BOSTON PROPERTIES INC
Form 10-K
March 02, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

Commission file number 1-13087

BOSTON PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of June 30, 2008, the aggregate market value of the 117,049,198 shares of common stock held by non-affiliates of the Registrant was $10,560,178,643 based upon the last reported sale price of $90.22 per share on the New York Stock Exchange on June 30, 2008. (For this computation, the Registrant has excluded the market value of all shares of Common Stock reported as beneficially owned by executive officers and directors of the Registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.)

As of February 23, 2009, there were 121,265,984 shares of Common Stock outstanding.

Certain information contained in the Registrant s Proxy Statement relating to its Annual Meeting of Stockholders to be held May 19, 2009 is incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III. The Registrant intends to file such Proxy Statement with the Securities and Exchange Commission not later than 120 days after the end of its fiscal year ended December 31, 2008.

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PART I

Item 1. *Business*

General

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

Our properties are concentrated in five markets Boston, Washington, DC, midtown Manhattan, San Francisco and Princeton, NJ. We conduct substantially all of our business through our subsidiary, Boston Properties Limited Partnership. At December 31, 2008, we owned or had interests in 147 properties, totaling approximately 49.8 million net rentable square feet and structured parking for vehicles containing approximately 11.2 million square feet. Our properties consisted of:

- 143 office properties comprised of 123 Class A office properties (including 10 properties under construction) and 20 Office/Technical properties;
- one hotel; and
- three retail properties.

We own or control undeveloped land totaling approximately 509.3 acres, which will support approximately 12.0 million square feet of development. In addition, we have a minority interest in the Boston Properties Office Value-Added Fund, L.P., which we refer to as the Value-Added Fund, which is a strategic partnership with two institutional investors through which we have pursued the acquisition of assets within our existing markets that have deficiencies in property characteristics which provide an opportunity to create value through repositioning, refurbishment or renovation. Our investments through the Value-Added Fund are not included in our portfolio information tables or any other portfolio level statistics. At December 31, 2008, the Value-Added Fund had investments in an office complex in San Carlos, California, an office property in Chelmsford, Massachusetts and office/technical properties in Mountain View, California.

We consider Class A office properties to be centrally-located buildings that are professionally managed and maintained, attract high-quality tenants and command upper-tier rental rates, and that are modern structures or have been modernized to compete with newer buildings. We consider Office/Technical properties to be properties that support office, research and development, laboratory and other technical uses. Our definitions of Class A office and Office/Technical properties may be different than those used by other companies.

We are a full-service real estate company, with substantial in-house expertise and resources in acquisitions, development, financing, capital markets, construction management, property management, marketing, leasing, accounting, tax and legal services. As of December 31, 2008, we had approximately 700 employees. Our thirty-three senior officers have an average of twenty-five years experience in the real estate industry and an average of fifteen years of experience with us. Our principal executive office and Boston regional office is located at The Prudential

Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199 and our telephone number is (617) 236-3300. In addition, we have regional offices at 505 9th Street, NW, Washington, D.C. 20004; 599 Lexington Avenue, New York, New York 10022; Four Embarcadero Center, San Francisco, California 94111; and 302 Carnegie Center, Princeton, New Jersey 08540.

Our Web site is located at http://www.bostonproperties.com. On our Web site, you can obtain a free copy of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. The name Boston Properties and our logo (consisting of a stylized b) are registered service marks of Boston Properties Limited Partnership.

Boston Properties Limited Partnership

Boston Properties Limited Partnership, or BPLP, is a Delaware limited partnership, and the entity through which we conduct substantially all of our business and own, either directly or through subsidiaries, substantially all of our assets. We are the sole general partner and, as of February 23, 2009, the owner of approximately 84.2% of the economic interests in BPLP. Economic interest was calculated as the number of common partnership units of BPLP owned by the Company as a percentage of the sum of (1) the actual aggregate number of outstanding common partnership units of BPLP, (2) the number of common partnership units issuable upon conversion of outstanding preferred partnership units of BPLP and (3) the number of common units issuable upon conversion of all outstanding long term incentive plan units of BPLP, or LTIP Units, other than LTIP Units issued in the form of 2008 Outperformance Awards, assuming all conditions have been met for the conversion of the LTIP Units. An LTIP Unit is generally the economic equivalent of a share of our restricted common stock, although LTIP Units issued in the form of 2008 Outperformance Awards are only entitled to receive one-tenth (1/10th) of the regular quarterly distributions (and no special distributions) prior to being earned. See 2008 Outperformance Awards on page 7. Our general and limited partnership interests in BPLP entitle us to share in cash distributions from, and in the profits and losses of, BPLP in proportion to our percentage interest and entitle us to vote on all matters requiring a vote of the limited partners. The other limited partners of BPLP are persons who contributed their direct or indirect interests in properties to BPLP in exchange for common units or preferred units of limited partnership interest in BPLP or recipients of LTIP Units pursuant to the Second Amendment and Restatement of our 1997 Stock Option and Incentive Plan (the 1997 Plan). Under the limited partnership agreement of BPLP, unitholders may present their common units of BPLP for redemption at any time (subject to restrictions agreed upon at the time of issuance of the units that may restrict such right for a period of time, generally one year from issuance). Upon presentation of a unit for redemption, BPLP must redeem the unit for cash equal to the then value of a share of our common stock. In lieu of cash redemption by BPLP, however, we may elect to acquire any common units so tendered by issuing shares of our common stock in exchange for the common units. If we so elect, our common stock will be exchanged for common units on a one-for-one basis. This one-for-one exchange ratio is subject to specified adjustments to prevent dilution. We generally expect that we will elect to issue our common stock in connection with each such presentation for redemption rather than having BPLP pay cash. With each such exchange or redemption, our percentage ownership in BPLP will increase. In addition, whenever we issue shares of our common stock other than to acquire common units of BPLP, we must contribute any net proceeds we receive to BPLP and BPLP must issue to us an equivalent number of common units of BPLP. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

Preferred units of BPLP have the rights, preferences and other privileges, including the right to convert into common units of BPLP, as are set forth in an amendment to the limited partnership agreement of BPLP. As of December 31, 2008 and February 23, 2009, BPLP had one series of its preferred units outstanding. The Series Two preferred units have a liquidation preference of $50.00 per unit (or an aggregate of approximately $55.7 million at December 31, 2008 and February 23, 2009). The Series Two preferred units are convertible, at the holder s election, into common units at a conversion price of $38.10 per common unit (equivalent to a ratio of 1.312336 common units per Series Two preferred unit). Distributions on the Series Two preferred units are payable quarterly and, unless the greater rate described in the next sentence applies, accrue at 7.0% until May 12, 2009 and 6.0% thereafter. If distributions on the number of common units into which the Series Two preferred units are convertible are greater than distributions calculated using the rates described in the preceding sentence for the applicable quarterly period, then the greater distributions are payable instead. Since May 2005, distributions have been made at the greater rate determined on the basis of distributions paid on the common units into which the Series Two preferred units are convertible. The terms of the Series Two preferred units provide that they may be redeemed for cash in six annual tranches, beginning on May 12, 2009, at our election or at the election of the holders. We also have the right to convert into common units of BPLP any Series Two preferred units that are not redeemed when they are eligible for redemption.

Transactions During 2008

Real Estate Acquisitions/Dispositions

On January 7, 2008, we transferred at cost Mountain View Research Park and Mountain View Technology Park to our Value-Added Fund for an aggregate of approximately $221.6 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 601,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. In consideration for the transfer, we received approximately $98.6 million of cash and a promissory note having a principal amount of $123.0 million. The promissory note bore interest at a fixed rate of 7% per annum and was repaid in 2008. In connection with the transfer of the Research Park and Technology Park properties to the Value-Added Fund, we and our partners agreed to certain modifications to the Value-Added Fund s original terms, including bifurcating the Value-Added Fund s promote structure such that the Mountain View Research Park and Technology Park properties will be accounted for separately from the non-Mountain View properties owned by the Value-Added Fund (i.e., Circle Star and 300 Billerica Road). As a result of the modifications, our interest in the Mountain View properties is approximately 39.5% and our interest in the non-Mountain View properties is 25%. This investment completed the investment commitments for new properties from the Value-Added Fund partners.

On April 14, 2008, we sold a parcel of land located in Washington, DC for approximately $33.7 million. We had previously entered into a development management agreement with the buyer to develop a Class A office property on the parcel totaling approximately 165,000 net rentable square feet.

On May 12, 2008, we acquired the remaining development rights for our 250 West 55th Street development project located in New York City for an aggregate purchase price of approximately $34.2 million. The acquisition was financed with approximately $19.2 million of cash and the issuance to the selling entity of 150,000 common units of partnership interest (also referred to as OP Units).

On June 9, 2008, we completed the acquisition of the General Motors Building at 767 Fifth Avenue in New York City for a purchase price of approximately $2.8 billion. The General Motors Building is an approximately 1,770,000 rentable square foot office building located at the corner of 5th Avenue and Central Park South in New York City. The acquisition was completed through a joint venture with US Real Estate Opportunities I, L.P., which is a partnership managed by Goldman Sachs, and Meraas Capital LLC, a Dubai-based private equity firm. We have a 60% interest in the venture and will provide customary property management and leasing services for the venture. The purchase price consisted of approximately $890 million of cash, the issuance to the selling entity of 102,883 OP Units and the assumption of approximately $1.9 billion of secured and mezzanine loans having a weighted average fixed interest rate of 5.97% per annum, all of which mature in October 2017. In addition, the venture acquired the lenders interest in a portion of the assumed mezzanine loans having an aggregate principal amount of $294.0 million and a stated interest rate of 6.02% per annum for a purchase price of approximately $263.1 million in cash. The purchase price was financed in part with loans from the venture s partners on a pro rata basis totaling $450.0 million, which bear interest at a fixed rate of 11.0% per annum and mature on June 9, 2017. Our share of the partner loans totaling $270.0 million has been reflected in Related Party Note Receivable on our Consolidated Balance Sheets. We have eliminated interest income from the partner loan totaling approximately $16.9 million. In connection with the closing, we and the joint venture entered into a tax protection agreement with the seller that restricts the joint venture s ability to sell the General Motors Building in a taxable transaction and requires the joint venture and us to maintain certain amounts of indebtedness associated with the property and its acquisition for a period of up to nine years.

On August 12, 2008, we completed the acquisitions of 540 Madison Avenue and Two Grand Central Tower located in New York City, New York for an aggregate purchase price of approximately $705.0 million, including $309.9 million of assumed indebtedness. On August 13, 2008, we completed the acquisition of 125 West 55th Street also located in New York City, New York for a purchase price of approximately $444.0

million, including $263.5 million of assumed indebtedness. Each acquisition was completed through a joint venture with US Real

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Estate Opportunities I, L.P. and Meraas Capital LLC. We have a 60% interest in each venture and provide customary property management and leasing services for the ventures. The acquisitions were financed with cash contributions from the ventures partners aggregating approximately $575.6 million and the assumption of approximately $573.4 million of secured and mezzanine loans. The debt that was assumed as part of the transactions consists of the following:

- *540 Madison Avenue* two secured loans having an aggregate principal amount of $119.9 million and a weighted-average fixed interest rate of 5.20% per annum, each of which matures in July 2013;
- *Two Grand Central Tower* a $190.0 million secured loan having a fixed interest rate of 5.10% per annum, which matures in July 2010; and
- *125 West 55th Street* $263.5 million of secured and mezzanine loans having a weighted-average fixed interest rate of 6.25% per annum, all of which mature in March 2010.

On September 26, 2008, we acquired from National Public Radio (NPR) its headquarters building at 635 Massachusetts Avenue (the NPR Building) comprised of approximately 211,000 net rentable square feet located in Washington, DC for a purchase price of approximately $119.5 million in cash. In addition, we entered into a development management agreement pursuant to which we will act as development manager for NPR s new headquarters building on NPR-owned land at 1111 North Capitol Street in Washington, DC. We have entered into a lease for the NPR Building for a five-year term at the conclusion of which NPR will occupy its new headquarters. Following the expiration of the lease with NPR, we expect to redevelop the NPR Building site into a Class A office property comprised of approximately 450,000 net rentable square feet.

Developments

On February 5, 2008, we executed a 60-year ground lease with The George Washington University for the redevelopment of a site at Pennsylvania Avenue and Washington Circle in the District of Columbia (2200 Pennsylvania Avenue) as a mixed-use project comprised of approximately 450,000 square feet of office and retail and 330,000 square feet of residential space. On December 18, 2008, we executed a 15-year lease with the law firm of Hunton & Williams LLP for the development project. Hunton & Williams will occupy approximately 190,000 square feet out of the approximately 450,000 square feet of office and retail space (approximately 42%). We have commenced construction on this project and the lease is scheduled to commence in the second quarter of 2011.

On April 22, 2008, we executed a 15-year lease with Wellington Management Company, LLP for our development project located at 280 Congress Street (Russia Wharf) in Boston, Massachusetts. Wellington Management will occupy approximately 450,000 square feet out of the approximately 552,000 square feet of office space in this approximately 815,000 net rentable square foot mixed-use project. We have commenced construction on this project and the lease is scheduled to commence in the first quarter of 2011. In addition, we are pursuing the necessary state and local permits to change the intended use of approximately 186,000 square feet from residential to office space.

On November 26, 2008, we entered into a 15-year lease with Biogen Idec for 100% of a build-to-suit development project with approximately 356,000 net rentable square feet of Class A office space located on land owned by us and known as the Corporate Center of Weston in Weston, Massachusetts. We have commenced construction on this project and we expect that the project will be complete and available for occupancy during the third quarter of 2010.

During the year ended December 31, 2008, we placed in-service the following development properties:

- 505 9th Street, a Class A office project with approximately 323,000 net rentable square feet located in Washington, DC (owned by a consolidated joint venture in which we have a 50% interest);

- 77 CityPoint, a Class A office project with approximately 210,000 net rentable square feet located in Waltham, Massachusetts;

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South of Market, comprised of three Class A office properties aggregating approximately 652,000 net rentable square feet located in Reston, Virginia;

One Preserve Parkway, a Class A office project with approximately 183,000 net rentable square feet located in Rockville, Maryland (partially placed in-service); and

Annapolis Junction, a Class A office project with approximately 118,000 net rentable square feet located in Annapolis, Maryland (owned by an unconsolidated joint venture in which we have a 50% interest).

On February 6, 2009, we announced that we are suspending construction on our 1,000,000 square foot office building at 250 West 55th Street in New York City as a result of our inability to conclude a lease transaction with a major law firm with which we had been negotiating over the last year. While we had reached agreement on financial terms with that firm, they recently informed us that they could not proceed on those terms thereby rendering the project economically infeasible in today s environment. As a result of the decision to suspend construction, we expect to reduce our capital commitments through 2011 by approximately $450 million. We anticipate ceasing all remaining development activity late in the third quarter or early in the fourth quarter of 2009. We expect the suspension of development will reduce our 2009 capitalized interest by approximately $5 million to $9 million and will reduce 2009 capitalized wages by a modest amount. These reductions will result in corresponding incremental increases to our anticipated interest expense and general and administrative expense. We may also incur one-time costs related to our one existing signed lease, possible write-offs of leasing commissions, arrangements in place with contractors and subcontractors for the project and other possible costs. There can be no assurance that the decision to suspend construction will not have a material adverse effect on our results of operations.

