to the sales of Riverfront Plaza, 100 East Pratt Street and Hilltop Office Center, as detailed below:

Property	Date Sold	Operating Expenses for the nine months ended September 30, 2005	2004	Change
			(in thousands)	
100 East Pratt Street	May 12, 2005	$ 2,975	$ 6,103	$ (3,128)
Riverfront Plaza	May 16, 2005	2,851	5,832	(2,981)
Hilltop Office Center	February 4, 2004		36	(36)
Total		$ 5,826	$ 11,971	$ (6,145)

We continue to review and monitor the impact of the hurricane season and rising energy costs, the potential expiration of TRIA and other factors on our operating budgets for the remainder of 2005 and fiscal year 2006. Because some operating expenses are not recoverable from tenants, an increase in operating expenses due to one or more of the foregoing factors could have an adverse effect on our results of operations.

Hotel Net Operating Income

Net operating income for the hotel properties increased by approximately $0.8 million for the nine months ended September 30, 2005 compared to September 30, 2004. On November 4, 2005, we sold the Cambridge Residence Inn property. We expect the two remaining hotels to contribute approximately $7.0 million to net operating income in the remainder of 2005 and between $19.0 million to $20.0 million in 2006.

The following reflects our occupancy and rate information for the three hotel properties for the nine months ended September 30, 2005 and 2004:

	2005	2004	Percentage Change
Occupancy	80.0%	82.6%	(3.1)%
Average daily rate	$ 180.30	$ 169.73	6.2%
Revenue per available room, REVPAR	$ 144.54	$ 140.68	2.7%

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Development and Management Services

Our third-party fee income decreased approximately $1.5 million for the nine months ended September 30, 2005 compared to 2004 due to the completion of third-party development projects in Washington, D.C. and near completion of our project at 90 Church Street in New York City, offset by obtaining management contracts at Riverfront Plaza and 100 East Pratt Street. In connection with the sales of Riverfront Plaza and 100 East Pratt Street, we are managing each of these properties, for a fee, through agreements with the buyers. We expect our third-party management and development fee income in 2006 to be between $13.0 million and $15.0 million.

Interest and Other Income

Interest and other income decreased slightly for the nine months ended September 30, 2005. In the first quarter of 2004 we recognized a net amount of approximately $7.0 million in connection with the termination by a third-party of an agreement to enter into a ground lease with us. Excluding this termination, interest income has increased approximately $6.8 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004 due to higher cash balances as well as higher interest rates during the nine months ended September 30, 2005 compared to the same period of 2004. We expect interest income to decline in the fourth quarter of 2005 and into 2006 as a result of the special cash dividend that was paid to common stockholders on October 31, 2005, as well as repayment of certain outstanding debt.

Other Expenses

General and Administrative

General and administrative expenses increased for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004 by approximately $4.2 million. A majority of the increase is attributed to compensation expense increases during 2005. An aggregate of approximately $2.0 million of the increase is attributable to changes in the form of long-term equity-based compensation, as further described below.

Commencing in 2003, we issued restricted stock and/or LTIP Units (at the election of eligible employees), as opposed to granting stock options and restricted stock, under the 1997 Stock Option and Incentive Plan as our primary vehicle for employee equity compensation. An LTIP Unit is generally the economic equivalent of a share of our restricted stock. Employees generally vest in restricted stock and LTIP Units over a five-year term (for awards granted prior to 2003, vesting is in equal annual installments; for those granted in 2003 and beyond, vesting is over a five-year term of 0%, 0%, 25%, 35%, and 40%). Restricted stock and LTIP Units are valued based on observable market prices for similar instruments. Such value is recognized as an expense ratably over the corresponding employee service period. LTIP Units which were issued in January 2005 and future LTIP Unit awards will be valued using an option pricing model in accordance with the provisions of SFAS No. 123R. To the extent restricted stock or LTIP Units are forfeited prior to vesting, the corresponding previously recognized expense is reversed as an offset to stock-based compensation. Stock-based compensation expense associated with $6.1 million of equity-based compensation that was granted in January 2003 will generally be expensed ratably as such restricted stock and LTIP Units vests over a five-year vesting period. Stock-based compensation associated with approximately $9.7 million of restricted stock and LTIP Units granted in January 2004 and approximately $11.2 million of restricted stock and LTIP Units granted in January 2005 will also be incurred ratably as such restricted stock and LTIP Units vest. To the extent we continue to grant restricted stock and LTIP Unit awards, our expense will continue to increase significantly until 2008 even if there are no future increases in the aggregate value of restricted equity granted each year. This is because we expense the value of the restricted stock and LTIP Unit awards ratably over the five-year vesting period and a full run-rate will not be achieved until 2008.

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Interest Expense

Interest expense for the Total Property Portfolio increased approximately $6.5 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. The majority of the increase is due to (1) the cessation of interest capitalization at Times Square Tower and New Dominion Technology Park, Building Two, which collectively increased interest expense by $12.5 million, and (2) the acquisition of 140 Kendrick Street and 1330 Connecticut Avenue in the second quarter of 2004, which increased interest expense by $1.4 million. This increase was offset by the repayment of outstanding mortgage debt in connection with the sales of Riverfront Plaza and 100 East Pratt Street in the second quarter of 2005, which decreased interest expense by $5.0 million, as well as the repayment of mortgage debt at One and Two Reston Overlook and the 12300 and 12310 Sunrise Valley Drive buildings in the beginning of 2004 which decreased interest expense by $2.6 million.

At September 30, 2005, our variable rate debt consisted of our construction loans on our Times Square Tower, Capital Gallery Expansion and Cambridge Center Seven construction projects, as well as our borrowings under our Unsecured Line of Credit. The following summarizes our outstanding debt as of September 30, 2005 compared with September 30, 2004:

	September 30,	
	2005	2004
	(dollars in thousands)	
Debt Summary:		
Balance		
Fixed rate	$ 4,139,774	$ 4,600,420
Variable rate	782,093	415,649
Total	$ 4,921,867	$ 5,016,069
Percent of total debt:		
Fixed rate	84.11%	91.71%
Variable rate	15.89%	8.29%
Total	100.00%	100.00%
Weighted average interest rate at end of period:		
Fixed rate	6.63%	6.66%
Variable rate	4.34%	2.78%
Total	6.27%	6.34%

Depreciation and Amortization

Depreciation and amortization expense for the Total Property Portfolio increased approximately $19.2 million for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Depreciation and Amortization from Properties Placed In-Service and Properties Acquired increased approximately $11.3 million, Same Property Portfolio increased approximately $14.8 million, Properties Sold decreased approximately $3.8 million and Properties Repositioned decreased approximately $3.1 million. In connection with the redevelopment project at Capital Gallery, which is classified as Properties Repositioned, we recognized an accelerated depreciation charge of approximately $2.6 million in the third quarter of 2004 representing the net book value of the portion of the three-story low-rise portion of the building being

redeveloped.