As of December 31, 2008, we had eight projects under construction comprised of ten buildings, which aggregate an estimated total investment of $2.3 billion and 3.8 million square feet. The investment through December 31, 2008 and estimated total investment for our properties under construction as of December 31, 2008 are detailed below (in thousands):

Properties Under Construction	**Estimated Stabilization Date**	**Location**	**Investment through December 31, 2008(1)(2)**	**Estimated Total Investment(1)(2)**
250 West 55th Street(3)	N/A	New York, NY	$ 425,500	$ 980,000
Russia Wharf	First Quarter, 2012	Boston, MA	216,700	550,000
Wisconsin Place (66.67% ownership)(4)	Fourth Quarter 2009	Chevy Chase, MD	73,600	93,500
Democracy Tower (formerly South of Market Phase II)	Third Quarter 2009	Reston, VA	58,000	87,200
One Preserve Parkway	Fourth Quarter 2009	Rockville, MD	47,000	60,500
2200 Pennsylvania Avenue	Second Quarter 2012	Washington, DC	36,700	380,000
Weston Corporate Center	Third Quarter 2010	Weston, MA	34,500	150,000
701 Carnegie Center	Fourth Quarter 2009	Princeton, NJ	16,800	34,000
Total			$ 908,800	$ 2,335,200

(1) Represents our share of the investment.
(2) Includes net revenue during lease up period.
(3) On February 6, 2009, we announced that we are suspending construction of this building.
(4) Includes costs associated with the land and infrastructure project in which we have a 23.89% interest.

Debt Transactions

On January 29, 2008, the Wisconsin Place joint venture entity that owns and is developing the office component of the project (a consolidated joint venture entity in which we own a 66.67% interest) obtained construction financing totaling $115.0 million collateralized by the office property. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties located in Chevy Chase, Maryland. The construction financing bears interest at a variable rate equal to LIBOR plus 1.25% per annum and matures on January 29, 2011 with two, one-year extension options.

On January 29, 2008, the Wisconsin Place joint venture entity that owns and is developing the land and infrastructure components of the project (the Land and Infrastructure Entity) (a joint venture entity in which we own an effective interest of approximately 23.89%) executed a second amendment to its construction loan agreement. The construction financing consisted of a $69.1 million commitment, bearing interest at a per annum variable rate equal to LIBOR plus 1.50% and maturing on March 11, 2009. The outstanding balance on the construction loan was approximately $52.6 million out of the $69.1 million commitment. The amended agreement provides for a reduction in the loan commitment amount to $36.9 million. The reduction relates to the repayment of the office portion of the outstanding balance totaling approximately $24.9 million and an additional reduction in the borrowing capacity of approximately $7.3 million with a corresponding release of collateral in conjunction with the Wisconsin Place joint venture entity that owns and is developing the office component of the project (a consolidated joint venture entity in which we own a 66.67% interest) obtaining new construction financing for its project. On April 29, 2008, the Land and Infrastructure Entity repaid the balance of the construction loan totaling approximately $29.4 million. The repayment relates to the repayment of the residential portion of the outstanding balance in conjunction with the Wisconsin Place joint venture entity that owns and is developing the residential component of the project (a joint venture entity in which we do not own an interest) obtaining new construction financing for its project.

On February 1, 2008, we used available cash to repay the mortgage loan collateralized by our Reston Corporate Center property located in Reston, Virginia totaling approximately $20.5 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.56% per annum and was scheduled to mature on May 1, 2008.

On March 27, 2008, our Value-Added Fund obtained third-party mortgage financing totaling $26.0 million (of which $24.0 million was drawn at closing and approximately $38,000 was drawn to fund tenant and capital costs, with the remaining amount available to fund future tenant and capital costs) collateralized by the Mountain View Technology Park properties. The third-party mortgage financing bears interest at a variable rate equal to LIBOR plus 1.50% per annum and matures on March 31, 2011 with two, one-year extension options. The proceeds of the third-party mortgage financing were used to repay $23.0 million of the financing provided by us. On June 12, 2008, the Value-Added Fund entered into an interest rate swap contract related to the mortgage loan collateralized by the Mountain View Technology Park properties with a notional amount of $24.0 million to fix the one-month LIBOR index rate at 4.085% per annum through maturity on March 31, 2011.

On April 1, 2008, we used available cash to repay the mortgage loan collateralized by our Prudential Center property located in Boston, Massachusetts totaling approximately $258.2 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.72% per annum and was scheduled to mature on July 1, 2008.

On May 30, 2008, our Value-Added Fund obtained mortgage financing totaling $120.0 million (of which $103.0 million was drawn at closing, $3.3 million was drawn to fund tenant and capital costs, with the remaining $13.7 million available to fund future tenant and capital costs) collateralized by the Mountain View Research Park properties. The mortgage financing bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on May 31, 2011 with two, one-year extension options. The Value-Added Fund entered into three interest rate swap contracts with notional amounts aggregating $103.0 million to fix the one-month LIBOR index rate at 3.63% per annum through April 1, 2011. The proceeds of the mortgage financing were used to repay the remaining $100.0 million of financing provided by us.

On June 19, 2008, we obtained construction financing totaling $65.0 million collateralized by our Democracy Tower (formerly South of Market Phase II) development project located in Reston, Virginia. The Democracy Tower development project consists of a Class A office property with approximately 225,000 net rentable square feet. The construction financing bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on December 19, 2010 with two, one-year extension options.

On September 10, 2008, we used available cash to repay the mortgage loan collateralized by our One and Two Embarcadero Center properties located in San Francisco, California totaling approximately $274.8 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.74% per annum and was scheduled to mature on December 10, 2008.

On October 10, 2008, we used available cash to repay the mortgage loan collateralized by our Bedford Business Park properties located in Bedford, Massachusetts totaling approximately $16.1 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 8.60% per annum and was scheduled to mature on December 10, 2008.

On November 13, 2008, we closed on an eight-year, $375.0 million mortgage loan collateralized by Four Embarcadero Center located in San Francisco, California. The mortgage loan bears interest at a fixed rate of 6.10% per annum. Under our interest rate hedging program, we will reclassify into earnings over the eight-year term of the loan as an increase in interest expense approximately $26.4 million (approximately $3.3 million per year) of the amounts recorded on our Consolidated Balance Sheet within Accumulated Other Comprehensive Loss, which amounts represent the effective portion of the applicable interest rate hedging contracts.

Equity Transactions

During the year ended December 31, 2008, we acquired an aggregate of 631,297 common units of limited partnership interest, including 16,147 common units issued upon the conversion of LTIP units, presented by the holders for redemption, in exchange for an equal number of shares of common stock. During the year ended December 31, 2008, we issued 1,058,133 shares of common stock as a result of stock options being exercised.

Exchangeable Notes Offering

On August 19, 2008, our Operating Partnership completed an offering of $747.5 million in aggregate principal amount (including $97.5 million as a result of the exercise by the initial purchasers of their over-allotment option) of its 3.625% exchangeable senior notes due 2014. The notes were priced at 99.0% of their face amount, resulting in aggregate net proceeds to us, after deducting the initial purchasers discounts and offering expenses, of approximately $731.6 million, resulting in an effective interest rate of approximately 4.037% per annum. The notes mature on February 15, 2014, unless earlier repurchased, exchanged or redeemed. On and after January 1, 2014, the notes may be exchanged at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date at the option of the holders into cash up to their principal amount and, at the Operating Partnership s option, cash or shares of our common stock for the remainder, if any, of the exchange value in excess of such principal amount at the applicable exchange rate, which initially equals 8.5051 shares per $1,000 principal amount of notes (or an initial exchange price of approximately $117.58 per share of our common stock). Prior to the close of business on the scheduled trading day immediately preceding January 1, 2014, holders of the notes may only exchange their notes only upon the occurrence of certain events. The notes were issued in an offering exempt from registration under the Securities Act of 1933. In addition, in connection with the offering, we entered into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes. The capped call transactions are expected to have the effect of increasing the effective exchange price to us of the notes from $117.58 to approximately $137.17 per share, representing an overall effective premium of approximately 40% over the closing price of $97.98 per share of our common stock on August 13, 2008. The net cost of the capped call transactions was approximately $44.4 million. (See Note 8 to the Consolidated Financial Statements.)

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2008 Outperformance Awards

On January 24, 2008, the Compensation Committee (the Committee) of our Board approved outperformance awards under the 1997 Plan to officers and key employees. These awards (the 2008 OPP Awards) are part of a broad-based, long-term incentive compensation program designed to provide our management team at several levels within the organization with the potential to earn equity awards subject to our outperforming and creating shareholder value in a pay-for-performance structure. 2008 OPP Awards utilize total return to shareholders (TRS) over a three-year measurement period as the performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2008 OPP Awards will share in an outperformance pool if our TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 5, 2008 to February 5, 2011, based on the average closing price of a share of our common stock of $92.8240 for the five trading days prior to and including February 5, 2008. Assuming no changes in the aggregate annual per share dividend through February 2011, our common stock price would have to exceed $104.15 per share for recipients of 2008 OPP Awards to be eligible to earn any rewards. The aggregate reward that recipients of all 2008 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of $110 million, although OPP Awards for an aggregate of up to approximately $104.8 million have been allocated to date and were granted on February 5, 2008. The balance remains available for future grants, with OPP Awards exceeding a potential reward of $1 million requiring the approval of the Committee (See Note 17 to the Consolidated Financial Statements).

Business and Growth Strategies

Business Strategy

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

- to concentrate on a few carefully selected geographic markets, including Boston, Washington, DC, midtown Manhattan, San Francisco and Princeton, NJ, and to be one of the leading, if not the leading, owners and developers in each of those markets. We select markets and submarkets where tenants have demonstrated a preference for high-quality office buildings and other facilities;

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

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

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

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

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

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

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

to enhance our capital structure through our access to a variety of sources of capital.

Growth Strategies

External Growth

We believe that our development experience and our organizational depth position us to continue to selectively develop a range of property types, including low-rise suburban office properties, high-rise urban developments, mixed-use developments and research and laboratory space, within budget and on schedule. Other factors that contribute to our competitive position include:

our control of sites (including sites under contract or option to acquire) in our markets that will support approximately 12.0 million square feet of new office, retail, hotel and residential development;

our reputation gained through 39 years of successful operations and the stability and strength of our existing portfolio of properties;

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

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

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

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

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

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

Development in selected submarkets. We believe the continued development of well-positioned office buildings will be justified in many of our submarkets. We believe in acquiring land after taking into consideration timing factors relating to economic cycles and in response to market conditions that allow for its development at the appropriate time. While we purposely concentrate in markets with high barriers-to-entry, we have demonstrated throughout our 39-year history, an ability to make carefully timed land acquisitions in submarkets where we can become one of the market leaders in establishing rent and other business terms. We believe that there are opportunities at key locations in our existing and other markets for a well-capitalized developer to acquire land with development potential.

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

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

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

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

Internal Growth

We believe that opportunities will exist to increase cash flow from our existing properties because they are of high quality and in desirable locations. In addition, our properties are in markets where, in general, the creation of new supply is limited by the lack of available sites, the difficulty of receiving the necessary approvals for development on vacant land and the difficulty of obtaining financing. Our strategy for maximizing the benefits from these opportunities is three-fold: (1) to provide high-quality property management services using our employees in order to encourage tenants to renew, expand and relocate in our properties, (2) to achieve speed and transaction cost efficiency in replacing departing tenants through the use of in-house services for marketing, lease negotiation and construction of tenant improvements and (3) to work with new or existing tenants with space expansion or contraction needs maximizing the cash flow from our assets. We believe that our office properties will add to our internal growth because of their desirable locations and the fact that our in-place rents are currently lower than market rents. We expect to continue our internal growth as a result of our ability to:

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

We had an average lease term of 7.2 years at December 31, 2008 and continue to cultivate long-term leasing relationships with a diverse base of high quality, financially stable tenants. Based on leases in place at December 31, 2008, leases with respect to 6.7% of the total square feet in our portfolio will expire in calendar year 2009.

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

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

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

Policies with Respect to Certain Activities

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

Investment Policies

Investments in Real Estate or Interests in Real Estate

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

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

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

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

Investments in Real Estate Mortgages

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

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

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

Dispositions

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

Financing Policies

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

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

Policies with Respect to Other Activities

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

Energy and Natural Resource Conservation

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

In 2008, this process was improved through a more holistic, corporate-wide approach. Our management team formed a Sustainability Committee to (1) identify and execute new strategies for promoting sustainability in new construction, existing buildings and corporate operations, (2) promote communication across regions, (3) share best practices and (4) assess the cost effectiveness of small and large scale projects and programs. Over the past several years, we have implemented numerous improvement projects and system enhancements, including, without limitation, the following:

- installation of higher efficiency lighting in public spaces, garages, stairways and elevators;
- installation of new, high-efficiency motors, air compressors, chillers and other heating, ventilation and air conditioning (HVAC) system components;
- replacing and upgrading energy management systems, including installation of carbon dioxide controls;
- installation of solar reflective window film to reduce solar heat gain, glare and ultraviolet radiation, and adding wall and ceiling insulation to reduce thermal losses;
- modernizing cooling towers with high-efficiency fill and distribution pans;
- implementing programs to minimize waste of water and reclaim steam condensate for our cooling towers;
- upgrading water treatment, plumbing and irrigation operations; and
- implementing extensive recycling programs.

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

Properties across our portfolio are routinely rated and benchmarked on the U.S. Environmental Protection Agency s Energy Star® program. In 2008, 17 of our properties earned the Energy Star Award, accounting for over 7.8 million square feet of exemplary energy performance, and we expect additional properties across our

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portfolio will receive the same recognition in 2009. We believe our efforts described above have led to a meaningful reduction in the number of kilowatt-hours (kWh) used in the operation of our properties and a reduction in our operating expenses. We estimate that the efforts we undertook in 2008 alone will reduce the amount of electrical usage throughout our portfolio by millions of kWh per year.

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

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

Environmentally Sound Development

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

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

- 77 CityPoint in Waltham, MA This approximately 210,000 square foot Class A office property in Waltham, MA has been certified Gold LEED.

- Annapolis Junction in Annapolis, MD This approximately 118,000 square foot Class A office property has been pre-certified Silver LEED.

- Russia Wharf in Boston, MA This 815,000 square foot Class A office tower has been pre-certified Gold LEED.

- 2200 Pennsylvania Avenue, Washington, DC This 780,000 square foot Class A office property has been pre-certified Silver LEED.

- Democracy Tower, Reston, VA This 225,000 square foot Class A office property has been pre-certified Silver LEED.

Numerous other development projects are LEED registered and targeting LEED Silver ratings or better. In addition, we actively seek opportunities to achieve LEED ratings on commercial interiors as tenants build-out or renovate their space. We have numerous commercial interior projects either planned or currently under construction that have been designed to achieve LEED certification, and we have already completed various projects that either already received, or we expect will receive, LEED certifications, including our headquarters in the Prudential Center in Boston.

Many of the local jurisdictions in which we operate and develop buildings are also making efforts to promote environmentally sound developments by adopting aspects of the LEED program. As a result, we intend to continue to be proactive in evaluating each new development to determine whether it is physically practical and economically feasible to produce a LEED certified building. Barring unusual use, site or design constraints, we target LEED-Silver or better on all new developments.

Competition

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

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

Our Hotel Property

We operate our hotel property through a taxable REIT subsidiary. The taxable REIT subsidiary, a wholly-owned subsidiary of BPLP, is the lessee pursuant to leases for the hotel property. As lessor, BPLP is entitled to a percentage of gross receipts from the hotel property. The hotel lease allows all the economic benefits of ownership to flow to us. Marriott International, Inc. continues to manage the hotel property under the Marriott name and under terms of the existing management agreements. Marriott has been engaged under a separate long-term incentive management agreement to operate and manage the hotel on behalf of the taxable REIT subsidiary. In connection with these arrangements, Marriott has agreed to operate and maintain our hotel in accordance with its system-wide standard for comparable hotels and to provide the hotel with the benefits of its central reservation system and other chain-wide programs and services. Under a management agreement for the hotel, Marriott acts as the taxable REIT subsidiary s agent to supervise, direct and control the management and operation of the hotel and receives as compensation base management fees that are calculated as a percentage of the hotel s gross revenues, and supplemental incentive fees if the hotel exceeds negotiated profitability breakpoints. In addition, the taxable REIT subsidiary compensates Marriott, on the basis of a formula applied to the hotel s gross revenues, for certain system-wide services provided by Marriott, including central reservations, marketing and training. During 2008, 2007 and 2006, Marriott received an aggregate of approximately $3.0 million, $3.2 million and $4.7 million, respectively, from our taxable REIT subsidiary. For 2006 and a portion of 2007, these amounts include payments related to the Long Wharf Marriott, which was sold by us in March 2007.

Seasonality

Our hotel property traditionally has experienced significant seasonality in its operating income, with the percentage of net operating income by quarter over the year ended December 31, 2008 shown below.

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
7%	35%	23%	35%

Corporate Governance

Boston Properties is currently managed by a ten member Board of Directors, which is divided into three classes (Class I, Class II and Class III). Our Board of Directors is currently composed of three Class I directors (Mortimer B. Zuckerman, Carol B. Einiger and Richard E. Salomon), four Class II directors (Lawrence S. Bacow, Zoë Baird, Alan J. Patricof and Martin Turchin) and three Class III directors (Fredrick J. Iseman, Edward H. Linde and David A. Twardock). The members of each class of our Board of Directors serve for staggered three-year terms, and the terms of our current Class I, Class II and Class III directors expire upon the election and qualification of directors at the annual meetings of stockholders to be held in 2010, 2011 and 2009, respectively. At each annual meeting of stockholders, directors will be elected or re-elected for a full term of three years to succeed those directors whose terms are expiring.

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Frederick J. Iseman was appointed to serve as a new independent member of our Board of Directors on December 15, 2008. Mr. Iseman is Chairman and Chief Executive Officer of CI Capital Partners LLC, a private equity investment firm which he founded in 1993. In addition, the Board appointed Mr. Iseman to the Compensation Committee effective January 1, 2009.

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

Name of Director	Audit	Compensation	Nominating and Corporate Governance
Lawrence S. Bacow	X		
Zoë Baird		X	X*
Carol B. Einiger	X		
Fredrick J. Iseman		X	
Alan J. Patricof	X*		
Richard E. Salomon		X*	
David A. Twardock		X	X

X=Committee member, *=Chair

Our Board of Directors has adopted charters for each of its Audit, Compensation and Nominating and Corporate Governance Committees. The Compensation Committee is comprised of four (4) independent directors. The Audit Committee is comprised of three (3) independent directors, and the Nominating and Corporate Governance Committee is comprised of two (2) independent directors. A copy of each of these charters is available on our website at http://www.bostonproperties.com under the heading Corporate Governance and subheading Committees and Charters. A copy of each of these charters is also available in print to any stockholder upon written request addressed to Investor Relations, Boston Properties, Inc., The Prudential Center, 800 Boylston Street, Boston, MA 02199.

Our Board of Directors has adopted Corporate Governance Guidelines, a copy of which is available on our website at http://www.bostonproperties.com under the heading Corporate Governance and subheading Governance Guidelines. A copy of these guidelines is also available in print to any stockholder upon written request addressed to Investor Relations, Boston Properties, Inc., The Prudential Center, 800 Boylston Street, Boston, MA 02199.

Our Board of Directors has adopted a Code of Business Conduct and Ethics, which governs business decisions made and actions taken by our directors, officers and employees. A copy of this code is available on our website at http://www.bostonproperties.com under the heading Corporate Governance and subheading Code of Conduct and Ethics. We intend to disclose on this website any amendment to, or waiver of, any provision of this Code applicable to our directors and executive officers that would otherwise be required to be disclosed under the rules of the SEC or the New York Stock Exchange. A copy of this Code is also available in print to any stockholder upon written request addressed to Investor Relations, Boston Properties, Inc., The Prudential Center, 800 Boylston Street, Boston, MA 02199.

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

On May 22, 2008, Edward H. Linde, Chief Executive Officer of the Company, submitted to the New York Stock Exchange (the NYSE) the Annual CEO Certification required by Section 303A of the Corporate Governance Rules of the NYSE certifying that he was not aware of any violation by the Company of NYSE corporate governance listing standards.

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Item 1A. ***Risk Factors.***

Set forth below are the risks that we believe are material to our investors. We refer to the shares of our common stock and the units of limited partnership interest in BPLP together as our securities, and the investors who own shares or units, or both, as our securityholders. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements beginning on page 45.

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

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

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

We are dependent upon the economic climates of our markets Boston, Washington, DC, midtown Manhattan, San Francisco and Princeton, NJ.

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

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

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

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

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

Our developed properties may be exposed to the following risks:

- we may lease developed properties at rental rates that are less than the rates projected at the time we decide to undertake the development; and
- occupancy rates and rents at newly developed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investments being less profitable than we expected or not profitable at all.

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

We may develop properties, either alone or through joint ventures with other persons, that are known as mixed-use developments. This means that in addition to the development of office space, the project may also include space for other commercial purposes. We have limited experience in developing and managing non-office and non-retail real estate. As a result, if a development project includes a non-office or non-retail use, we may seek to sell the rights to that component to a third-party developer with experience in that use or we may seek to partner with such a developer. If we are not able to sell the rights or partner with such a developer, or if we choose to develop the other component ourselves, we would be exposed not only to those risks typically associated with the development of commercial real estate generally, but also to specific risks associated with the development and ownership of non-office and non-retail real estate. In addition, even if we sell the rights to develop the other component or elect to participate in the development through a joint venture, we may be exposed to the risks associated with the failure of the other party to complete the development as expected. These include the risk that the other party would default on its obligations necessitating that we complete the other component ourselves (including providing any necessary financing).

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

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

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

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

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

- the financial condition of our tenants, many of which are financial, legal and other professional firms such as Lehman Brothers, which filed for bankruptcy protection in the third quarter of 2008, and Heller Ehrman LLP, which filed for bankruptcy protection in the fourth quarter of 2008, may be adversely affected, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

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

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

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

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

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

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- one or more counterparties to our derivative financial instruments could default on their obligations to us, including the capped call transactions we entered into in connection with our offering of our 3.625% exchangeable senior notes due 2014 and any interest hedging contracts we may enter into from time to time, or could fail, increasing the risk that we may not realize the benefits of these instruments.

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

As of February 23, 2009, we had approximately $396.9 million of indebtedness that bears interest at variable rates, and we may incur more of such indebtedness in the future. If interest rates increase, then so will the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our securityholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures. From time to time, we enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors.

While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (See Note 6 to the Consolidated Financial Statements). In addition, an increase in interest rates could decrease the amount third-parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions.

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

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

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

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

On February 23, 2009, our total consolidated debt was approximately $6.3 billion (i.e., excluding unconsolidated joint venture debt). Consolidated debt to consolidated market capitalization ratio, which measures total consolidated debt as a percentage of the aggregate of total consolidated debt plus the market value of outstanding equity securities, is often used by analysts to gauge leverage for equity REITs such as us. Our market value is calculated using the price per share of our common stock. Using the closing stock price of $35.73 per share of our common stock on February 23, 2009, multiplied by the sum of (1) shares of our common stock, (2) outstanding common units of limited partnership interest in Boston Properties Limited Partnership (excluding common units held by Boston Properties, Inc.), and (3) an aggregate of common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in Boston Properties Limited Partnership, (4) an aggregate of common units issuable upon conversion of all outstanding LTIP Units, assuming all conditions have been met for the conversion of the LTIP Units, our consolidated debt to total consolidated market capitalization ratio was approximately 55.1% as of February 23, 2009. The calculation of total consolidated market capitalization does not include 2008 OPP Awards because, unlike other LTIP Units, they are not earned until certain return thresholds are achieved.

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

We face risks associated with property acquisitions.

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

- even if we enter into an acquisition agreement for a property, we may be unable to complete that acquisition after making a non-refundable deposit and incurring certain other acquisition-related costs;

- we may be unable to obtain financing for acquisitions on favorable terms or at all;

- acquired properties may fail to perform as expected;

- the actual costs of repositioning or redeveloping acquired properties may be greater than our estimates;

- the acquisition agreement will likely contain conditions to closing, including completion of due diligence investigations to our satisfaction or other conditions that are not within our control, which may not be satisfied;

- acquired properties may be located in new markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures; and

- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and this could have an adverse effect on our results of operations and financial condition.

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

Acquired properties may expose us to unknown liability.

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

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

Competition for acquisitions may result in increased prices for properties.

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

- we may be unable to acquire a desired property because of competition from other well-capitalized real estate investors, including publicly traded and private REITs, institutional investment funds and other real estate investors; and
- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price.

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

In appropriate circumstances, we intend to develop and acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. We currently have twelve joint ventures that are not consolidated with our financial statements. Our share of the aggregate revenue of these joint ventures represented approximately 11.6% of our total revenue (the sum of our total consolidated revenue and our share of such joint venture revenue) for the year ended December 31, 2008. Our participation in joint ventures is subject to the risks that:

we could become engaged in a dispute with any of our joint venture partners that might affect our ability to develop or operate a property;

our joint ventures are subject to debt and in the current volatile credit market the refinancing of such debt may require equity capital calls;

our joint venture partners may default on their obligations necessitating that we fulfill their obligation ourselves;

our joint venture partners may have different objectives than we have regarding the appropriate timing and terms of any sale or refinancing of properties; and

our joint venture partners may have competing interests in our markets that could create conflict of interest issues.

Our properties face significant competition.

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

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

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

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

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

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

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

Our ability to dispose of some of our properties is constrained by their tax attributes. Properties which we developed and have owned for a significant period of time or which we acquired through tax deferred contribution transactions in exchange for partnership interests in BPLP often have low tax bases. If we dispose of these properties outright in taxable transactions, we may be required to distribute a significant amount of the taxable gain to our securityholders under the requirements of the Internal Revenue Code for REITs, which in turn would impact our cash flow and increase our leverage. In some cases, without incurring additional costs we may be restricted from disposing of properties contributed in exchange for our partnership interests under tax protection agreements with contributors. To dispose of low basis or tax-protected properties efficiently we from time to time use like-kind exchanges, which qualify for non-recognition of taxable gain, but can be difficult to consummate and result in the property for which the disposed assets are exchanged inheriting their low tax bases and other tax attributes (including tax protection covenants).

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

Because the lease payments we receive under our hotel lease are based on a participation in the gross receipts of the hotel, if the hotel does not generate sufficient receipts, our cash flow would be decreased, which could reduce the amount of cash available for distribution to our securityholders. The following factors, among others, are common to the hotel industry, and may reduce the receipts generated by our hotel property:

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

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

We face risks associated with short-term liquid investments.

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

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;
- taxable municipal securities;
- obligations (including certificates of deposit) of banks and thrifts;
- commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;
- repurchase agreements collateralized by corporate and asset-backed obligations;

- both registered and unregistered money market funds; and

- other highly rated short-term securities.

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

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

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

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

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

- we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes;
- unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a REIT for four taxable years following the year during which we were disqualified; and
- all dividends will be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits.

In addition, if we fail to qualify as a REIT, we will no longer be required to pay dividends. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the value of our common stock.

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

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

Congress has introduced legislation that, if enacted, could cause Boston Properties Limited Partnership to be taxable as a corporation for U.S. federal income tax purposes under the publicly traded partnership rules.

Legislation was recently introduced in Congress that would treat publicly traded partnerships as corporations for federal income tax purposes if the partnership directly or indirectly derives income from certain investment adviser or asset management services. Because certain of BPLP s current activities could constitute investment adviser or asset management services as defined for these purposes, unless transfers of ownership of interests in BPLP are limited in a manner that complies with certain regulatory safe harbors or another exception applies, it is possible that this legislation, if enacted, could cause BPLP to be taxable as a corporation. Classification of BPLP as a corporation would also cause us to fail to qualify as a REIT. Under a transitional rule contained in one version of the proposed legislation BPLP would be exempt from the new rules until its taxable year beginning January 1, 2013. It is possible, however, that any legislation enacted may include a shorter transition period, may be effective immediately, or possibly even retroactively.

Congress is also considering legislative proposals to treat all or part of certain income allocated to a partner by a partnership in respect of certain services provided to or for the benefit of the partnership (carried interest revenue) as ordinary income for U.S. federal income tax purposes. While the current legislative proposal provides that such income will nevertheless retain its original character for purposes of the REIT qualification tests, it is not clear what form any such final legislation would take. Furthermore, under the proposed legislation, carried interest revenue could be treated as non-qualifying income for purposes of the qualifying income exception to the publicly-traded partnership rules. If enacted, this could result in BPLP being taxable as a corporation for U.S. federal income tax purposes if the amount of any such carried interest revenue plus any other non-qualifying income earned by BPLP exceeds 10% of its gross income in any taxable year.

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

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

- delay or prevent a change of control over us or a tender offer, even if such action might be beneficial to our stockholders; and
- limit our stockholders opportunity to receive a potential premium for their shares of common stock over then-prevailing market prices.

Stock Ownership Limit

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

BPLP s Partnership Agreement

We have agreed in the limited partnership agreement of BPLP not to engage in specified extraordinary transactions, including, among others, business combinations, unless limited partners of BPLP other than Boston Properties, Inc. receive, or have the opportunity to receive, either (1) the same consideration for their partnership interests as holders of our common stock in the transaction or (2) limited partnership units that, among other things, would entitle the holders, upon redemption of these units, to receive shares of common equity of a publicly traded company or the same consideration as holders of our common stock received in the transaction. If these limited partners would not receive such consideration, we cannot engage in the transaction unless limited partners holding at least 75% of the common units of limited partnership interest, other than those held by Boston Properties, Inc. or its affiliates, consent to the transaction. In addition, we have agreed in the limited partnership

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

- holders of partnership interests in BPLP, including Boston Properties, Inc., must vote on the matter;
- Boston Properties, Inc. must vote its partnership interests in the same proportion as our stockholders voted on the transaction; and
- the result of the vote of holders of partnership interests in BPLP must be such that had such vote been a vote of stockholders, the business combination would have been approved.

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

Shareholder Rights Plan

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

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

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

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

- investor confidence in the stock and bond markets, generally;
- national economic conditions;
- changes in tax laws;
- our financial performance;
- changes in our credit ratings; and
- general stock and bond market conditions.