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The additions to the Total Property Portfolio through acquisitions increased depreciation and amortization expense by approximately $1.5 million, as detailed below:

Property	Acquired	Depreciation and Amortization for the nine months ended September 30, 2005	2004	Change
			(in thousands)	
1330 Connecticut Avenue	April 1, 2004	2,473	1,474	999
140 Kendrick Street	March 24, 2004	1,520	1,015	505
Total Additions		$ 3,993	$ 2,489	$ 1,504

The additions to the Total Property Portfolio through placing properties in-service increased depreciation and amortization expense by approximately $9.8 million, as detailed below:

Property	Placed in-Service	Depreciation and Amortization for the nine months ended September 30, 2005	2004	Change
			(in thousands)	
Times Square Tower	3rd Quarter 2004	$ 12,628	$ 3,551	$ 9,077
New Dominion Technology Park, Building Two	3rd Quarter 2004	1,295	570	725
Total Properties Placed In-Service		$ 13,923	$ 4,121	$ 9,802

Capitalized Costs

Costs 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 Sheet and amortized over their useful lives. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the nine months ended September 30, 2005 and September 30, 2004 were $4.6 million and $4.4 million, respectively. These costs are not included in the general and administrative expenses discussed above. Interest capitalized for the nine months ended September 30, 2005 and 2004 was $3.3 million and $10.1 million, respectively. These costs are not included in the interest expense referenced above. During the third quarter of 2004, we placed in-service Times Square Tower and New Dominion Technology Park, Building Two development projects and ceased capitalizing the related interest in accordance with our capitalization policy.

Losses from early extinguishments of debt

In connection with the sales of 100 East Pratt Street and Riverfront Plaza, we repaid the mortgage loans collateralized by the properties totaling approximately $188 million. During the nine months ended September 30, 2005, we recognized a loss from early extinguishment of debt totaling approximately $11.0 million, consisting of prepayment fees of approximately $10.8 million and the write-off of unamortized deferred financing costs of approximately $0.2 million. We also recognized a $1.9 million loss from early extinguishment of debt which relates to the refinancing of our Times Square Tower mortgage loan as well as the modification of our Unsecured Line of Credit.

For the nine months ended September 30, 2004, we recognized a loss from early extinguishment of debt totaling approximately $6.3 million related to the repayments of our mortgage loans collateralized by One and Two Reston Overlook and the 12300 and 12310 Sunrise Valley Drive buildings.

Joint Ventures

During the first quarter of 2005, we placed in-service 901 New York Avenue, a 539,000 net rentable square foot Class A office property located in Washington, D.C., in which we have a 25% ownership interest. The

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addition of this property contributed approximately $1.2 million to joint venture income for the nine months ended September 30, 2005. As of November 4, 2005, this property is 98% leased.

Other

The decrease in income (loss) from discontinued operations in the Total Property Portfolio for the nine months ended September 30, 2005 was a result of properties sold or designated as held for sale during 2005 and 2004 which are no longer included in our operations as of September 30, 2005. Below is a list of properties included in discontinued operations for the nine months ended September 30, 2005 and 2004:

Nine months ended September 30, 2005	Nine months ended September 30, 2004
Old Federal Reserve	Old Federal Reserve
40-46 Harvard Street	40-46 Harvard Street
	Sugarland Business Park-Building One
	204 Second Avenue
	560 Forbes Boulevard
	Decoverly Two, Three, Six and Seven
	38 Cabot Boulevard
	The Arboretum
	430 Rozzi Place
	Sugarland Business Park-Building Two

Gains on sales of real estate for the nine months ended September 30, 2005 in the Total Property Portfolio relate to the sales of Riverfront Plaza and 100 East Pratt Street which are not included in discontinued operations due to our continuing involvement in the management, for a fee, of these properties after the sales. Gains on sales of real estate for the nine months ended September 30, 2004 in the Total Property Portfolio relate to the sale of Hilltop Office Center and a land parcel in Burlington, MA. Hilltop Office Center is not included in discontinued operations due to our continuing involvement in the management, for a fee, of these properties after the sale.

Gains on sales of land held for development for the nine months ended September 30, 2005 in the Total Property Portfolio relate to the sale of Decoverly Four and Five, consisting of two undeveloped land parcels located in Rockville, Maryland.

The only property included in our gains on sales of real estate from discontinued operations for the nine months ended September 30, 2005 in the Total Property Portfolio was the Old Federal Reserve. Properties included in our gains on sales of real estate from discontinued operations for the nine months ended September 30, 2004 in the Total Property Portfolio are related to the sale of 204 Second Avenue, Sugarland Business Park-Building One, 430 Rozzi Place, Sugarland Business Park-Building Two, The Arboretum, Decoverly Two, Three, Six and Seven and 38 Cabot Boulevard.

Minority interest in Operating Partnership increased $5.3 million for the nine months ended September 30, 2005 compared to September 30, 2004. In connection with the special cash distribution, holders of Series Two Preferred Units will participate on an as-converted basis in connection with their regular February 2006 distribution payment as provided for in the Operating Partnership s partnership agreement. As a result, we accrued approximately $12.1 million related to the special cash distribution payable to holders of the Series Two Preferred Units and have allocated earnings to the Series Two Preferred Units of approximately $12.1 million, which amount has been reflected in minority interest in Operating Partnership for the nine months ended September 30, 2005. This increase was partially offset by a reduction in the minority interest

in our Operating Partnership s income allocation related to changes in the partnership s ownership interests and an underlying change in allocable income.

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Comparison of the three months ended September 30, 2005 to the three months ended September 30, 2004.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of the 116 properties totaling approximately 29.8 million net rentable square feet of office space (excluding approximately 8.7 million square feet of structured parking for approximately 28,602 vehicles). Same Property Portfolio includes our three hotel properties, properties acquired or placed in-service on or prior to July 1, 2004 and owned through September 30, 2005. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after July 1, 2004 or disposed of on or prior to September 30, 2005. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the three months ended September 30, 2005 and 2004 with respect to the properties which were acquired, placed in-service, repositioned or sold.

In September 2004, we commenced the redevelopment of our Capital Gallery property in Washington, D.C. Capital Gallery is a Class A office property currently totaling approximately 397,000 net rentable square feet. The project entails removing a three-story low-rise section of the property, which is comprised of 100,000 net rentable square feet, from in-service status and developing it into a ten-story office building resulting in a total complex size of approximately 610,000 net rentable square feet upon completion. This property is included in Properties Repositioned for the three months ended September 30, 2005 and September 30, 2004.

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(dollars in thousands)	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	Increase/ (Decrease)	% Change
Rental Revenue:																
Rental Revenue	$ 306,455	$ 300,206	$ 6,249	2.08%	$	$ 11,515	$	$	$ 20,101	$ 15,684	$ 3,318	$ 3,424	$ 329,874	$ 330,829	$ (955)	(0.29)%
Termination Income	1,918	1,800	118	6.56%					169				2,087	1,800	287	15.94%
Total Rental Revenue	308,373	302,006	6,367	2.11%		11,515			20,270	15,684	3,318	3,424	331,961	332,629	(668)	(0.20)%
Operating Expenses	106,978	102,297	4,681	4.58%		3,908			3,203	1,455	931	1,094	111,112	108,754	2,358	2.17%
Net Operating Income, excluding hotels	201,395	199,709	1,686	0.84%		7,607			17,067	14,229	2,387	2,330	220,849	223,875	(3,026)	(1.35)%
Hotel Net Operating Income (1)	6,353	6,059	294	4.85%									6,353	6,059	294	4.85%
Consolidated Net Operating Income (1)	207,748	205,768	1,980	0.96%		7,607			17,067	14,229	2,387	2,330	227,202	229,934	(2,732)	(1.19)%
Other Revenue:																
Development and Management Services													4,923	5,832	(909)	(15.59)%
Interest and Other													4,763	908	3,855	424.56%
Total Other Revenue													9,686	6,740	2,946	43.71%
Other Expenses:																
General and administrative expense													13,270	13,002	268	2.06%
Interest													75,700	77,698	(1,998)	(2.57)%
Depreciation and amortization	60,593	57,161	3,432	6.00%		2,020			4,869	2,956	443	3,343	65,905	65,480	425	0.65%
Total Other Expenses	60,593	57,161	3,432	6.00%		2,020			4,869	2,956	443	3,343	154,875	156,180	(1,305)	(0.84)%
Income before minority interests	147,155	$ 148,607	(1,452)	(0.98)%		$ 5,587			12,198	$ 11,273	1,944	$ (1,013)	82,013	80,494	1,519	1.89%
Income from unconsolidated joint ventures	$ 587	$ 444	$ 143	32.20%	$	$	$ 15	$ 4	$ 515	$ 12			1,117	460	657	142.83%
Loss from discontinued operations, net of minority interest	$ (74)	$ (80)	$ 6	7.50%	$	$ (751)							(74)	(831)	757	91.10%
Minority interests in property partnerships													1,527	1,447	80	5.53%
Minority interest in Operating Partnership													(27,032)	(17,178)	(9,854)	(57.36)%
Gains on sales of real estate from discontinued operations, net of														4,150	(4,150)	(100.0)%

minority interest				
Net Income available to common shareholders	$ 57,551	$ 68,542	$ (10,991)	(16.04)%

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 35.

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Rental Revenue

The decrease of approximately $1.0 million in the Total Property Portfolio is comprised of increases and decreases within the four categories that represent our Total Property Portfolio. Rental revenue from Same Property Portfolio increased approximately $6.2 million, Properties Placed In-Service increased approximately $4.4 million, Properties Sold decreased approximately $11.5 million, and Properties Repositioned decreased approximately $0.1 million.

The increase in rental revenue from Properties Placed In-Service relates to placing Times Square Tower and New Dominion Technology Park, Building Two in-service during the third quarter of 2004, as detailed below:

Property	Date Placed in Service	Rental Revenue for the three months ended September 30, 2005	2004	Change
			(in thousands)	
Times Square Tower	3rd Quarter 2004	$ 17,720	$ 13,662	$ 4,058
New Dominion Technology Park, Building Two	3rd Quarter 2004	2,381	2,023	358
Total		$ 20,101	$ 15,685	$ 4,416

Rental revenue from the Same Property Portfolio increased $6.2 million for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. Included in rental revenue is an overall increase to base rental revenue of approximately $2.1 million for the three months ended September 30, 2005 compared to September 30, 2004, as well as an increase of $1.8 million attributed to straight-line rents. Approximately $3.2 million of the increase from the Same Property Portfolio was due to an increase in recoveries from tenants attributed to higher operating expenses. Offset by increases in the Same Property Portfolio was a decrease of approximately $0.9 million related to parking and other rental related revenue. With respect to leases that expire during the next 15 months, we anticipate that the estimated market rents on those spaces indicate a roll-down of approximately 9%. We currently expect net operating income from the Same Property Portfolio to show an increase up to 2% in 2006 compared to 2005.

In May 2005, we completed the sales of 100 East Pratt Street in Baltimore, Maryland and Riverfront Plaza in Richmond, Virginia for net cash proceeds of approximately $92.8 million and $129.9 million, respectively. These properties are included in Properties Sold for the three months ended September 30, 2004 due to our continuing involvement as the property manager for each property. Revenue from Properties Sold decreased by approximately $11.5 million, as detailed below:

Property	Date Sold	Rental Revenue for the three months ended September 30, 2005	2004	Change
			(in thousands)	
Riverfront Plaza	May 16, 2005	$	$ 5,850	$ (5,850)

100 East Pratt Street	May 12, 2005		5,665	(5,665)
Total		$	11,515	(11,515)

Termination Income

Termination income for the three months ended September 30, 2005 was related to seven tenants across the portfolio that terminated their leases and recognized termination income totaling approximately $2.1 million. This compared to termination income earned for the three months ended September 30, 2004 related to eight tenants totaling $1.8 million. For the remainder of 2005 we expect to recognize approximately $1.0 million in termination income. During 2005, we have completed some complex leasing transactions which involved taking

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space back from tenants with resulting termination income and releasing the space at higher rents. We currently anticipate realizing approximately $1.0 million in termination income for the remainder of 2005 and approximately $4.0 million in termination income for the year ended 2006.

Operating Expenses

The $2.4 million increase in property operating expenses in the Total Property Portfolio (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) is comprised of increases and decreases within the four categories that represent our Total Property Portfolio. Operating expenses for Same Property Portfolio increased approximately $4.7 million, Properties Placed In-Service increased approximately $1.7 million, Properties Sold decreased approximately $3.9 million and Properties Repositioned decreased approximately $0.1 million.

We placed Times Square Tower and New Dominion Technology Park, Building Two in-service during the third quarter of 2004 which increased operating expenses by approximately $1.7 million, as detailed below:

		Operating Expenses for the three months ended September 30,		
Property	**Date Placed in Service**	**2005**	**2004**	**Change**
			(in thousands)	
Times Square Tower	3rd Quarter 2004	$ 2,844	$ 1,318	$ 1,526
New Dominion Technology Park, Building Two	3rd Quarter 2004	359	137	222
Total		$ 3,203	$ 1,455	$ 1,748

Operating expenses from the Same Property Portfolio increased approximately $4.7 million for the three months ended September 30, 2005. Included in Same Property Portfolio operating expenses is an increase to real estate tax expense of approximately $2.4 million for the three months ended September 30, 2005 due to increased real estate tax assessments, with approximately half of this increase specifically attributed to properties located in New York City. Remaining increases to the Same Property Portfolio result from overall increases to the repairs and maintenance and utility costs for the three months ended September 30, 2005 compared to 2004.

A decrease of approximately $3.9 million in Total Property Portfolio operating expenses relates to the sales of Riverfront Plaza and 100 East Pratt Street, as detailed below:

		Operating Expenses for the three months ended September 30,		
Property	**Date Sold**	**2005**	**2004**	**Change**

			(in thousands)	
100 East Pratt Street	May 12, 2005	$	$ 2,088	$ (2,088)
Riverfront Plaza	May 16, 2005		1,820	(1,820)
Total		$	$ 3,908	(3,908)

We continue to review and monitor the impact of the hurricane season and rising energy costs, the potential expiration of TRIA and other factors on our operating budgets for the remainder of 2005 and fiscal year 2006. Because some operating expenses are not recoverable from tenants, an increase in operating expenses due to one or more of the foregoing factors could have an adverse effect on our results of operations.

Hotel Net Operating Income

Net operating income for the hotel properties increased by approximately $0.3 million for the three months ended September 30, 2005 compared to September 30, 2004. The third quarter revenue per available room is

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down slightly over the third quarter of 2004 due to the Democratic National Convention held in Boston during the third quarter of 2004. On November 4, 2005, we sold the Cambridge Residence Inn property. We expect the two remaining hotels to contribute approximately $7.0 million to net operating income in the remainder of 2005 and between $19.0 million to $20.0 million in 2006.

The following reflects our occupancy and rate information for the three hotel properties for the three months ended September 30, 2005 and 2004:

	2005	2004	Percentage Change
Occupancy	86.5%	89.6%	(3.5)%
Average daily rate	$ 188.60	$ 184.18	2.4%
Revenue per available room, REVPAR	$ 164.03	$ 165.40	(0.8)%

Development and Management Services

Our third-party fee income decreased by approximately $1.0 million for the three months ended September 30, 2005 compared to 2004 due to the completion of third-party development projects in Washington, D.C. and near completion of our project at 90 Church Street in New York City, offset by obtaining management contracts at Riverfront Plaza and 100 East Pratt Street. In connection with the sales of Riverfront Plaza and 100 East Pratt Street, we are managing each of these properties, for a fee, through agreements with the buyers. We expect our third-party management and development fee income in 2006 to be between $13.0 million and $15.0 million.