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

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

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

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

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

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

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

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

We depend on the efforts of key personnel, particularly Mortimer B. Zuckerman, Chairman of our Board of Directors, Edward H. Linde, our Chief Executive Officer, and Douglas T. Linde, our President. Among the reasons that Messrs. Zuckerman, E. Linde and D. Linde are important to our success is that each has a national reputation, which attracts business and investment opportunities and assists us in negotiations with lenders. If we lost their services, our relationships with lenders, potential tenants and industry personnel could diminish. Mr. Zuckerman has substantial outside business interests that could interfere with his ability to devote his full time to our business and affairs.

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

Conflicts of interest exist with holders of interests in BPLP.

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

Some holders of interests in BPLP, including Messrs. Zuckerman and E. Linde, would incur adverse tax consequences upon the sale of certain of our properties and on the repayment of related debt which differ from the tax consequences to us and our stockholders. Consequently, these holders of partnership interests in BPLP may have different objectives regarding the appropriate pricing and timing of any such sale or repayment of debt. While we have exclusive authority under the limited partnership agreement of BPLP to determine when to refinance or repay debt or whether, when, and on what terms to sell a property, subject, in the case of certain properties, to the contractual commitments described below, any such decision would require the approval of our

Board of Directors. While the Board of Directors has a policy with respect to these matters, as directors and executive officers, Messrs. Zuckerman and E. Linde could exercise their influence in a manner inconsistent with the interests of some, or a majority, of our stockholders, including in a manner which could prevent completion of a sale of a property or the repayment of indebtedness.

Agreement not to sell some properties.

We have entered into agreements with respect to some properties that we have acquired in exchange for partnership interests in BPLP. Pursuant to those agreements, we have agreed not to sell or otherwise transfer some of our properties, prior to specified dates, in any transaction that would trigger taxable income and we are responsible for the reimbursement of certain tax-related costs to the prior owners if the subject properties are sold in a taxable sale. In general, our obligations to the prior owners are limited in time and only apply to actual damages suffered. As of December 31, 2008 there were a total of 6 properties subject to these restrictions. In the aggregate, all properties subject to the restrictions are estimated to have accounted for approximately 29% of our total revenue for the year ended December 31, 2008.

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

Messrs. Zuckerman and E. Linde will continue to engage in other activities.

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

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

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

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

Some potential losses are not covered by insurance.

We carry insurance coverage on our properties of types and in amounts and with deductibles that we believe are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance

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Act (as amended, TRIA) was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute). The expiration date of TRIA was extended to December 31, 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). Currently, the per occurrence limits of our portfolio property insurance program are $1.0 billion, including coverage for acts of terrorism certified under TRIA. We currently insure certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York (767 Fifth Avenue), in a separate stand alone insurance program. The property insurance program per occurrence limits for 767 Fifth Avenue are $1.625 billion, including coverage for acts of terrorism certified under TRIA, with $1.375 billion of coverage for losses in excess of $250 million being provided by NYXP, LLC, as a direct insurer. We also currently carry nuclear, biological, chemical and radiological terrorism insurance coverage (NBCR Coverage) for acts of terrorism certified under TRIA, which is provided by IXP, LLC as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding the properties owned by our Value-Added Fund and certain other properties owned in joint ventures with third parties or which we manage. The per occurrence limit for NBCR Coverage is $1 billion. Under TRIA, after the payment of the required deductible and coinsurance, the NBCR Coverage is backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. The program trigger is $100 million and the coinsurance is 15%. Under TRIPRA, if the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. We may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in our portfolio or for any other reason. 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 self-insurance that we believe are commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, we currently carry earthquake insurance which covers our San Francisco region with a $120 million per occurrence limit and a $120 million annual aggregate limit, $20 million of which is provided by IXP LLC, as a direct insurer. The amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact our ability to finance properties subject to earthquake risk. We may discontinue earthquake insurance on some or all of our properties in the future if the premiums exceed our estimation of the value of the coverage.

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

The mortgages on our properties typically contain requirements concerning the financial ratings of the insurers who provide policies covering the property. We provide the lenders on a regular basis with the identity of the insurance companies in our insurance programs. The ratings of some of our insurers are below the rating

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requirements in some of our loan agreements and the lenders for these loans could attempt to claim an event of default has occurred under the loan. We believe we could obtain insurance with insurers which satisfy the rating requirements. Additionally, in the future our ability to obtain debt financing secured by individual properties, or the terms of such financing, may be adversely affected if lenders generally insist on ratings for insurers which are difficult to obtain or which result in a commercially unreasonable premium. There can be no assurance that a deficiency in the financial ratings of one or more of our insurers will not have a material adverse effect on us.

We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism and California earthquake risk in particular, but we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. There are other types of losses, such as from wars 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.

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

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

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

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

Potential liability for environmental contamination could result in substantial costs.

Under federal, state and local environmental laws, ordinances and regulations, we may be required to investigate and clean up the effects of releases of hazardous or toxic substances or petroleum products at our properties simply because of our current or past ownership or operation of the real estate. If unidentified

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environmental problems arise, we may have to make substantial payments, which could adversely affect our cash flow and our ability to make distributions to our securityholders, because:

- as owner or operator we may have to pay for property damage and for investigation and clean-up costs incurred in connection with the contamination;
- the law typically imposes clean-up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination;
- even if more than one person may be responsible for the contamination, each person who shares legal liability under the environmental laws may be held responsible for all of the clean-up costs; and
- governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

These costs could be substantial and in extreme cases could exceed the amount of our insurance or the value of the contaminated property. We currently carry environmental insurance in an amount and subject to deductibles that we believe are commercially reasonable. Specifically, we carry a pollution legal liability policy with a $10 million limit per incident and a policy aggregate limit of $30 million. The presence of hazardous or toxic substances or petroleum products or the failure to properly remediate contamination may materially and adversely affect our ability to borrow against, sell or rent an affected property. In addition, applicable environmental laws create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination. Changes in laws increasing the potential liability for environmental conditions existing at our properties, or increasing the restrictions on the handling, storage or discharge of hazardous or toxic substances or petroleum products or other actions may result in significant unanticipated expenditures.

Environmental laws also govern the presence, maintenance and removal of asbestos. Such laws require that owners or operators of buildings containing asbestos:

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

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

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

- the environmental assessments and updates did not identify all potential environmental liabilities;

- a prior owner created a material environmental condition that is not known to us or the independent consultants preparing the assessments;

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

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

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

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

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

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

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

We face possible adverse changes in tax laws.

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

We face possible state and local tax audits.

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

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties*

At December 31, 2008, our portfolio consisted of 147 properties totaling 49.8 million net rentable square feet. Our properties consisted of (1) 143 office properties, comprised of 123 Class A office buildings, including 10 properties under construction, and 20 properties that support both office and technical uses, (2) three retail properties and (3) one hotel. In addition, we own or control 509.3 acres of land for future development. The table set forth below shows information relating to the properties we owned, or in which we had an ownership interest, at December 31, 2008. On January 7, 2008, we transferred the Mountain View properties to the Value-Added Fund. For the year ended December 31, 2008, six days of financial results for these properties are included in our consolidated financial results, but not included in any of our portfolio information tables or any other portfolio level statistics. Information relating to properties owned by the Value-Added Fund is not included in our portfolio information tables or any other portfolio level statistics because the Value-Added Fund invests in assets within our existing markets that have deficiencies in property characteristics which provide an opportunity to create value through repositioning, refurbishment or renovation. We therefore believe including such information in our portfolio tables and statistics would render the portfolio information less useful to investors. Information relating to the Value-Added Fund is set forth separately below.

Properties	Location	% Leased	Number of Buildings	Net Rentable Square Feet
Class A Office				
General Motors Building (60% ownership)	New York, NY	98.0%	1	1,770,298
399 Park Avenue	New York, NY	99.7%	1	1,700,331
Citigroup Center	New York, NY	97.7%	1	1,590,013

Times Square Tower	New York, NY	97.3%	1	1,242,384
800 Boylston Street The Prudential Center	Boston, MA	93.9%	1	1,192,899
599 Lexington Avenue	New York, NY	99.2%	1	1,037,338
Embarcadero Center Four	San Francisco, CA	96.6%	1	936,561
111 Huntington Avenue The Prudential Center	Boston, MA	99.6%	1	859,642

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Properties	Location	% Leased	Number of Buildings	Net Rentable Square Feet
Embarcadero Center One	San Francisco, CA	85.5%	1	830,280
Embarcadero Center Two	San Francisco, CA	98.6%	1	778,337
Embarcadero Center Three	San Francisco, CA	84.2%	1	774,946
South of Market	Reston, VA	83.0%	3	648,279
Two Grand Central Tower (60% ownership)	New York, NY	99.8%	1	635,275
Capital Gallery	Washington, DC	100.0%	1	619,586
Metropolitan Square (51% ownership)	Washington, DC	99.9%	1	586,887
125 West 55th Street (60% ownership)	New York, NY	100.0%	1	558,008
3200 Zanker Road	San Jose, CA	100.0%	4	543,900
901 New York Avenue (25% ownership)	Washington, DC	99.4%	1	539,229
Reservoir Place	Waltham, MA	93.1%	1	527,590
601 and 651 Gateway	South San Francisco, CA	96.6%	2	506,045
101 Huntington Avenue The Prudential Center	Boston, MA	100.0%	1	505,939
Two Freedom Square	Reston, VA	98.8%	1	421,676
One Freedom Square	Reston, VA	100.0%	1	414,433
One Tower Center	East Brunswick, NJ	49.5%	1	413,677
Market Square North (50% ownership)	Washington, DC	100.0%	1	401,279
140 Kendrick Street	Needham, MA	100.0%	3	380,987
One and Two Discovery Square	Reston, VA	100.0%	2	366,990
505 9th Street, N.W. (50% ownership)	Washington, DC	100.0%	1	321,926
1333 New Hampshire Avenue	Washington, DC	100.0%	1	315,371
One Reston Overlook	Reston, VA	100.0%	1	312,685
Waltham Weston Corporate Center	Waltham, MA	98.1%	1	306,789
230 CityPoint (formerly Prospect Place)	Waltham, MA	92.6%	1	301,815
540 Madison Avenue (60% ownership)	New York, NY	92.9%	1	284,185
12310 Sunrise Valley	Reston, VA	100.0%	1	263,870
Reston Corporate Center	Reston, VA	100.0%	2	261,046
Quorum Office Park	Chelmsford, MA	100.0%	2	259,918
New Dominion Technology Park Building Two	Herndon, VA	100.0%	1	257,400
611 Gateway	South San Francisco, CA	100.0%	1	256,302
12300 Sunrise Valley	Reston, VA	100.0%	1	255,244
1330 Connecticut Avenue	Washington, DC	100.0%	1	252,136
500 E Street, S. W.	Washington, DC	100.0%	1	248,336
200 West Street	Waltham, MA	100.0%	1	248.311
Five Cambridge Center	Cambridge, MA	99.3%	1	240,480
New Dominion Technology Park Building One	Herndon, VA	100.0%	1	235,201
510 Carnegie Center	Princeton, NJ	100.0%	1	234,160
One Cambridge Center	Cambridge, MA	81.7%	1	215,385
635 Massachusetts Avenue(1)	Washington, DC	100.0%	1	211,000
77 CityPoint	Waltham, MA	100.0%	1	209,707
Sumner Square	Washington, DC	100.0%	1	208,665
Four Cambridge Center	Cambridge, MA	95.1%	1	198,295
University Place	Cambridge, MA	100.0%	1	195,282
North First Business Park(1)	San Jose, CA	75.8%	5	190,636
1301 New York Avenue	Washington, DC	100.0%	1	188,358
12290 Sunrise Valley	Reston, VA	100.0%	1	182,424
2600 Tower Oaks Boulevard	Rockville, MD	90.8%	1	178,887
Eight Cambridge Center	Cambridge, MA	100.0%	1	177,226
Lexington Office Park	Lexington, MA	71.1%	2	166,373

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Properties	Location	% Leased	Number of Buildings	Net Rentable Square Feet
210 Carnegie Center	Princeton, NJ	93.7%	1	161,776
206 Carnegie Center	Princeton, NJ	100.0%	1	161,763
191 Spring Street	Lexington, MA	100.0%	1	158,900
303 Almaden	San Jose, CA	94.1%	1	156,859
Kingstowne Two	Alexandria, VA	95.7%	1	156,251
10 & 20 Burlington Mall Road	Burlington, MA	92.4%	2	153,180
Ten Cambridge Center	Cambridge, MA	100.0%	1	152,664
Kingstowne One	Alexandria, VA	100.0%	1	150,838
214 Carnegie Center	Princeton, NJ	80.1%	1	150,774
212 Carnegie Center	Princeton, NJ	95.7%	1	149,354
506 Carnegie Center	Princeton, NJ	100.0%	1	136,213
Two Reston Overlook	Reston, VA	93.8%	1	134,615
508 Carnegie Center	Princeton, NJ	56.1%	1	132,653
202 Carnegie Center	Princeton, NJ	81.1%	1	130,582
Waltham Office Center(1)	Waltham, MA	53.3%	3	129,262
101 Carnegie Center	Princeton, NJ	100.0%	1	123,659
Montvale Center	Gaithersburg, MD	82.5%	1	122,808
504 Carnegie Center	Princeton, NJ	100.0%	1	121,990
91 Hartwell Avenue	Lexington, MA	83.8%	1	121,425
40 Shattuck Road	Andover, MA	64.4%	1	120,773
Annapolis Junction (50% ownership)	Annapolis, MD	0.0%	1	117,599
502 Carnegie Center	Princeton NJ	100.0%	1	116,855
Three Cambridge Center	Cambridge, MA	77.7%	1	108,152
201 Spring Street	Lexington, MA	100.0%	1	106,300
104 Carnegie Center	Princeton, NJ	94.4%	1	102,830
Bedford Business Park	Bedford, MA	100.0%	1	92,207
33 Hayden Avenue	Lexington, MA	100.0%	1	80,128
Eleven Cambridge Center	Cambridge, MA	90.2%	1	79,616
Reservoir Place North	Waltham, MA	100.0%	1	73,258
105 Carnegie Center	Princeton, NJ	55.3%	1	69,955
32 Hartwell Avenue	Lexington, MA	100.0%	1	69,154
302 Carnegie Center	Princeton, NJ	100.0%	1	64,926
195 West Street	Waltham, MA	100.0%	1	63,500
100 Hayden Avenue	Lexington, MA	100.0%	1	55,924
181 Spring Street	Lexington, MA	100.0%	1	55,793
211 Carnegie Center	Princeton, NJ	100.0%	1	47,025
92 Hayden Avenue	Lexington, MA	100.0%	1	31,100
201 Carnegie Center	Princeton, NJ	100.0%		6,500
Subtotal for Class A Office Properties		95.1%	113	32,127,383
Retail				
Shops at The Prudential Center	Boston, MA	98.5%	1	509,813
Kingstowne Retail	Alexandria, VA	94.3%	1	88,288
Shaws Supermarket at The Prudential Center	Boston, MA	100.0%	1	57,235
Subtotal for Retail Properties		98.0%	3	655,336

Properties	Location	% Leased	Number of Buildings	Net Rentable Square Feet
Office/Technical Properties				
Bedford Business Park	Bedford, MA	62.7%	2	379,056
Seven Cambridge Center	Cambridge, MA	100.0%	1	231,028
7601 Boston Boulevard	Springfield, VA	100.0%	1	103,750
7435 Boston Boulevard	Springfield, VA	100.0%	1	103,557
8000 Grainger Court	Springfield, VA	100.0%	1	88,775
7500 Boston Boulevard	Springfield, VA	100.0%	1	79,971
7501 Boston Boulevard	Springfield, VA	100.0%	1	75,756
6605 Springfield Center Drive(1)	Springfield, VA	0.0%	1	68,907
Fourteen Cambridge Center	Cambridge, MA	100.0%	1	67,362
164 Lexington Road	Billerica, MA	0.0%	1	64,140
103 Fourth Avenue(1)	Waltham, MA	58.5%	1	62,476
7450 Boston Boulevard	Springfield, VA	100.0%	1	62,402
7374 Boston Boulevard	Springfield, VA	100.0%	1	57,321
8000 Corporate Court	Springfield, VA	100.0%	1	52,539
7451 Boston Boulevard	Springfield, VA	100.0%	1	47,001
7300 Boston Boulevard	Springfield, VA	100.0%	1	32,000
17 Hartwell Avenue	Lexington, MA	100.0%	1	30,000
7375 Boston Boulevard	Springfield, VA	100.0%	1	26,865
6601 Springfield Center Drive(1)	Springfield, VA	100.0%	1	26,388
Subtotal for Office/Technical Properties		81.9%	20	1,659,294
Hotel Property				
Cambridge Center Marriott	Cambridge, MA	77.7%(2)	1	330,400
Subtotal for Hotel Property		77.7%	1	330,400
Structured Parking		n/a		11,219,345
Subtotal for In-Service Properties		94.5%	137	45,991,758
Properties Under Construction				
250 West 55th Street	New York, NY	22%(3)(4)	1	1,000,000
Russia Wharf	Boston, MA	78%(3)(5)	2	815,000
2200 Pennsylvania Avenue	Washington, DC	42%(3)(6)	2	780,000
Weston Corporate Center	Weston, MA	100%(3)	1	356,367
Wisconsin Place (66.67% ownership)	Chevy Chase, MD	91%(3)	1	290,000
Democracy Tower (formerly South of Market- Phase II)	Reston, VA	100%(3)	1	225,000
One Preserve Parkway	Rockville, MD	20 %(3)(7)	1	183,000
701 Carnegie Center	Princeton, NJ	100%(3)	1	120,000
Subtotal for Properties Under Construction		58%	10	3,769,367
Total Portfolio			147	49,761,125

(1) Property held for redevelopment as of December 31, 2008.

(2) Represents the weighted-average room occupancy for the year ended December 31, 2008. Note that this amount is not included in the calculation of the Total Portfolio occupancy rate for In-Service Properties as of December 31, 2008.

(3) Represents percentage leased as of February 23, 2009.

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(4) On February 6, 2009, we announced that we were suspending construction of this building.
(5) Percentage leased excludes 235,000 square feet of residential space and includes 28,000 square feet of retail space.
(6) Percentage leased excludes 330,000 square feet of residential space for rent or sale.
(7) Property was partially placed in-service during the second quarter of 2008.

On January 7, 2008, we transferred the Mountain View properties to the Value-Added Fund. For the year ended December 31, 2008, six days of financial results for these properties are included in our consolidated financial results, but not included in any of our portfolio information tables or any other portfolio level statistics. The following table shows information relating to properties owned through the Value-Added Fund at December 31, 2008:

Property	Location	% Leased	Number of Buildings	Net Rentable Square Feet
Mountain View Research Park	Mountain View, CA	60.8%	16	600,449
One and Two Circle Star Way	San Carlos, CA	45.2%	2	206,945
Mountain View Technology Park	Mountain View, CA	70.6%	7	135,279
300 Billerica Road	Chelmsford, MA	100.0%	1	110,882
Total Value-Added Fund		63.1%	26	1,053,555

Top 20 Tenants by Square Feet

Our 20 largest tenants by square feet as of December 31, 2008 were as follows:

	Tenant	Square Feet	% of In-Service Portfolio
1	US Government	1,825,576(1)	5.30%
2	Lockheed Martin	1,292,429	3.75%
3	Citibank	1,085,570(2)	3.15%
4	Genentech	546,750	1.59%
5	Kirkland & Ellis	502,046(3)	1.46%
6	Gillette	484,051	1.41%
7	Shearman & Sterling	472,808	1.37%
8	Weil Gotshal Manges	456,744(4)	1.33%
9	O Melveny & Myers	446,039	1.30%
10	Lehman Brothers	436,723(5)	1.27%
11	Parametric Technology	380,987	1.11%
12	Accenture	378,867	1.10%
13	Finnegan Henderson Farabow	356,195(6)	1.03%
14	Ann Taylor	338,942	0.98%
15	Northrop Grumman	327,677	0.95%
16	Biogen Idec	317,341(7)	0.92%
17	Washington Group International	299,079	0.87%
18	Aramis (Estee Lauder)	295,610(8)	0.86%
19	Bingham McCutchen	291,415	0.85%
20	Akin Gump Strauss Hauer & Feld	290,132	0.84%

Total % of Portfolio Square Feet	31.44%

(1) Includes 116,353, 68,252 and 28,384 square feet of space in properties in which Boston Properties has a 60%, 51% and 50% interest, respectively.

(2) Includes 10,080 and 2,761 square feet of space in properties in which Boston Properties has a 60% and 51% interest, respectively.
(3) Includes 218,134 square feet of space in a property in which Boston Properties has a 51% interest.
(4) Includes 456,744 square feet of space in a property in which Boston Properties has a 60% interest.
(5) Lehman Brothers Inc. has filed for bankruptcy.
(6) Includes 258,990 square feet of space in a property in which Boston Properties has a 25% interest.
(7) Excludes 356,367 square feet leased for a future development in Weston, MA.
(8) Includes 295,610 square feet of space in a property in which Boston Properties has a 60% interest.

Tenant Diversification (Gross Rent)*

Our tenant diversification as of December 31, 2008 was as follows:

Sector	Percentage of of Gross Rent
Legal Services	26%
Financial Services	25%
Technical and Scientific Services	11%
Retail	9%
Other Professional Services	8%
Manufacturing	7%
Other	5%
Government / Public Administration	4%
Media / Telecommunications	3%
Real Estate and Insurance	2%

* The classification of our tenants is based on the U.S. Government s North American Industry Classification System (NAICS), which has replaced the Standard Industrial Classification (SIC) system.

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Lease Expirations (1)

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized(2) Contractual Rent Under Expiring Leases Without Future Step-Ups	Current Annualized(2) Contractual Rent Under Expiring Leases Without Future Step-Ups p.s.f.	Current Annualized Contractual Rent Under Expiring Leases With Future Step-ups(3)	Current Annualized Contractual Rent Under Expiring Leases With Future Step-ups p.s.f.(3)	Percentage of Total Square Feet
2009	2,295,421	$ 93,017,946	$ 40.52	$ 94,670,486	$ 41.24	6.7%
2010	3,206,394	125,793,989	39.23	128,793,296	40.17	9.3%
2011	3,237,825	154,478,643	47.71	158,444,134	48.94	9.4%
2012	3,163,836	149,580,349	47.28	154,113,400	48.71	9.2%
2013	1,396,615	61,486,594	44.03	65,185,886	46.67	4.1%
2014	2,737,687	107,713,897	39.34	114,799,171	41.93	7.9%
2015	1,894,419	91,562,625	48.33	103,723,910	54.75	5.5%
2016	2,889,182	184,496,405	63.86	199,290,537	68.98	8.4%
2017	2,925,119	199,612,564	68.24	218,535,840	74.71	8.5%
2018	723,310	46,233,541	63.92	53,304,665	73.70	2.1%
Thereafter	7,869,508	453,349,356	57.61	577,919,237	73.44	22.8%

(1) Includes 100% of unconsolidated joint venture properties. Does not include any data on properties owned by the Value-Added Fund.

(2) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2008 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

(3) Represents the monthly contractual base rent under expiring leases with future contractual increases upon expiration and recoveries from tenants under existing leases as of December 31, 2008 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

Item 3. *Legal Proceedings*

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

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

No matters were submitted to a vote of our stockholders during the fourth quarter of the year ended December 31, 2008.

PART II

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

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

Quarter Ended	High	Low	Distributions per common share
December 31, 2008	$ 92.41	$ 37.52	$ .68
September 30, 2008	105.80	82.00	.68
June 30, 2008	106.53	89.04	.68
March 31, 2008	98.72	79.88	.68
December 31, 2007	113.60	87.78	6.66(1)
September 30, 2007	108.25	91.25	.68
June 30, 2007	119.95	98.55	.68
March 31, 2007	133.02	109.07	.68

(1) Paid on January 30, 2008 to stockholders of record as of the close of business on December 31, 2007. Amount includes a $5.98 per common share special dividend.

At February 23, 2009, we had approximately 1,038 stockholders of record. This does not include beneficial owners for whom Cede & Co. or others act as nominee.

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

During the three months ended December 31, 2008, we issued an aggregate of 286,715 common shares in connection with the redemption of 286,715 common units of limited partnership held by certain limited partners of BPLP. These shares were issued in reliance on an exemption from registration under Section 4(2). We relied on the exemption under Section 4(2) based upon factual representations received from the limited partners who received the common shares.

Stock Performance Graph

The following graph provides a comparison of cumulative total stockholder return for the period from December 31, 2003 through December 31, 2008, among Boston Properties, the Standard & Poor s (S&P) 500 Index, the National Association of Real Estate Investment Trusts, Inc. (NAREIT) Equity REIT Total Return Index (the Equity REIT Index) and the NAREIT Office REIT Index (the Office REIT Index). The Equity REIT Index includes all tax-qualified equity REITs listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ Stock Market. Equity REITs are defined as those with 75% or more of their gross invested book value of assets invested directly or indirectly in the equity ownership of real estate. The Office REIT Index includes all office REITs included in the Equity REIT Index. Data for Boston Properties, the S&P 500 Index, the Equity REIT Index and the Office REIT Index was provided to us by NAREIT. Upon written request, Boston Properties will provide any stockholder with a list of the REITs included in the Equity REIT

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

	Dec. 03	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08
Boston Properties	$ 100.00	$ 140.60	$ 173.69	$ 282.59	$ 253.30	$ 157.20
S&P 500	$ 100.00	$ 110.87	$ 116.32	$ 134.69	$ 142.09	$ 89.52
Equity REIT Index	$ 100.00	$ 131.58	$ 147.59	$ 199.33	$ 168.05	$ 104.65
Office REIT Index	$ 100.00	$ 123.28	$ 139.44	$ 202.50	$ 164.11	$ 96.72

(b) None.

(c) Issuer Purchases of Equity Securities.

Period	(a) Total Number of Shares of Common Stock Purchased	(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
October 1, 2008 October 31, 2008	1,070(1)	$ 0.01	N/A	N/A
November 1, 2008 November 30, 2008			N/A	N/A
December 1, 2008 December 31, 2008			N/A	N/A
Total	1,070	$ 0.01	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 agreement, 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 employee for such shares.

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

The following table sets forth our selected financial and operating data on a historical basis, which has been revised for the reclassification of (1) the restatement of earnings per share to include the effects of participating securities in accordance with EITF 03-6 and (2) the disposition of qualifying properties during 2007, 2006, 2005 and 2004 which have been reclassified as discontinued operations, for the periods presented, in accordance with SFAS No. 144. Refer to Note 19 of the Consolidated Financial Statements. The following data should be read in conjunction with our financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

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

	For the year ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Statement of Operations Information:					
Total revenue	$ 1,488,400	$ 1,482,289	$ 1,417,627	$ 1,382,866	$ 1,334,225
Expenses:					
Rental operating	488,030	455,840	437,705	434,353	412,604
Hotel operating	27,510	27,765	24,966	22,776	21,709
General and administrative	72,365	69,882	59,375	55,471	53,636
Interest	271,972	285,887	298,260	308,091	306,170
Depreciation and amortization	304,147	286,030	270,562	260,979	244,589
Net derivative losses	17,021				
Losses from investments in securities	4,604				
Losses from early extinguishments of debt		3,417	32,143	12,896	6,258
Income before income (loss) from unconsolidated joint ventures and minority interests	302,751	353,468	294,616	288,300	289,259
Income (loss) from unconsolidated joint ventures	(182,018)	20,428	24,507	4,829	3,380
Minority interests	(24,003)	(65,000)	(67,986)	(65,481)	(60,401)
Income before gains on sales of real estate	96,730	308,896	251,137	227,648	232,238
Gains on sales of real estate and other assets, net of minority interest	28,502	789,238	606,394	151,884	8,149
Income before discontinued operations	125,232	1,098,134	857,531	379,532	240,387
Discontinued operations, net of minority interest		226,556	16,104	62,983	43,630
Income before cumulative effect of a change in accounting principle	125,232	1,324,690	873,635	442,515	284,017
Cumulative effect of a change in accounting principle, net of minority interest				(4,223)	
Net income available to common shareholders	$ 125,232	$ 1,324,690	$ 873,635	$ 438,292	$ 284,017
Basic earnings per share:					
Income before discontinued operations and cumulative effect of a change in accounting principle	$ 1.04	$ 9.20	$ 7.48	$ 3.41	$ 2.26
Discontinued operations, net of minority interest		1.91	0.14	0.57	0.41
Cumulative effect of a change in accounting principle, net of minority interest				(0.04)	
Net income available to common shareholders	$ 1.04	$ 11.11	$ 7.62	$ 3.94	$ 2.67
Weighted average number of common shares outstanding	119,980	118,839	114,721	111,274	106,458
Diluted earnings per share:					

Income before discontinued operations and cumulative effect of a change in accounting principle	$	1.03	$	9.06	$	7.32	$	3.35	$	2.21
Discontinued operations, net of minority interest				1.88		0.14		0.55		0.40
Cumulative effect of a change in accounting principle, net of minority interest								(0.04)		
Net income available to common shareholders	$	1.03	$	10.94	$	7.46	$	3.86	$	2.61
Weighted average number of common and common equivalent shares outstanding		121,299		120,780		117,077		113,559		108,762

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	2008	2007	December 31, 2006 (in thousands)	2005	2004
Balance Sheet information:					
Real estate, gross	$ 10,618,344	$ 10,249,895	$ 9,552,458	$ 9,151,175	$ 9,291,227
Real estate, net	8,849,559	8,718,188	8,160,403	7,886,102	8,147,858
Cash and cash equivalents	241,510	1,506,921	725,788	261,496	239,344
Total assets	10,911,645	11,192,637	9,695,022	8,902,368	9,063,228
Total indebtedness	6,271,916	5,492,166	4,600,937	4,826,254	5,011,814
Minority interests	598,627	653,892	623,508	739,268	786,328
Stockholders equity	3,531,267	3,668,825	3,223,226	2,917,346	2,936,073

	For the year ended December 31, 2008	2007	2006 (in thousands, except per share and percentage data)	2005	2004
Other Information:					
Funds from Operations available to common shareholders(1)	$ 423,751	$ 560,234	$ 501,125	$ 479,726	$ 459,497
Funds from Operations available to common shareholders, as adjusted(1)	423,751	562,516	527,665	488,972	459,497
Dividends declared per share	2.72	8.70	8.12	5.19	2.58
Cash flow provided by operating activities	560,908	629,378	527,979	472,249	429,506
Cash flow provided by (used in) investing activities	(1,315,676)	576,931	229,756	356,605	(171,014)
Cash flow used in financing activities	(510,643)	(425,176)	(293,443)	(806,702)	(41,834)
Total square feet at end of year (including development projects)	49,761	43,814	43,389	42,013	44,117
In-service percentage leased at end of year	94.5%	94.9%	94.2%	93.8%	92.1%

(1) Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of NAREIT, we calculate Funds from Operations, or FFO, by adjusting net income (loss) (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, joint ventures and preferred distributions. FFO is a non-GAAP financial measure. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing our comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. Amount represents our share, which was 85.49%, 85.32%, 84.40%, 83.74% and 82.97% for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 respectively, after allocation to the minority interest in the Operating Partnership.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO, as adjusted, which excludes the effects of the losses from early extinguishments of debt associated with the sales of real estate. Losses from early extinguishments of debt result when the sale of real estate encumbered by debt requires us to pay the extinguishment costs prior to the debt s stated maturity and to write-off unamortized loan costs at the date of the extinguishment. Such costs are excluded from the gains on sales of real estate reported in accordance with GAAP. However, we view the losses from early extinguishments of debt associated with the sales of real estate as an incremental cost of the sale transactions because we extinguished the debt in connection with the consummation of the sale transactions and we had no intent to extinguish the debt absent such transactions. We believe that adjusting FFO to exclude these losses more appropriately reflects the results of our operations exclusive of the impact of our sale transactions.