Interest and Other Income

Interest and other income increased by $3.9 million for the three months ended September 30, 2005 due to higher cash balances as well as higher interest rates during the three months ended September 30, 2005 compared to the same period of 2004. We expect interest income to decline in the fourth quarter of 2005 and into 2006 as a result of the special cash dividend that was paid to common shareholders on October 31, 2005, as well as repayment of certain outstanding debt.

Other Expenses

General and Administrative

General and administrative expenses in the Total Property Portfolio increased slightly for the three months ended September 30, 2005 compared to September 30, 2004. An aggregate of approximately $0.5 million of the increase is attributable to changes in the form of long-term equity-based compensation, as further described below.

Commencing in 2003, we issued restricted stock and/or LTIP Units (at the election of eligible employees), as opposed to granting stock options and restricted stock, under the 1997 Stock Option and Incentive Plan as our primary vehicle for employee equity compensation. An LTIP Unit is generally the economic equivalent of a share of our restricted stock. Employees generally vest in restricted stock and LTIP Units over a five-year term (for awards granted prior to 2003, vesting is in equal annual installments; for those granted in 2003 and beyond, vesting is over a five-year term of 0%, 0%, 25%, 35%, and 40%). Restricted stock and LTIP Units are valued based on observable market prices for similar instruments. Such value is recognized as an expense ratably over the corresponding employee service period. LTIP Units which were issued in January 2005 and future LTIP Unit awards will be valued using an option pricing model in accordance with the provisions of SFAS No. 123R. To the extent restricted stock or LTIP Units are forfeited prior to vesting, the corresponding previously recognized expense is reversed as an offset to stock-based compensation. Stock-based compensation expense associated with $6.1 million of equity-based compensation that was granted in January 2003 will generally be expensed

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ratably as such restricted stock and LTIP Units vests over a five-year vesting period. Stock-based compensation associated with approximately $9.7 million of restricted stock and LTIP Units granted in January 2004 and approximately $11.2 million of restricted stock and LTIP Units granted in January 2005 will also be incurred ratably as such restricted stock and LTIP Units vest. To the extent we continue to grant restricted stock and LTIP Unit awards, our expense will continue to increase significantly until 2008 even if there are no future increases in the aggregate value of restricted equity granted each year. This is because we expense the value of the restricted stock and LTIP Unit awards ratably over the five-year vesting period and a full run-rate will not be achieved until 2008.

Interest Expense

Interest expense for the Total Property Portfolio decreased approximately $2.0 million for the three months ended September 30, 2005 compared to September 30, 2004. The majority of the decrease is due to the repayment of outstanding mortgage debt in connection with the sales of Riverfront Plaza and 100 East Pratt Street in the second quarter of 2005 which represented a decrease to interest expense of approximately $3.2 million. This decrease was offset by increases to interest expense in connection with the cessation of interest capitalization at Times Square Tower and New Dominion Technology Park, Building Two, which represented an increase of approximately $3.2 million. In connection with the refinance of our debt at 599 Lexington Avenue, we have replaced approximately $225.0 million of fixed rate mortgage indebtedness with a lower variable rate.

At September 30, 2005, our variable rate debt consisted of our construction loans on our Times Square Tower, Capital Gallery Expansion and Cambridge Center Seven construction projects, as well as our borrowings under our Unsecured Line of Credit related to the refinancing of 599 Lexington Avenue in New York. The following summarizes our outstanding debt as of September 30, 2005 compared with September 30, 2004:

	September 30,	
	2005	2004
	(dollars in thousands)	
Debt Summary:		
Balance		
Fixed rate	$ 4,139,774	$ 4,600,420
Variable rate	782,093	415,649
Total	$ 4,921,867	$ 5,016,069
Percent of total debt:		
Fixed rate	84.11%	91.71%
Variable rate	15.89%	8.29%
Total	100.00%	100.00%
Weighted average interest rate at end of period:		
Fixed rate	6.63%	6.66%
Variable rate	4.34%	2.78%
Total	6.27%	6.34%

Depreciation and Amortization

Depreciation and amortization expense for the Total Property Portfolio increased approximately $0.4 million for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. Depreciation and amortization from Properties Placed In-Service increased approximately $1.9 million, Same Property increased approximately $3.4 million. These increases were offset by decreases to Properties Sold of approximately $2.0 million and Properties Repositioned of approximately $2.9 million. In connection with the redevelopment project at Capital Gallery, which is classified as Properties Repositioned, we recognized an

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accelerated depreciation charge of approximately $2.6 million in the third quarter of 2004 representing the net book value of the portion of the three-story low-rise portion of the building being redeveloped.

The additions to the Total Property Portfolio through placing properties in-service increased depreciation and amortization expense by approximately $1.9 million, as detailed below:

		Depreciation and Amortization for the three months ended September 30,		
Property	**Placed in Service**	**2005**	**2004**	**Change**
			(in thousands)	
Times Square Tower	3rd Quarter 2004	$ 4,437	$ 2,386	$ 2,051
New Dominion Technology Park, Building Two	3rd Quarter 2004	432	570	(138)
Total Properties Placed In-Service		$ 4,869	$ 2,956	$ 1,913

Capitalized Costs

Costs 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 Sheet and amortized over their useful lives. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the three months ended September 30, 2005 and September 30, 2004 was $1.5 million. These costs are not included in the general and administrative expenses discussed above. Interest capitalized for the three months ended September 30, 2005 and 2004 was $1.7 million and $1.8 million, respectively. These costs are not included in the interest expense referenced above.

Joint Ventures

During the first quarter of 2005, we placed in-service 901 New York Avenue, a 539,000 net rentable square foot Class A office property located in Washington, D.C., in which we have a 25% ownership interest. The addition of this property contributed approximately $0.5 million to joint venture income for the three months ended September 30, 2005. As of November 4, 2005 this property is 98% leased.

Other

The decrease in income from discontinued operations in the Total Property Portfolio for the three months ended September 30, 2005 was a result of properties sold or designated as held for sale during 2004 which are no longer included in our operations as of September 30, 2005. Below is a list of properties included in discontinued operations for the three months ended September 30, 2005 and 2004:

Three months ended September 30, 2005	Three months ended September 30, 2004
40-46 Harvard Street	40-46 Harvard Street
	Old Federal Reserve
	Sugarland Business Park-Building One
	204 Second Avenue
	560 Forbes Boulevard

The only properties included in our gains on sales of real estate from discontinued operations for the three months ended September 30, 2004 in the Total Property Portfolio was related to the sale of Sugarland Business Park-Building One and 204 Second Avenue.

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Minority interest in Operating Partnership increased $9.9 million for the three months ended September 30, 2005 compared to September 30, 2004. In connection with the special cash distribution, holders of Series Two Preferred Units will participate on an as-converted basis in connection with their regular February 2006 distribution payment as provided for in the Operating Partnership s partnership agreement. As a result, we accrued approximately $12.1 million related to the special cash distribution payable to holders of the Series Two Preferred Units and have allocated earnings to the Series Two Preferred Units of approximately $12.1 million, which amount has been reflected in minority interest in Operating Partnership for the three months ended September 30, 2005. This increase was partially offset by a reduction in the minority interest in our Operating Partnership s income allocation related to changes in the partnership s ownership interests and an underlying change in allocable income.

Liquidity and Capital Resources

General

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

- fund normal recurring expenses;
- meet debt service requirements including the repayment or refinancing of $160.5 million of indebtedness that matures within the twelve month period;
- fund capital expenditures, including tenant improvements and leasing costs;
- fund current development costs not covered under construction loans;
- fund new property acquisitions; and
- make the minimum distribution required to maintain our REIT qualification under the Internal Revenue Code of 1986, as amended.

We believe that these needs will be satisfied using cash on hand and cash flows generated by operations and provided by financing activities, as well as cash generated from asset sales. Base rental revenue, recovery income from tenants, other income from operations, available cash balances, draws on our Unsecured Line of Credit and refinancing of maturing indebtedness are our principal sources of capital used to pay operating expenses, debt service, recurring capital expenditures and the minimum distribution required to maintain our REIT qualification. We seek to increase income from our existing properties by maintaining quality standards for our properties that promote high occupancy rates and maximize rental rates while reducing tenant turnover and controlling operating expenses. Our sources of revenue also include third-party fees generated by our office real estate management, leasing, development and construction businesses. Consequently, we believe our revenue, together with proceeds from financing activities, will continue to provide the necessary funds for our short-term liquidity needs. However, material changes in these factors may adversely affect our net cash flows. Such changes, in turn, would adversely affect our ability to fund distributions, debt service payments and tenant improvements. In addition, a material adverse change in our cash provided by operations may affect the financial covenants under our unsecured line of credit and unsecured senior notes.

Our principal liquidity needs for periods beyond twelve months are for the costs of developments, possible property acquisitions, scheduled debt maturities, major renovations, expansions and other non-recurring capital improvements. We expect to satisfy these needs during the next twelve months and beyond using one or more of the following:

construction loans;

long-term secured and unsecured indebtedness;

income from operations;

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income from joint ventures;

sales of real estate;

issuances of our equity securities and/or additional preferred or common units of partnership interest in Boston Properties Limited Partnership; and

our unsecured revolving line of credit or other short-term bridge facilities.

We draw on multiple financing sources to fund our long-term capital needs. Our Unsecured Line of Credit is utilized primarily as a bridge facility to fund acquisition opportunities and to meet short-term development and working capital needs. We generally fund our development projects with construction loans that may be partially guaranteed by Boston Properties Limited Partnership, our Operating Partnership, until project completion or lease-up thresholds are achieved.

Cash Flow Summary

Cash and cash equivalents were $450.6 million and $213.9 million at September 30, 2005 and September 30, 2004, respectively, representing an increase of $236.7 million. The cash flow results above do not reflect the payment of approximately $335.8 million related to the $2.50 per share/unit special cash dividend paid to common shareholders and unitholders on October 31, 2005 or the $12.1 million special cash distribution to be paid in February 2006 to holders of our Series Two Preferred Units. The following represents increases and decreases in cash flows for the nine months ended September 30, 2005 versus September 30, 2004:

	Nine months ended September 30,		
	2005	2004	Increase (Decrease)
	(in thousands)		
Net cash provided by operating activities	$ 304,673	$ 303,664	$ 1,009
Net cash provided by (used in) investing activities	$ 188,069	$ (119,644)	$ 307,713
Net cash provided by (used in) financing activities	$ (281,509)	$ 7,167	$ (288,676)

Our principal source of cash flow is related to the operation of our office properties. In addition, we have recycled capital through the sale of some of our properties and raised proceeds from secured and unsecured borrowings. We also issued 5,700,000 shares of our common stock in a public offering in March 2004. The average term of our tenant leases is approximately 7.4 years as of September 30, 2005 calculated on a weighted average, based on net rentable square feet with occupancy rates historically in the range of 92% to 98%. Our properties provide 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.

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Cash is used in investing activities to fund acquisitions, development 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 that meet our investment criteria. Cash provided by investing activities for the nine months ended September 30, 2005 consisted of the following:

	(in thousands)
Proceeds from the sales of real estate	$ 472,647
The cash provided by investing is offset by:	
Acquisitions/additions to real estate	(228,003)
Investments in marketable securities	(37,500)
Recurring capital expenditures	(12,790)
Planned non-recurring capital expenditures associated with acquisition properties	(2,381)
Hotel improvements, equipment upgrades and replacements	(2,237)
Net investments in unconsolidated joint ventures	(1,667)
Net cash provided by investing activities	$ 188,069

Cash used in financing activities for the nine months ended September 30, 2005 totaled approximately $281.5 million. This primarily consisted of payments of regular dividends and distributions to our stockholders and the unitholders of our Operating Partnership. Future debt payments are discussed below under the heading Capitalization.

Capitalization

At September 30, 2005, our total consolidated debt was approximately $4.9 billion. The weighted-average annual interest rate on our consolidated indebtedness was 6.27% and the weighted-average maturity was approximately 5.2 years.

Debt to total 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 market capitalization was approximately $14.8 billion at September 30, 2005. Total market capitalization was calculated using the September 30, 2005 closing stock price of $70.90 per common share and the following: (1) 112,500,887 shares of our common stock, (2) 21,413,724 outstanding common units of partnership interest in Boston Properties Limited Partnership (excluding common units held by Boston Properties, Inc.), (3) an aggregate of 4,857,395 common units issuable upon conversion of all outstanding preferred units of partnership interest in Boston Properties Limited Partnership, (4) an aggregate of 380,820 common units issuable upon conversion of all outstanding LTIP Units, assuming all conditions have been met for the conversion of the LTIP Units, and (5) our consolidated debt totaling approximately $4.9 billion. Our total consolidated debt at September 30, 2005 represented approximately 33.28% of our total 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 debt to total 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.

Debt Financing

As of September 30, 2005, we had approximately $4.9 billion of outstanding indebtedness, representing 33.28% of our total market capitalization as calculated above consisting of (1) $1.47 billion in publicly traded unsecured debt having a weighted average interest rate of 5.95% and maturities in 2013 and 2015 and (2) $3.45 billion of property-specific debt. As of September 30, 2005, we had approximately $225 million drawn on our

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Unsecured Line of Credit which amount is secured by our 599 Lexington Avenue property in New York and which balance is included under our variable rate mortgages in the table below. The table below summarizes our mortgage notes payable, our senior unsecured notes and our Unsecured Line of Credit at September 30, 2005 and 2004:

	September 30,	
	2005	2004
	(dollars in thousands)	
DEBT SUMMARY:		
Balance		
Fixed rate mortgages	$ 2,668,811	$ 3,129,828
Variable rate mortgages	782,093	415,649
Senior unsecured notes	1,470,963	1,470,592
Total	$ 4,921,867	$ 5,016,069
Percent of total debt:		
Fixed rate	84.11%	91.71%
Variable rate	15.89%	8.29%
Total	100.0%	100.0%
Weighted average interest rate at end of period:		
Fixed rate	6.63%	6.66%
Variable rate	4.34%	2.78%
Total	6.27%	6.34%

The variable rate debt shown above bears interest based on various spreads over the London Interbank Offered Rate or Eurodollar rates. As of September 30, 2005, the weighted average interest rate on our variable rate debt was LIBOR/Eurodollar plus 0.60% per annum.

Unsecured Line of Credit

On May 19, 2005, we modified our $605.0 million Unsecured Line of Credit by extending the maturity date from January 17, 2006 to October 30, 2007, with a provision for a one-year extension at our option, subject to certain conditions, and by reducing the per annum variable interest rate on outstanding balances from Eurodollar plus 0.70% to Eurodollar plus 0.65%. In addition a facility fee equal to 15 basis point per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in Boston Properties Limited Partnership s senior unsecured debt ratings. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to us at a reduced Eurodollar rate. We utilize the Unsecured Line of Credit principally to fund development of properties, land and property acquisitions, to refinance outstanding indebtedness and for working capital purposes. Our Unsecured Line of Credit is a recourse obligation of Boston Properties Limited Partnership.