Although our FFO, as adjusted, clearly differs from NAREIT s definition of FFO, and may not be comparable to that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance because we believe that by excluding the effects of the losses from early extinguishments of debt associated with the sales of real estate, management and investors are presented with an indicator of our operating performance that more closely achieves the objectives of the real estate industry in presenting FFO.

Neither FFO, nor FFO as adjusted, should be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. Neither FFO nor FFO, as adjusted, represent cash generated from operating activities determined in accordance with GAAP and neither of these measures is a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO and FFO, as adjusted 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.

A reconciliation of FFO, and FFO, as adjusted, to net income available to common shareholders computed in accordance with GAAP is provided under the heading of Management s Discussion and Analysis of Financial Condition and Results of Operations Funds from Operations.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business-Business and Growth Strategies, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management s beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, estimate, expect, intend, may, might, plan, project, result should, expressions which do not relate solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ 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. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- the impact of the current credit crisis and global economic slowdown, which is having and may continue to have a negative effect on the following, among other things:
  - the fundamentals of our business, including overall market occupancy and rental rates;
  - the financial condition of our tenants, many of which are financial, legal and other professional firms, our lenders, counterparties to our derivative financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties;
  - our ability to obtain debt financing on attractive terms or at all, which may adversely impact our ability to pursue acquisition and development opportunities and refinance existing debt and our future interest expense; and
  - the value of our real estate assets, which may limit our ability dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis;
- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants financial condition, and competition from other developers, owners and operators of real estate);

failure to manage effectively our growth and expansion into new markets and sub-markets or to integrate acquisitions and developments successfully;

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

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

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- 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;
- risks associated with forward interest rate contracts and the effectiveness of such arrangements;
- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;
- risks associated with actual or threatened terrorist attacks;
- costs of compliance with the Americans with Disabilities Act and other similar laws;
- potential liability for uninsured losses and environmental contamination;
- risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended;
- possible adverse changes in tax and environmental laws;
- the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results;
- risks associated with possible state and local tax audits; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks set forth above are not exhaustive. Other sections of this report, including Part I, Item 1A- Risk Factors, include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements. We expressly disclaim any responsibility to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or otherwise, and you should not rely upon these forward-looking statements after the date of this report.

Overview

We are a fully integrated self-administered and self-managed REIT and one of the largest owners and developers of Class A office properties in the United States. Our properties are concentrated in five markets Boston, midtown Manhattan, Washington, DC, San Francisco and Princeton, NJ. We generate revenue and cash primarily by leasing our Class A office space to our tenants. Factors we consider when we lease space include the creditworthiness of the tenant, the length of the lease, the rental rate to be paid, the costs of tenant improvements, current and anticipated operating costs and real estate taxes, our current and anticipated vacancy, current and anticipated future demand for office space generally and general economic factors. We also generate cash through the sale of assets, which may be either non-core assets or core assets that command premiums from real estate investors.

The impact of the current state of the economy, including rising unemployment, constrained capital and the deleveraging of the financial system, continues to have a dampening effect on the fundamentals of our business, including overall market occupancy and rental rates. Our core strategy has always been to operate in supply

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constrained markets with high barriers to entry and to focus on executing long-term leases with financially strong tenants. Historically, this combination has tended to reduce our exposure to down cycles, but if major tenants in our markets come under financial pressure and do not utilize all of their space it will likely lead to increased supply through subletting or tenant defaults and a corresponding reduction in market rental rates.

We are also not immune from the impact of the credit crisis and global economic slowdown on our own tenants and our investments. During the third quarter of 2008, Lehman Brothers, Inc., our tenth largest tenant, filed for bankruptcy protection and we established a reserve for its related accrued straight-line rent balance of $13.2 million. Lehman Brothers must continue to pay its rent while it occupies the space, but it may reject its lease at any time. There can be no assurance whether and for how long Lehman Brothers will continue to occupy this space. Lehman Brothers rent contributes approximately $43.0 million per year to our revenues. In addition, during the fourth quarter of 2008, we recognized aggregate non-cash impairment charges which represented the other-than-temporary decline in the fair values below the carrying values of certain of our investments in unconsolidated joint ventures. The joint ventures include the entities that own 540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street, the Value-Added Fund and our Eighth Avenue and 46th Street project located in New York City.

More generally, we remain concerned about the financial stress that our current and prospective tenants face. We believe that tenant defaults will continue and that, in general, demand for office space will decrease due to significant job losses in the financial and professional services industries and that market rents will be under pressure for the foreseeable future. In part as a result of these market conditions, on February 6, 2009, we announced our intention to suspend construction on our development at 250 West 55th Street in New York City because we were not able to conclude a lease transaction with a major law firm with which we had been negotiating over the last year. Agreement on financial terms had been reached with the firm within the last year, but recently the law firm informed us that it could not proceed on those terms thereby rendering the project economically infeasible in today s environment. The project, a one million square foot office building, was originally scheduled for completion in 2011.

As a result of the decision to suspend construction at 250 West 55 th Street, we expect to reduce our capital commitments on the project through 2011 by approximately $450 million. After suspension of the 250 West 55th Street project, our development program will be approximately $1.4 billion and is 75% pre-leased to tenants. As of December 31, 2008, we had invested approximately $483.2 million in our current active developments (i.e., excluding 250 West 55th Street) and, in addition to anticipated proceeds from existing construction loan facilities, we expect to make additional investments of approximately $822.9 million over the next four years. Recently we have witnessed a reduction in construction materials and labor pricing, which may reduce our total project costs, although there can be no assurance in this regard.

As of December 31, 2008, we had $241.5 million in cash and $884.4 million in availability under our Unsecured Line of Credit and anticipate funding the development projects through a combination of this existing liquidity supplemented by new construction loan facilities and/or the incurrence of additional secured or unsecured debt. While we successfully utilized an accordion feature under our Unsecured Line of Credit to increase the lenders total commitment under the facility to $1.0 billion in July 2008, completed an offering of $747.5 million of exchangeable senior notes in August 2008 and completed a $375.0 million financing of Embarcadero Center Four in November 2008, many of the debt capital markets that real estate companies like us frequently access, such as the unsecured bond market and the convertible debt market, are not currently available to us on terms that we believe are economically attractive. In addition, other capital sources such as the traditional banks, pension funds and life insurance companies are lending fewer dollars, under stricter terms and at greater costs to the borrowers. Despite these challenges, we believe the quality of our assets and our strong balance sheet align ourselves well with the lenders current investment selectivity and should enable us to access the credit markets even in the current difficult environment. Because capital may continue to be constrained, however, we are also evaluating the appropriate amount and form of distributions for 2009. See *-Liquidity and Capital Resources*.

We believe the successful lease-up and completion of our development pipeline will enhance our long-term return on equity and earnings growth as these developments are placed in-service in 2009, 2010 and 2011. As with all aspects of our business, however, we continue to monitor the impact of the global economic slowdown and may further adjust our development plans accordingly. We do not anticipate undertaking any new development projects in the foreseeable future without significant pre-leasing commitments from creditworthy tenants. Our focus on acquisition activity has moderated, but we continue to actively monitor the market and seek opportunities to selectively acquire high-quality real estate at attractive returns.

Finally, in recent years, we have been an active seller of real estate assets and, although we will consider additional asset sales, we do not expect our sales volume to be comparable to that of prior years.

For descriptions of significant transactions that we entered into during 2008, see *Item 1. Business Transactions During 2008.*

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 discount and/or capitalization rates that we deem appropriate, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired above- and below-market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. 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 following the end of each quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such 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 impairment has occurred, the affected assets must be reduced to their fair value.

SFAS No. 144, requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. 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 properties. After the determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Projects. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs necessary to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary to the development of the property. We consider a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Investments in Unconsolidated Joint Ventures

Except for ownership interests in variable interest entities, 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. Our judgment with respect to our level of influence or control of an entity and whether we are the primary beneficiary of a variable interest entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity s governance, the size of our investment (including loans), estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our assessment of our influence or control over an entity affects the presentation of these investments in our consolidated financial statements.

These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and 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 the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses, however, our recognition of joint venture income or loss generally follows the joint venture s distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, we consolidate those in which we are the primary beneficiary. Our investments in unconsolidated joint ventures are reviewed for impairment periodically and we record impairment charges when events or circumstances change indicating that a decline in the fair values below the carrying values has occurred and such decline is other-than-temporary. The ultimate realization of our investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in an unconsolidated joint venture is other than temporary.

During December 2008, we recognized non-cash impairment charges which represented the other-than-temporary decline in the fair values below the carrying values of certain of our investments in unconsolidated joint ventures. In accordance with Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock (APB No. 18), a loss in value of an investment under the equity method of accounting, which is other than a temporary decline, must be recognized. Unlike SFAS No. 144, potential impairments under APB No. 18 result from fair values derived based on discounted cash flows and other valuation techniques which are more sensitive to current market conditions. As a result, we recognized non-cash impairment charges of approximately $31.9 million, $74.3 million, $45.1 million and $13.8 million on our investments in 540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street and the Value-Added Fund, respectively.

During December 2008, an unconsolidated joint venture in which we have a 50% interest suspended development activity on its Eighth Avenue and 46th Street project located in New York City. The proposed project was comprised of an assemblage of land parcels and air-rights, including contracts to acquire land parcels and air-rights, on which the joint venture was to construct a Class A office property. As a result, we recognized a charge totaling approximately $23.2 million (including $2.9 million of non-cash impairment charges in accordance with APB No. 18), which represented our share of land and air-rights impairment losses, forfeited contract deposits and previously incurred planning and pre-development costs.

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

Revenue Recognition

Contractual 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 as reported on the Consolidated Balance Sheets represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements.

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For the year ended December 31, 2008, we recorded $5.4 million of rental revenue representing the adjustments of rents from above and below market leases in accordance with SFAS No. 141. For the year ended December 31, 2008, the impact of the straight-line rent adjustment was approximately a $24.5 million increase in rental revenue. The straight-line adjustment for the year included an approximately $21.0 million decrease due to the establishment of reserves for the full amount of the accrued straight-line rent balances associated with our leases in New York City with Lehman Brothers, Inc. and the law firm of Heller Ehrman LLP. Amounts exclude SFAS No. 141 and straight-line income from unconsolidated joint ventures, which is disclosed in Note 5 of the Consolidated Financial Statements.

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

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

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

(1) low risk tenants;

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

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

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

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

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

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

If our estimates of collectibility differ from the cash received, then the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases, including unconsolidated joint ventures, was approximately 7.2 years as of December 31, 2008. The credit risk is mitigated by the high quality of our existing tenant base, reviews of prospective tenants risk profiles prior to lease execution and consistent monitoring of our portfolio to identify potential problem tenants.

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period during which the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with 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. We also receive reimbursement of payroll and payroll related costs from third parties which we reflect on a net basis in accordance with Issue 99-19.

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.

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

Gains on sales of real estate are recognized pursuant to the provisions of SFAS No. 66, Accounting for Sales of Real Estate. The specific timing of a sale is measured against various criteria in SFAS No. 66 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria 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 an assessment of their fair value and depreciate or amortize these assets over their useful lives. The amortization of acquired above- and below-market leases and acquired in-place leases is recorded as an adjustment to revenue and depreciation and amortization, respectively, in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

For purposes of disclosure, we calculate the fair value of our mortgage notes payable and unsecured senior notes. We discount the spread between the future contractual interest payments and hypothetical future interest payments on our mortgage debt and unsecured notes based on a current market rate. In determining the current market rate, we add our estimate of a market spread to the quoted yields on federal government treasury securities with similar maturity dates to our own debt. Because our valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate.

Derivative Instruments and Hedging Activities

Derivative instruments and hedging activities require management to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the derivative instruments are reported in the Consolidated Statements of Operations as a component of net income or as a component of comprehensive income and as a component of equity on the Consolidated Balance Sheets. While management believes its judgments are reasonable, a change in a derivative s effectiveness as a hedge could materially affect expenses, net income and equity. We recognized net derivative losses of approximately $17.0 million for the year ended December 31, 2008 (See Note 6 of the Consolidated Financial Statements).

Results of Operations

The following discussion is based on our Consolidated Financial Statements for the years ended December 31, 2008, 2007 and 2006.

At December 31, 2008, 2007 and 2006, we owned or had interests in a portfolio of 147, 139 and 131 properties, respectively (the Total Property Portfolio). As a result of changes within our Total Property Portfolio, the financial data presented below shows significant changes in revenue and expenses from period-to-period. Accordingly, we do not believe that our period-to-period financial data with respect to the Total Property Portfolio are necessarily meaningful. Therefore, the comparisons of operating results for the years ended 2008, 2007 and 2006 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 properties included in Properties Acquired, Sold, Repositioned and Placed-in Service.

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, losses from investments in securities, net derivative losses, depreciation and amortization, interest expense, general and administrative expense, less gains on sales of real estate from discontinued operations (net of minority interest), income from discontinued operations (net of minority interest), gains on sales of real estate and other assets (net of minority interest), income (loss) from unconsolidated joint ventures, minority interests in property partnerships, interest and other income and development and management services revenue. We use NOI internally as a performance measure and believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets.

Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing 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 year ended December 31, 2008 to the year ended December 31, 2007

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 115 properties, including properties acquired or placed in-service on or prior to January 1, 2007 and owned through December 31, 2008, totaling approximately 28.9 million net rentable square feet of space (excluding square feet of structured parking). The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after January 1, 2007 or disposed of on or prior to December 31, 2008. Properties Placed In-Service includes our 505 9th Street joint venture project. In connection with partially placing this property in-service, we consolidated the joint venture entity that owns the property as of October 1, 2007 due to the involvement we have in the venture once the property is operational. The Same Property Portfolio includes our Cambridge Center Marriott hotel property, but does not include the Long Wharf Marriott hotel property, which was sold on March 23, 2007. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the year ended December 31, 2008 and 2007 with respect to the properties which were acquired, placed in-service, repositioned or sold.

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	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio			
rs in thousands)	**2008**	**2007**	**Increase/ (Decrease)**	**% Change**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**Increase/ (Decrease)**	**% Char**
Revenue:																
Revenue	$ 1,326,099	$ 1,288,085	$ 38,014	2.95%	$ 90	$ 23,177	$ 20,137	$ 12,138	$ 43,283	$ 3,837	$	$	$ 1,389,609	$ 1,327,237	$ 62,372	4
nation Income	12,443	6,882	5,561	80.80%				100					12,443	6,982	5,461	78
ental Revenue	1,338,542	1,294,967	43,575	3.36%	90	23,177	20,137	12,238	43,283	3,837			1,402,052	1,334,219	67,833	5
state Operating ses	471,040	444,364	26,676	6.00%	46	6,781	6,406	3,499	10,538	1,196			488,030	455,840	32,190	7
erating Income, ng hotel	867,502	850,603	16,899	1.99%	44	16,396	13,731	8,739	32,745	2,641			914,022	878,379	35,643	4
Net Operating e(1)	9,362	10,046	(684)	(6.80)%									9,362	10,046	(684)	(6
idated Net ing Income(1)	876,864	860,649	16,215	1.88%	44	16,396	13,731	8,739	32,745	2,641			923,384	888,425	34,959	3
Revenue:																
pment and ement Services													30,518	20,553	9,965	48
t and Other													18,958	89,706	(70,748)	(78
Other Revenue													49,476	110,259	(60,783)	(55
Expenses:																
l and strative expense													72,365	69,882	2,483	3
t Expense													271,972	285,887	(13,915)	(4
iation and zation	284,452	274,268	10,184	3.71%		2,767	10,527	8,357	9,168	638			304,147	286,030	18,117	6
from nents in es													4,604		4,604	100
rivative losses													17,021		17,021	100
om early uishments of														3,417	(3,417)	(100
Other Expenses	284,452	274,268	10,184	3.71%		2,767	10,527	8,357	9,168	638			670,109	645,216	24,893	3
e before ty interests	$ 592,412	$ 586,381	$ 6,031	1.03%	$ 44	$ 13,629	$ 3,204	$ 382	$ 23,577	$ 2,003	$	$	$ 302,751	$ 353,468	$ (50,717)	(14
e (loss) from olidated joint es	$ (33,794)	$ 20,428	$ (54,222)	(265.43)%	$	$	$ (148,224)	$	$	$	$	$	(182,018)	20,428	(202,446)	(991
e from inued ons, net of ty interest	$	$	$	$ $	$	$ 6,206	$	$	$	$	$	$		6,206	(6,206)	(100
ty interests in y partnerships													(1,997)	(84)	(1,913)	(2,277
ty interest in ing Partnerships													(22,006)	(64,916)	42,910	66
on sales of real net of minority t													28,502	789,238	(760,736)	(96
														220,350	(220,350)	(100

on sales of real rom inued ons, net of y interest				
come available mon olders	$ 125,232	$ 1,324,690	$ (1,199,458)	(90

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 53. Hotel Net Operating Income for the years ended December 31, 2008 and 2007 is comprised of Hotel Revenue of $36,872 and $37,811, respectively, less Hotel Expenses of $27,510 and $27,765, respectively, per the Consolidated Income Statement.

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Rental Revenue

The increase of approximately $62.4 million in the Total Property Portfolio Rental Revenue is comprised of increases and decreases within four categories that comprise our Total Property Portfolio. Rental revenue from the Same Property Portfolio increased approximately $38.0 million, Properties Sold decreased approximately $23.1 million, Properties Acquired increased approximately $8.0 million and Properties Placed In-Service increased approximately $39.5 million for the year ended December 31, 2008 compared to the year ended December 31, 2007.

Rental revenue from the Same Property Portfolio increased approximately $38.0 million for the year ended December 31, 2008 compared to 2007. Included in the Same Property Portfolio rental revenue is an overall increase in contractual rental revenue of approximately $49.2 million, offset by a decrease of approximately $30.9 million in straight-line rents. An aggregate of $21.0 million of the decrease in straight-line rent is due to the establishment of reserves for the full amount of the accrued straight-line rent balances associated with our leases in New York City with Lehman Brothers, Inc. and the law firm of Heller Ehrman LLP. Approximately $17.3 million of the increase from the Same Property Portfolio was due to an increase in recoveries from tenants which relates to the increase in operating expenses. Approximately $2.4 million of the increase from the Same Property Portfolio was due to an increase in parking and other income. We expect the aggregate impact of straight-line rents for fiscal 2009 to be between $28 million and $30 million. Lehman Brothers, Inc. contributes approximately $43.0 million per year to our rental revenue. In the event that Lehman Brothers, Inc. rejects its lease and vacates its space, we will lose this revenue until we are able to lease this space to a new tenant.

The increase in rental revenue from Properties Placed In-Service relates to fully placing in-service our 505 9th Street development project in the first quarter of 2008 and our 77 CityPoint and South of Market development projects during the fourth quarter of 2008. In addition, we partially placed in-service our One Preserve Parkway development project during the second quarter of 2008. Rental Revenue from Properties Placed In-Service increased approximately $39.5 million, as detailed below:

Property	Date Placed In-Service	Rental Revenue for the year ended December 31 2008	2007 (in thousands)	Change
505 9th Street	First Quarter, 2008	$ 20,090	$ 3,837	$ 16,253
South of Market	Fourth Quarter, 2008	20,010		20,010
77 CityPoint	Fourth Quarter, 2008	2,098		2,098
One Preserve Parkway	Second Quarter, 2008	1,085		1,085
Total		$ 43,283	$ 3,837	$ 39,446

The acquisitions of Kingstowne Towne Center, North First Business Park, 103 Fourth Avenue, 6601 & 6605 Springfield Center Drive and Springfield Metro Center during 2007 and 635 Massachusetts Avenue during 2008, resulted in an increase of revenue from Properties Acquired. Rental Revenue resulting from Properties Acquired increased approximately $8.0 million, as detailed below:

Property	Date Acquired	Rental Revenue for the year ended December 31 2008	2007 (in thousands)	Change
Kingstowne Towne Center	March 30, 2007	$ 14,584	$ 10,631	$ 3,953
North First Business Park	December 13, 2007	2,571	102	2,469
635 Massachusetts Avenue	September 26, 2008	1,828		1,828
103 Fourth Avenue	January 29, 2007	795	720	75
6601 & 6605 Springfield Center Drive	January 18, 2007	359	685	(326)

Springfield Metro Center	April 11, 2007			
Total		$ 20,137	$ 12,138	$ 7,999

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A decrease of approximately $23.1 million in the Total Property Portfolio rental revenue was due to the sales of Democracy Center in August 2007 and 5 Times Square in February 2007 and the transfer of Mountain View Research Park and Mountain View Technology Park to the Value-Added Fund in January 2008, as detailed below. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property and our continued ownership interest in Mountain View Research Park and Mountain View Technology Park.

Property	Date Sold	Rental Revenue for the year ended December 31 2008	2007 (in thousands)	Change
Mountain View Properties	January 7, 2008	$ 90	$ 1,275	$ (1,185)
Democracy Center	August 7, 2007		12,016	(12,016)
5 Times Square	February 15, 2007		9,886	(9,886)
Total		$ 90	$ 23,177	$ (23,087)

Termination Income

Termination income for the year ended December 31, 2008 totaling approximately $12.4 million was related to multiple tenants across the Total Property Portfolio that terminated their leases, including $7.5 million of termination income related to a termination agreement with Heller Ehrman LLP. This compared to termination income of $7.0 million for the year ended December 31, 2007.

Real Estate Operating Expenses

The $32.2 million increase in property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Total Property Portfolio is comprised of increases and decreases within four categories that comprise our Total Property Portfolio. Operating expenses for the Same Property Portfolio increased approximately $26.7 million, Properties Sold decreased approximately $6.7 million, Properties Acquired increased approximately $2.9 million and Properties Placed In-Service increased approximately $9.3 million.

Operating expenses from the Same Property Portfolio increased approximately $26.7 million for the year ended December 31, 2008 compared to 2007. Included in Same Property Portfolio operating expenses is an increase in utility expenses of approximately $5.7 million, which represents an increase of approximately 7% over the prior year. In addition, real estate taxes increased approximately $14.2 million due to increased real estate tax assessments, which represents an increase of approximately 8%. The remaining increase of approximately $6.8 million is related to repairs and maintenance and other property-related expenses.

The acquisitions of Kingstowne Towne Center, North First Business Park, 103 Fourth Avenue, 6601 & 6605 Springfield Center Drive and Springfield Metro Center during 2007, and 635 Massachusetts Avenue during 2008, increased operating expenses from Properties Acquired by approximately $2.9 million for the year ended December 31, 2008 as detailed below:

Property	Date Acquired

		Real Estate Operating Expense for the year ended December 31		
		2008	2007	Change
Kingstowne Towne Center	March 30, 2007	$ 3,808	$ 2,591	$ 1,217
North First Business Park	December 13, 2007	1,138	46	1,092
103 Fourth Avenue	January 29, 2007	759	606	153
635 Massachusetts Avenue	September 26, 2008	274		274
6601 & 6605 Springfield Center Drive	January 18, 2007	239	167	72
Springfield Metro Center	April 11, 2007	188	89	99
Total		$ 6,406	$ 3,499	$ 2,907

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The increase in operating expenses from Properties Placed In-Service relates to fully placing in-service our 505 9th Street development project in the first quarter of 2008 and our 77 CityPoint and South of Market development projects during the fourth quarter of 2008. In addition, we partially placed in-service our One Preserve Parkway development project during the second quarter of 2008. Operating expenses from Properties Placed In-Service increased approximately $9.3 million, as detailed below:

Property	Date Placed In-Service	Real Estate Operating Expenses for the year ended December 31 2008	2007	Change
			(in thousands)	
505 9th Street	First Quarter, 2008	$ 5,672	$ 1,196	$ 4,476
South of Market	Fourth Quarter, 2008	3,466		3,466
77 CityPoint	Fourth Quarter, 2008	883		883
One Preserve Parkway	Second Quarter, 2008	517		517
Total		$ 10,538	$ 1,196	$ 9,342

A decrease of approximately $6.7 million in the Total Property Portfolio operating expenses was due to the sales of Democracy Center in August 2007 and 5 Times Square in February 2007 and the transfer of Mountain View Research Park and Mountain View Technology Park to the Value-Added Fund in January 2008, as detailed below. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property and our continued ownership interest in Mountain View Research Park and Mountain View Technology Park.

Property	Date Sold	Real Estate Operating Expenses for the year ended December 31 2008	2007	Change
			(in thousands)	
Mountain View Properties	January 7, 2008	$ 46	$ 412	$ (366)
Democracy Center	August 7, 2007		4,204	(4,204)
5 Times Square	February 15, 2007		2,165	(2,165)
Total		$ 46	$ 6,781	$ (6,735)

We continue to review and monitor the impact of rising energy costs, as well as other factors, on our operating budgets for fiscal year 2009. 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 our hotel property decreased approximately $0.7 million, a 6.80% decrease for the year ended December 31, 2008 as compared to 2007. For the year ended December 31, 2007, the operations of the Long Wharf Marriott have been included as part of discontinued operations due to its sale on March 23, 2007.

The following reflects our occupancy and rate information for our Cambridge Center Marriott hotel property for the year ended December 31, 2008 and 2007:

	2008	2007	Percentage Change
Occupancy	77.7%	80.0%	(2.88)%
Average daily rate	$ 217.70	$ 217.23	0.21%
Revenue per available room, REVPAR	$ 169.08	$ 173.80	(2.72)%

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Development and Management Services

Development and Management Services income increased approximately $10.0 million for the year ended December 31, 2008 compared to 2007. The increase is primarily attributed to $2 million of acquisition fees and approximately $3.8 million of ongoing management fees from our joint ventures that acquired the General Motors Building, 540 Madison Avenue, Two Grand Central Tower and 125 West 55th Street in New York City, as well as development fees of approximately $2.5 million for our 20 F Street third-party development project. We expect third-party fee income for fiscal 2009 to be between $28 million and $30 million, a modest decrease due to the completion of much of our joint venture development activity in 2008 and an expected reduction in tenant services income.

Interest and Other Income

Interest and other income decreased by approximately $70.7 million for the year ended December 31, 2008 compared to 2007 as a result of lower overall interest rates and decreased cash balances. The approximate average cash balances for the year ended December 31, 2008 and December 31, 2007 were $450.0 million and $1.7 billion, respectively. In addition, the average interest rate for the year ended December 31, 2008 compared to December 31, 2007 decreased by approximately 2.80%.

Other Expenses

General and Administrative

General and administrative expenses increased approximately $2.5 million for the year ended December 31, 2008 compared to 2007. The increase is primarily due to compensation expense associated with the 2008 OPP Awards offset by a loss in our deferred compensation plan and a decrease in abandoned project costs. We anticipate our general & administrative expense to be between $76 million and $78 million for fiscal 2009. Our decision to suspend development of 250 West 55th Street in New York City may result in additional potential costs related to our one existing signed lease, possible write-offs of leasing commissions, arrangements in place with contractors and subcontractors for the project and other possible costs which we are currently evaluating.

On January 24, 2008, our compensation committee approved outperformance awards under the 1997 Plan to our officers and employees. These 2008 OPP Awards are part of a new broad-based long-term incentive compensation program designed to provide our management team at several levels within the organization with the potential to earn equity awards subject to outperforming and creating shareholder value in a pay-for-performance structure. 2008 OPP Awards utilize total return to shareholders (TRS) over a three-year measurement period as the performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2008 OPP Awards will share in an outperformance pool if our TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 5, 2008 to February 5, 2011, based on the average closing price of a share of our common stock of $92.8240 for the five trading days prior to and including February 5, 2008. Assuming no changes in the aggregate annual per share dividend through February 2011, our common stock price would have to exceed $104.15 per share for recipients of 2008 OPP Awards to be eligible to earn any rewards. The aggregate reward that recipients of all 2008 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of $110 million, although OPP awards for an aggregate of up to approximately $104.8 million have been allocated to date and were granted on February 5, 2008. The balance remains available for future grants. Under Statement of Financial Accounting Standards No. 123(R) Share-Based Payment the 2008 OPP Awards have an aggregate value of approximately $19.7 million, which amount will generally be amortized into earnings over the five-year plan period (although awards for retirement-eligible employees will be amortized over a three-year period). Because the 2008 OPP Awards requires a sustained price target to achieve the threshold stock price, unless the target has actually been met by the end of the applicable reporting period, we will exclude all contingently issueable shares from the diluted EPS calculation. See Note 17 to the Consolidated Financial Statements.