Our ability to borrow under our 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 for a single period of not more than five consecutive quarters the leverage ratio can exceed 60% (but may not exceed 65%);
- 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%;

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a minimum net worth requirement;

an unsecured interest coverage ratio of at least 1.75; and

restrictions on permitted investments, development, partially owned entities, business outside of commercial real estate and commercial non-office properties

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

At September 30, 2005, we had letters of credit totaling $9.4 million outstanding under our Unsecured Line of Credit. On July 19, 2005, we refinanced $225 million of mortgage indebtedness at 599 Lexington Avenue through a secured draw on our Unsecured Line of Credit. As of September 30, 2005, we had the ability to borrow an additional $370.6 million under our Unsecured Line of Credit. As of November 4, 2005 we have borrowings of $253 million outstanding under our Unsecured Line of Credit with the ability to borrow an additional $341.3 million under our Unsecured Line of Credit.

Unsecured Senior Notes

The following summarizes the unsecured senior notes outstanding as of September 30, 2005 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate (1)	Principal Amount	Maturity Date (2)
10 Year Unsecured Senior Notes	6.250%	6.296%	$ 750,000	January 15, 2013
10 Year Unsecured Senior Notes	6.250%	6.280%	175,000	January 15, 2013
12 Year Unsecured Senior Notes	5.625%	5.636%	300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.075%	250,000	June 1, 2015
Total principal			1,475,000	
Net discount			(4,037)	
Total			$ 1,470,963	

(1) Yield on issuance date including the effects of discounts on the notes.
(2) No principal amounts are due prior to maturity.

Our unsecured senior notes are redeemable at our option, in whole or in part, at a redemption price equal to the greater of (i) 100% of their principal amount or (ii) the sum of the present value of the remaining scheduled payments of principal and interest discounted at a rate equal to the yield on U.S. Treasury securities with a comparable maturity plus 35 basis points (the $250 million 12 Year Unsecured Senior Notes that mature on June 1, 2015 are calculated at the U.S. Treasury yield plus 25 basis points), in each case plus accrued and unpaid interest to the redemption date. The indenture under which our senior unsecured notes were issued contains restrictions on incurring debt and using our assets as security in other financing transactions and other customary financial and other covenants, including (1) a leverage ratio not to exceed 60%,

(2) a secured debt leverage ratio not to exceed 50%, (3) an interest coverage ratio of 1.5, and (4) unencumbered asset value to be no less than 150% of our unsecured debt. As of September 30, 2005 we were in compliance with each of these financial restrictions and requirements.

Boston Properties Limited Partnership s investment grade ratings on its senior unsecured notes are as follows:

Rating Organization	Rating
Moody s	Baa2 (stable)
Standard & Poor s	BBB (stable)
FitchRatings	BBB (stable)

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The security rating is not a recommendation to buy, sell or hold securities, as it may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

Mortgage Notes Payable

The following represents the outstanding principal balances due under the first mortgages at September 30, 2005:

Properties	Interest Rate	Principal Amount	Maturity Date
		(in thousands)	
Citigroup Center	7.19%	$ 499,781	May 11, 2011
Times Square Tower	4.27%	475,000	July 9, 2008
Embarcadero Center One and Two	6.70%	291,603	December 10, 2008
Prudential Center	6.72%	271,853	July 1, 2008
280 Park Avenue	7.64%	256,950	February 1, 2011
599 Lexington Avenue	4.18%	225,000(1)	October 30, 2007
Embarcadero Center Four	6.79%	139,098	February 1, 2008
Embarcadero Center Three	6.40%	136,038	January 1, 2007
Democracy Center	7.05%	98,947	April 1, 2009
Embarcadero Center West Tower	6.50%	90,838(2)	January 1, 2006
601 and 651 Gateway Boulevard	3.50%	84,999	December 31, 2005
One Freedom Square	5.33%	80,497(3)	June 30, 2012
Cambridge Center Seven	5.13%	73,630(4)	April 14,2007
New Dominion Tech Park, Bldg. Two	5.55%	63,000(5)	September 30, 2014
140 Kendrick Street	5.21%	60,223(6)	July 1, 2013
202, 206 & 214 Carnegie Center	8.13%	60,026	October 1, 2010
1330 Connecticut Avenue	4.65%	57,880(7)	February 26, 2011
New Dominion Tech. Park, Bldg. One	7.69%	56,702	January 15, 2021
Reservoir Place	5.82%	53,673(8)	July 1, 2009
Capital Gallery	8.24%	51,044	August 15, 2006
504, 506 & 508 Carnegie Center	7.39%	43,744	January 1, 2008
10 and 20 Burlington Mall Road	7.25%	37,367(9)	October 1, 2011
Ten Cambridge Center	8.27%	33,099	May 1, 2010
Sumner Square	7.35%	28,323	September 1, 2013
1301 New York Avenue	7.14%	26,955(10)	August 15, 2009
Eight Cambridge Center	7.73%	25,992	July 15, 2010
510 Carnegie Center	7.39%	25,101	January 1, 2008
University Place	6.94%	22,202	August 1, 2021
Reston Corporate Center	6.56%	22,135	May 1, 2008
Bedford Business Park	8.50%	18,760	December 10, 2008
191 Spring Street	8.50%	18,444	September 1, 2006
Capital Gallery Redevelopment	5.40%	8,463(11)	February 15, 2008
101 Carnegie Center	7.66%	6,726	April 1, 2006
Montvale Center	8.59%	6,811	December 1, 2006
Total		$ 3,450,904	

(1)

On July 19, 2005, we repaid the mortgage loan through a secured draw on our Unsecured Line of Credit. As of September 30, 2005, the interest rate on our Unsecured Line of Credit was 4.18% using a weighted average LIBOR plus 0.41% per annum.

(2) On October 4, 2005, we repaid the mortgage loan collateralized by this property.

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(3) In accordance with EITF 98-1, the principal amount and interest rates shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2005 was $73.4 million and the stated interest rate was 7.75%.
(4) The mortgage financing bears interest at a variable rate equal to LIBOR plus 1.25% per annum and requires interest only payments with a balloon payment due at maturity.
(5) The mortgage loan requires interest only payments with a balloon payment due at maturity.
(6) In accordance with EITF 98-1, the principal amount and interest rates shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2005 was $54.6 million and the stated interest rate was 7.51%.
(7) In accordance with EITF 98-1, the principal amount and interest rates shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2005 was $51.1 million and the stated interest rate was 7.58%.
(8) In accordance with EITF 98-1, the principal amount and interest rates shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2005 was $51.7 million and the stated interest rate was 7.0%.
(9) Includes outstanding indebtedness secured by 91 Hartwell Avenue.
(10) Includes outstanding principal in the amounts of $18.7 million, $5.6 million and $2.7 million which bear interest at fixed rates of 6.70%, 8.54% and 6.75%, respectively.
(11) The mortgage financing bears interest at a variable rate equal to LIBOR plus 1.65% per annum and requires interest only payments with a balloon payment due at maturity.

Off Balance Sheet Arrangements- Joint Venture Indebtedness

As of September 30, 2005, we had investments in eight unconsolidated joint ventures, of which six have mortgage indebtedness, with equity ownership ranging from 23-51%. We do not have control of these partnerships nor are we the primary beneficiary for variable interest entities and, therefore, we account for them using the equity method of accounting. See also Note 4 to the Consolidated Financial Statements. At September 30, 2005, our share of the debt related to these investments was approximately $203 million. The table below summarizes our share of the outstanding debt (based on our respective ownership interests) in these joint venture properties at September 30, 2005.

Properties	Interest Rate	Principal Amount	Maturity Date
		(in thousands)	
Metropolitan Square (51%)	8.23%	$ 67,742	May 1, 2010
Market Square North (50%)	7.70%	46,295	December 19, 2010
901 New York Avenue (25%)	5.19%	42,500	January 1, 2015
265 Franklin Street (35%) (1)	4.85%	20,180	September 30, 2007
Worldgate Plaza (25%) (2)	4.57%	14,250	December 1, 2007
Wisconsin Place (23.89%) (3)		12,025	(3)
Total	6.60%	$ 202,992	

(1) The mortgage financing bears interest at a variable rate equal to LIBOR plus 1.10% per annum and requires interest only payments with a balloon payment due at maturity.
(2) This property is owned by the Value Added Fund. The mortgage financing bears interest at a variable rate equal to LIBOR plus 0.89% per annum and matures in December 2007, with two one-year extension options. The mortgage debt requires interest only payments with a balloon payment due at maturity. In addition, the Value-Added Fund entered into an agreement to cap the interest rate at 9.5% for a nominal fee.
(3) In accordance with EITF 98-1, the principal amount on $5.6 million of debt was adjusted to reflect the fair value of the note ($5.3 million) using an effective interest rate of 4.38% per annum. This note is non-interest bearing and matures in January 2008. The weighted average rates exclude the impact of this note. We have agreed, together with our third-party joint venture partners to guarantee the seller financing on behalf of the land and infrastructure entity.

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In addition, the venture obtained construction financing up to $96.5 million, of which our share is $23.1 million, at a variable rate equal to LIBOR plus 1.50% per annum with a maturity in March 2009. As of September 30, 2005, the outstanding balance was $28.1 million, of which our share was $6.7 million and the interest rate was 5.35%. The mortgage debt requires interest only payments with a balloon payment due at maturity. We have guaranteed approximately $4.6 million of the total construction loan amount on behalf of the land and infrastructure entity.

State and Local Tax Matters

Because we are organized and qualify as a REIT, we are generally not subject to federal income taxes, but 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 or other inquiries. 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.

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, or TRIA, was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute) through December 31, 2004, which date was extended to December 31, 2005 by the United States Department of Treasury on June 18, 2004. TRIA expires on December 31, 2005, and we cannot currently anticipate whether it will be extended. Effective as of April 15, 2005, our property insurance program per occurrence limits were increased from $890 million to $1 billion, including coverage for both certified and non-certified acts of terrorism as defined by TRIA. We also carry nuclear, biological and chemical terrorism insurance coverage (NBC Coverage) for certified acts of terrorism as defined by TRIA, which is provided by IXP, Inc. as a direct insurer. Effective as of April 1, 2005, we extended the NBC Coverage to March 1, 2006 and the per occurrence limit for the NBC Coverage was increased from $640 million to $890 million. Effective as of May 2, 2005, this limit for NBC Coverage was increased to $1 billion. Under TRIA, the NBC Coverage is backstopped by the Federal Government after the payment of the required deductible and 10% coinsurance. In the event TRIA is not extended beyond December 31, 2005, (1) the NBC Coverage provided by IXP will terminate, and (2) a portion of our coverage for what would have constituted certified and non-certified acts of terrorism (other than NBC Coverage) had TRIA not expired will terminate and we will have the right to replace a portion of such terminated coverage. In the event TRIA is extended on terms which could expose IXP to a material increase in risk, we may elect to terminate the NBC coverage provided by IXP. We intend to continue to monitor the scope, nature and cost of available terrorism insurance and maintain 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 deductibles and self-insurance that we believe are commercially reasonable. Specifically, we currently carry earthquake insurance which covers our San Francisco portfolio with a $120 million per occurrence limit and a $120 million aggregate limit, $20 million of which is provided by IXP, Inc., as a direct insurer. The amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. As a result of increased costs of coverage and limited availability, the amount of third-party earthquake insurance that we may be able to purchase on commercially reasonable terms may be reduced. In addition, we may discontinue earthquake insurance on some or all of our properties in the future if the premiums exceed our estimation of the value of the coverage.

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In January 2002, we formed a wholly-owned taxable REIT subsidiary, IXP, Inc., or IXP, to act as a captive insurance company and be one of the elements of our overall insurance program. IXP acts as a direct insurer with respect to a portion of our earthquake insurance coverage for our Greater San Francisco properties and our NBC Coverage for certified acts of terrorism under TRIA. Insofar as we own IXP, we are responsible for our liquidity and capital resources, and the accounts of IXP are part of our consolidated financial statements. If we experience a loss and IXP is required to pay under our insurance policy, we would ultimately record the loss to the extent of IXP s required payment. Therefore, insurance coverage provided by IXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism 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 or the presence of mold at our properties, 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.

Funds from Operations

Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT), we calculate Funds from Operations, or FFO, by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items) for gains (or losses) from sales of properties, real estate related depreciation and amortization, and after adjustment for unconsolidated partnerships and joint ventures. 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 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.

FFO should not be considered as an alternative to net income (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 and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

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The following table presents a reconciliation of net income available to common shareholders to FFO for the three months ended September 30, 2005 and 2004:

	Three Months Ended September 30,	
	2005	2004
	(in thousands)	
Net income available to common shareholders	$ 57,551	$ 68,542
Add:		
Minority Interest in Operating Partnership	27,032	17,178
Less:		
Minority interest in property partnerships	1,527	1,447
Income from unconsolidated joint ventures	1,117	460
Loss from discontinued operations, net of minority interest	(74)	(831)
Gains on sales of real estate from discontinued operations, net of minority interest		4,150
Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and land held for development and discontinued operations	82,013	80,494
Add:		
Real estate depreciation and amortization(1)	67,702	67,538
Minority interests in property partnerships share of Funds from Operations	32	17
Income from unconsolidated joint ventures	1,117	460
Less:		
Preferred distributions	3,200(2)	3,491
Income (loss) from discontinued operations	88	945
Funds from Operations	$ 147,576	$ 144,073
Less:		
Minority interest in the Operating Partnership s share of funds from operations	23,905	24,136
Funds from Operations available to common shareholders	$ 123,671	$ 119,937
Our percentage share of funds from operations basic	83.80%	83.25%
Weighted average shares outstanding basic	111,776	108,339

(1) Real estate depreciation and amortization consists of depreciation and amortization from the Consolidated Statements of Operations of $65,905 and $65,480, our share of unconsolidated joint venture real estate depreciation and amortization of $2,188 and $1,636 and depreciation and amortization from discontinued operations of $2 and $1,080, less corporate related depreciation and amortization of $393 and $658 for the three months ended September 30, 2005 and 2004, respectively.

(2) Excludes approximately $12.1 million of income allocated to the holders of Series Two Preferred Units to account for their right to participate on an as-converted basis in the special dividend that followed previously completed sales of real estate.

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Reconciliation to Diluted Funds from Operations:

	Three Months Ended September 30, 2005		Three Months Ended September 30, 2004	
	Income (Numerator)	Shares (Denominator)	Income (Numerator)	Shares (Denominator)
	(in thousands)		(in thousands)	
Basic FFO	$ 147,576	133,381	$ 144,073	130,141
Effect of Dilutive Securities				
Convertible Preferred Units	3,200(2)	5,087	3,491	5,568
Stock Options and other		2,314		2,242
Diluted FFO	$ 150,776	140,782	$ 147,564	137,951
Less:				
Minority interest in Operating Partnership s share of diluted FFO	23,139	21,605	23,321	21,802
Company s share of Diluted FFO(1)	$ 127,637	119,177	$ 124,243	116,149

(1) Our share of diluted Funds from Operations was 84.65% and 84.20% for the quarter ended September 30, 2005 and 2004, respectively.
(2) Excludes approximately $12.1 million of income allocated to the holders of Series Two Preferred Units to account for their right to participate on an as-converted basis in the special dividend that followed previously completed sales of real estate.

Contractual Obligations

We have various standing or renewable service contracts with vendors related to our property management. In addition, we have certain other utility contracts we enter into in the ordinary course of business which may extend beyond one year, which vary based on usage. These contracts include terms that provide for cancellation with insignificant or no cancellation penalties. Contract terms are generally one year or less.

Newly Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment (SFAS No. 123R). SFAS No. 123R replaces SFAS No. 123, Accounting for Stock Issued to Employees. SFAS No. 123R requires the compensation cost relating to share-based payment transactions be recognized in financial statements and be measured based on the fair value of the equity instrument issued. SFAS No. 123R is effective as of the first annual reporting period beginning after June 15, 2005. We adopted the fair value recognition provisions of SFAS No. 123R prospectively to all employee awards granted, modified, or settled on or after January 1, 2005, and applied the modified prospective application transition provisions, upon adoption. All of our remaining unvested stock options vested on January 17, 2005. As a result, our adoption of SFAS No. 123R did not have a material impact on our cash flows, results of operations, financial position, or liquidity.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and SFAS Statement No. 3 (SFAS No. 154). SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring retrospective application to prior periods financial statements of the change in accounting principle, unless it is impracticable to do so. SFAS No. 154 also requires that a change in depreciation or amortization for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 to have a material impact on our cash flows, results of operations, financial position, or liquidity.

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In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) regarding EITF 04-5, Investor s Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights (EITF 04-5). The conclusion provides a framework for addressing the question of when a sole general partner, as defined in EITF 04-5, should consolidate a limited partnership. Pursuant to EITF 04-5, the general partner of a limited partnership should consolidate a limited partnership unless the limited partners have either (a) the substantive ability to dissolve the limited partnership or otherwise remove the general partners without cause, or (b) substantive participating rights. In addition, EITF 04-5 concluded that the guidance should be expanded to include all limited partnerships, including those with multiple general partners. EITF 04-5 is effective for reporting periods in fiscal years beginning after December 15, 2005. We are currently evaluating and assessing the impact of this pronouncement.

ITEM 3 ***Quantitative and Qualitative Disclosures about Market Risk***

Approximately $4.1 billion of our borrowings bear interest at fixed rates, and therefore the fair value of these instruments is affected by changes in the market interest rates. The following table presents our aggregate fixed rate debt obligations with corresponding weighted-average interest rates sorted by maturity date and our aggregate variable rate debt obligations sorted by maturity date. As of September 30, 2005, the weighted average interest rate on our variable rate debt was LIBOR/Eurodollar plus 0.60% per annum.

(dollars in thousands)	2005	2006	2007	2008	2009	2010+	Total	Fair Value
				Secured debt				
Fixed Rate	$ 97,387	$ 220,821	$ 181,377	$ 801,323	$ 188,278	$ 1,179,625	$ 2,668,811	$ 2,835,589
Average Interest Rate	3.97%	7.30%	6.61%	6.84%	7.11%	7.36%	7.01%	
Variable Rate			$ 298,630	$ 483,463			$ 782,093	$ 782,093
				Unsecured debt				
Fixed Rate						$ 1,470,963	$ 1,470,963	$ 1,520,123
Average Interest Rate						5.95%	5.95%	
Variable Rate								
Total Debt	$ 97,387	$ 220,821	$ 480,007	$ 1,284,786	$ 188,278	$ 2,650,588	$ 4,921,867	$ 5,137,805

During the third quarter of 2005 we entered into nine forward-starting interest rate swap contracts which fix the 10-year treasury rate for a financing in February 2007 at a weighted average rate of 4.32% per annum on notional amounts aggregating $425.0 million. The swaps go into effect in February 2007 and expire in February 2017. We obtained the swaps to lock in the 10-year treasury rate and 10-year swap spread in contemplation of obtaining long-term fixed rate financing in late 2006 or early 2007 to refinance existing debt that is expiring or freely prepayable prior to February 2007. We expect to settle the interest rate swaps in cash at the time we close on the long-term fixed-rate financing. Each swap contract provides for a fixed 10-year LIBOR swap rate (the fixed strike rate) ranging from 4.562% per annum to 4.889% per annum. If the 10-year LIBOR swap rate is below the fixed strike rate at the time we settle each swap, we would be required to make a payment to the swap counter-parties; if the 10-year LIBOR swap rate is above the fixed strike rate at the time we cash settle each swap, we would receive a payment from the swap counter-parties. The amount that we either pay or receive will equal the present value of the basis point differential between the applicable fixed strike rate and the 10-year swap rate at the time we settle each swap. We believe that these swaps are highly-effective cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The fair value of the nine swaps at September 30, 2005 was $3.1 million. This amount has been included in Other Comprehensive Income in the Consolidated Financial Statements. We intend to consider entering into additional hedging arrangements to minimize our interest rate risk.

At September 30, 2005, our variable rate debt outstanding was approximately $782 million. At September 30, 2005, the average interest rate on variable rate debt was approximately 4.34%. If market interest rates on our variable rate debt had been 100 basis points greater, total interest

expense would have increased approximately $2.0 million for the three months ended September 30, 2005.

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At September 30, 2004, our variable rate debt outstanding was approximately $416 million. At September 30, 2004 the average interest rate on variable rate debt was approximately 2.78%. If market interest rates on our variable rate debt had been 100 basis points greater, total interest expense would have increased approximately $1.0 million for the three months ended September 30, 2004.

ITEM 4 ***Controls and Procedures***

(a)

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

(b)

Changes in Internal Control Over Financial Reporting. No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the third quarter of our fiscal year ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1 ***LegalProceedings.***

We are subject to 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 2 ***UnregisteredSales of Equity Securities and Use of Proceeds.***

(a) During the three months ended September 30, 2005, the Company issued 533,737 shares of common stock in exchange for 533,737 common units of limited partnership tendered for redemption by certain limited partners of Boston Properties Limited Partnership. An aggregate of 500,000 of such common units had been issued by Boston Properties Limited Partnership upon conversion of 381,000 Series Two Preferred Units. The Company issued the shares of common stock in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The Company relied on the exemption based upon factual representations received from the limited partners who received these shares.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares of Common Stock Purchased (1)	(b) Average Price Paid per Common Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
July 1, 2005 July 31, 2005			N/A	N/A
August 1, 2005 August 31, 2005	259	$ 0.01	N/A	N/A
September 1, 2005 September 30, 2005			N/A	N/A
Total	259		N/A	N/A

(1) Represents shares of restricted Common Stock that were repurchased in connection with the termination of certain persons employment with the Company. Under the terms of the applicable restricted stock agreements, all of such shares were repurchased by the Company at a price of $0.01 per share, which was the amount originally paid by such employees for such shares.

ITEM 3 ***Defaults Upon Senior Securities.***

None.

ITEM 4 ***Submission of Matters to a Vote of Security Holders.***

None.

ITEM 5 ***Other Information.***

(a) None.

(b) None.

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ITEM 6 ***Exhibits***

(a) Exhibits

10.1	Amended and Restated Employment Agreement by and between E. Mitchell Norville and the Company dated as of August 25, 2005.
10.2	Employment Agreement by and between Peter D. Johnston and the Company dated as of August 25, 2005.
12.1	Calculation of Ratios of Earnings to Combined Fixed Charges and Preferred Distributions.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.3

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BOSTON PROPERTIES, INC.

November 9, 2005

/s/ Douglas T. Linde

Douglas T. Linde

Executive Vice President,

Chief Financial Officer (duly authorized officer and principal financial officer)