Commencing in 2003, we began issuing restricted stock and/or LTIP Units, as opposed to granting stock options and restricted stock, under the 1997 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 vest in restricted stock and LTIP Units over a four- or five-year term (for awards granted between 2003 and November 2006, vesting is over a five-year term with annual vesting of 0%, 0%, 25%, 35% and 40%; and for awards granted after November 2006, vesting occurs in equal annual installments over a four-year term). 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 that were issued in January 2005 and any 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 associated with approximately $27.6 million of restricted stock and LTIP Units granted in February 2008 and approximately $18.5 million of restricted stock and LTIP Units granted in January 2007 will be incurred ratably over the four-year vesting period. Stock-based compensation associated with approximately $11.3 million of restricted stock and LTIP Units granted in April 2006 will be incurred ratably over the five-year vesting period.

Interest Expense

Interest expense for the Total Property Portfolio decreased approximately $13.9 million for the year ended December 31, 2008 compared to 2007 as detailed below

Transaction	Interest Expense for the year ended December 31, 2008	2007 (in thousands)	Change
Decreases to interest expense due to:			
Repayment of mortgages(1)	$ 18,682	$ 48,603	$ (29,921)
Increase in capitalized interest costs	(41,883)	(31,036)	(10,847)
Principal amortization of continuing debt and other	191,433	198,357	(6,924)
Total decreases to interest expense	$ 168,232	$ 215,924	$ (47,692)
Increases to interest expense due to:			
Refinancing of 599 Lexington Avenue and other new debt	$ 57,738	$ 40,863	$ 16,875
Issuance by our Operating Partnership of exchangeable senior notes	39,440	26,231	13,209
Borrowings under the Unsecured Line of Credit	6,562	2,869	3,693
Total increases to interest expense	$ 103,740	$ 69,963	$ 33,777
Total interest expense	$ 271,972	$ 285,887	$ (13,915)

(1) Excludes refinancing of 599 Lexington Avenue.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP No. APB 14-1). This pronouncement and the estimated effect that it will have on interest expense is discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Newly Issued Accounting Standards. We expect interest expense to increase for fiscal 2009 due to the estimated impact of FSP No. APB 14-1 and the suspension of construction at 250 West 55th Street. We expect that our decision to suspend development of 250 West 55th Street in New York City will result in a decrease in capitalized interest and a corresponding incremental increase in interest expense of approximately \$5 million to \$9 million for fiscal 2009.

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At December 31, 2008, our variable rate debt consisted of our construction loans at South of Market, Democracy Tower (formerly South of Market Phase II) and Wisconsin Place Office construction projects, as well as our borrowings under our Unsecured Line of Credit. The following summarizes our outstanding debt as of December 31, 2008 compared with December 31, 2007:

	December 31,	
	2008	2007
	(dollars in thousands)	
Debt Summary:		
Balance		
Fixed rate	$ 5,886,424	$ 5,369,243
Variable rate	385,492	122,923
Total	$ 6,271,916	$ 5,492,166
Percent of total debt:		
Fixed rate	93.85%	97.76%
Variable rate	6.15%	2.24%
Total	100.00%	100.00%
GAAP Weighted average interest rate at end of period:		
Fixed rate	5.36%	5.58%
Variable rate	3.62%	6.11%
Total	5.25%	5.60%

Depreciation and Amortization

Depreciation and amortization expense for the Total Property Portfolio increased approximately $18.1 million for the year ended December 31, 2008 compared to 2007. Approximately $10.2 million related to an increase in the Same Property Portfolio and approximately $2.2 million related to acquisition activity. An increase of approximately $8.5 million was attributed to Properties Placed In-Service. These increases were offset by a decrease of approximately $2.8 million due to the sale of Democracy Center in August 2007 and 5 Times Square in February 2007.

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 Sheets 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 year ended December 31, 2008 and 2007 were $12.2 million and $11.0 million, respectively. These costs are not included in the general and administrative expenses discussed above. Interest capitalized for the year ended December 31, 2008 and 2007 was $41.9 million and $31.0 million, respectively. These costs are not included in the interest expense referenced above. Due to the suspension of construction at 250 West 55th Street late in the third quarter or early in the fourth quarter of 2009, we expect our 2009 capitalized interest will decrease by approximately $5 million to $9 million and our 2009 capitalized wages will decrease by a modest amount.

Net Derivative Losses

On September 9, 2008, we executed an interest rate lock agreement with lenders at an all-in fixed rate, inclusive of the credit spread, of 6.10% per annum for an eight-year, $375.0 million loan collateralized by our Four Embarcadero Center property located in San Francisco, California. Our interest rate hedging program contemplated a financing with a ten-year term and, as a result, under SFAS No. 133, during the third quarter of

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2008 we recognized a net derivative loss of approximately $6.6 million representing the partial ineffectiveness of our interest rate contracts. On November 13, 2008, we closed on the Four Embarcadero Center mortgage. Under our interest rate hedging program, we will reclassify into earnings over the eight-year term of the loan as an increase in interest expense approximately $26.4 million (approximately $3.3 million per year) of the amounts recorded on our Consolidated Balance Sheet within Accumulated Other Comprehensive Loss, which amounts represent the effective portion of the applicable interest rate hedging contracts.

Our interest rate hedging program also contemplated obtaining additional financing of at least $150.0 million by the end of 2008. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, we determined that we would be unable to complete the financing by the required date under our hedging program. As a result, during the fourth quarter of 2008, we recognized a net derivative loss of approximately $7.2 million representing the ineffectiveness of our remaining interest rate hedging contracts.

In addition, during the year ended December 31, 2008, we modified the estimated dates with respect to our anticipated financings under our interest rate hedging program. As a result, we recognized a net derivative loss of approximately $3.3 million representing the partial ineffectiveness of the interest rate contracts.

Losses from Investments in Securities

We account for investments in trading securities at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. The designation of trading securities is generally determined at acquisition. At December 31, 2008, investment in securities is comprised of an investment in an unregistered money market fund. The investment was previously included in Cash and Cash Equivalents. In December 2007, the fund suspended cash redemptions by investors; investors may elect in-kind redemptions of the underlying securities or maintain their investment in the fund and receive distributions as the underlying securities mature or are liquidated by the fund sponsor. As a result, we expect to retain this investment for a longer term than originally intended, and the valuation of our investment is subject to changes in market conditions. Because interests in this fund are now valued at less than their $1.00 par value, we recognized losses of approximately $1.4 million and $0.3 million on our investment during the years ended December 31, 2008 and 2007, respectively. We also maintain a deferred compensation plan that is designed to allow our officers to defer a portion of their current income on a pre-tax basis and receive a tax-deferred return on these deferrals. Our obligation under the plan is that of an unsecured promise to pay the deferred compensation to the plan participants in the future. At December 31, 2008 and 2007, we have balances of approximately $6.6 million and $8.3 million, respectively, into a separate account, which is not restricted as to its use. We recognized income (losses) of approximately $(3.2) million and $0.3 million on the investments in the account associated with our deferred compensation plan during the years ended December 31, 2008 and 2007, respectively.

Losses from Early Extinguishments of Debt

On February 12, 2007, we refinanced our mortgage loan collateralized by 599 Lexington Avenue located in New York City. The new mortgage financing totaling $750.0 million bears interest at a fixed interest rate of 5.57% per annum and matures on March 1, 2017. The net proceeds of the new loan were used to refinance the $225.0 million mortgage loan on 599 Lexington Avenue and the $475.0 million mortgage loan on Times Square Tower. In connection with the refinancing, the lien of the Times Square Tower mortgage was spread to 599 Lexington Avenue and released from Times Square Tower so that Times Square Tower is no longer encumbered by any mortgage debt. There was no prepayment penalty associated with the repayment. In 2007, we recognized a loss from early extinguishment of debt totaling approximately $0.7 million consisting of the write-off of unamortized deferred financing costs.

In conjunction with the sale of Democracy Center in Bethesda, Maryland on August 7, 2007, we repaid the mortgage financing collateralized by the property totaling approximately $94.6 million. We paid a prepayment fee of approximately $2.6 million associated with the repayment. We recognized a loss from early extinguishment of debt totaling approximately $2.7 million consisting of the prepayment fee and the write-off of unamortized deferred financing costs.

Income (loss) from unconsolidated joint ventures

For the year ended December 31, 2008, income (loss) from unconsolidated joint ventures decreased approximately $202.4 million compared to December 31, 2007.

During December 2008, we recognized non-cash impairment charges which represented the other-than-temporary decline in the fair values below the carrying values of certain of the Company s investments in unconsolidated joint ventures. In accordance with Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock (APB No. 18), a loss in value of an investment under the equity method of accounting, which is other than a temporary decline, must be recognized. As a result, we recognized non-cash impairment charges of approximately $31.9 million, $74.3 million, $45.1 million and $13.8 million on our investments in 540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street and the Value-Added Fund, respectively. If the fair value of our investments deteriorate further, we could recognize additional impairment charges which may be material.

During December 2008, an unconsolidated joint venture in which we have a 50% interest suspended development activity on its Eighth Avenue and 46th Street project located in New York City. The proposed project was comprised of an assemblage of land parcels and air-rights, including contracts to acquire land parcels and air-rights, on which the joint venture was to construct a Class A office property. As a result, we recognized a charge totaling approximately $23.2 million (including $2.9 million of non-cash impairment charges in accordance with APB No. 18), which represented our share of land and air-rights impairment losses, forfeited contract deposits and previously incurred planning and pre-development costs.

On June 9, 2008, we completed the acquisition of the General Motors Building for a purchase price of approximately $2.8 billion. On August 12, 2008, we completed the acquisitions of 540 Madison Avenue and Two Grand Central Tower located in New York City, New York for an aggregate purchase price of approximately $705.0 million. On August 13, 2008, we completed the acquisition of 125 West 55th Street located in New York City, New York for an aggregate price of $444.0 million. Each acquisition was completed through a joint venture with US Real Estate Opportunities I, L.P. and Meraas Capital LLC. We have a 60% interest in each venture and provide customary property management and leasing services for each venture.

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The following table presents actual financial information for the joint ventures for the period ended December 31, 2008 for the General Motors Building and 540 Madison Avenue, Two Grand Central Tower and 125 West 55th Street, respectively. These acquisitions will impact our income (loss) from unconsolidated joint ventures in future periods.

	The General Motors Building For the period from June 9, 2008 December 31, 2008 (in thousands)	540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street For the period from August 12, 2008 December 31, 2008(1) (in thousands)
Base rent and recoveries from tenants	$ 105,634	$ 34,587
Straight-line rent	7,965	5,545
Fair value lease revenue	79,365	12,506
Parking and other	1,798	523
Total rental revenue	194,762	53,161
Operating expenses	41,497	14,663
Revenue less operating expenses	153,265	38,498
Interest expense	82,266	12,547
Fair value interest expense	4,477	2,020
Depreciation and amortization	91,220	22,225
Income (Loss) before elimination of inter-entity interest on partner loan	(24,698)	1,706
Company s share of Net Income (Loss) (60%)	(14,819)	1,024
Elimination of inter-entity interest on partner loan	16,932	
Income (loss) from unconsolidated joint ventures (60%)	$ 2,113	$ 1,024

(1) Information for 125 West 55th Street is presented for the period of August 13, 2008 through December 31, 2008.

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

Income from discontinued operations, net of minority interest

For the year ended December 31, 2007, Orbital Sciences Campus and Broad Run Business Park, Building E, Newport Office Park and Long Wharf Marriott were included as part of income from discontinued operations, net of minority interest.

Minority interests in property partnerships

Minority interests in property partnerships for the years ended December 31, 2008 and 2007 consist of the outside equity interests in the venture that owns our Wisconsin Place Office property as well as our 505 9^{th} Street project.

Minority interest in Operating Partnership

Minority interest in Operating Partnership decreased $42.9 million for the year ended December 31, 2008 compared to 2007 primarily as a result of the decrease in allocable income.

Gains on sales of real estate, net of minority interest

On April 14, 2008, we sold a parcel of land located in Washington, DC for approximately $33.7 million. We had previously entered into a development management agreement with the buyer to develop a Class A office property on the parcel totaling approximately 165,000 net rentable square feet. Due to our involvement in the construction of the project, the gain on sale estimated to total $23.4 million has been deferred and will be recognized over the project construction period generally, based on the percentage of total project costs incurred to estimated total project costs. As a result, we recognized a gain on sale during the year ended December 31, 2008 of approximately $8.5 million (net of minority interest share of approximately $1.4 million).

On August 7, 2007, we sold Democracy Center in Bethesda, Maryland, for approximately $280.5 million. Net cash proceeds totaled approximately $184.5 million, after the repayment of the mortgage indebtedness of approximately $94.6 million and closing costs of approximately $1.4 million, resulting in a gain on sale of approximately $168.3 million (net of minority interest share of approximately $29.9 million). Due to our 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. As of August 31, 2008, we no longer provide management services for this building.

Pursuant to the purchase and sale agreement related to the sale of 280 Park Avenue, we entered into a master lease agreement with the buyer at closing. Under the master lease agreement, we guaranteed that the buyer will receive at least a minimum amount of base rent from approximately 74,340 square feet of space during the ten-year period following the expiration of the leases for this space. The leases for this space expired at various times between June 2006 and October 2007. The aggregate amount of base rent we guaranteed over the entire period from 2006 to 2017 is approximately $67.3 million. During the year ended December 31, 2008 and 2007, we signed new qualifying leases for approximately 17,454 and 22,250 net rentable square feet of the remaining master lease obligation, resulting in the recognition of approximately $20.0 million (net of minority interest share of approximately $3.4 million) and $15.4 million (net of minority interest share of approximately $2.6 million) of additional gain on sale of real estate, respectively. As of December 31, 2008, the remaining master lease obligation totaled approximately $0.9 million.

On February 15, 2007, we sold the long-term leasehold interest in 5 Times Square in New York City and related credits, for approximately $1.28 billion in cash. Net cash proceeds totaled approximately $1.23 billion, resulting in a gain on sale of approximately $605.4 million (net of minority interest share of approximately $108.1 million). Due to our 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.

Gains on sales of real estate from discontinued operations, net of minority interest

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

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

On March 23, 2007, we completed the sale of the Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts for a total sale price of $231.0 million, or approximately $575,000 per room. The net gain on sale was approximately $162.4 million (net of minority interest of $28.6 million).

Comparison of the year ended December 31, 2007 to the year ended December 31, 2006

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 102 properties, including properties acquired or placed in-service on or prior to January 1, 2006 and owned through December 31, 2007, totaling approximately 25.5 million net rentable square feet of space (excluding square feet of structured parking). The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after January 1, 2006 or disposed of on or prior to December 31, 2007. Properties Placed In-Service includes our 505 9th Street joint venture project. In connection with partially placing this property in-service, we consolidated the joint venture entity that owns the property as of October 1, 2007 due to the involvement we have in the venture once the property is operational. The Same Property Portfolio includes our Cambridge Center Marriott hotel property, but does not include the Long Wharf Marriott hotel property, which was sold on March 23, 2007. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the year ended December 31, 2007 and 2006 with respect to the properties which were acquired, placed in-service, repositioned or sold.

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	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio		
thousands)	2007	2006	Increase/ (Decrease)	% Change	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	Increase/ (Decrease)
enue:															
enue	$ 1,196,883	$ 1,142,388	$ 54,495	4.77%	$ 21,902	$ 124,828	$ 48,940	$ 8,244	$ 32,313	$ 24,117	$ 27,199	$ 20,402	$ 1,327,237	$ 1,319,979	$ 7,258
n Income	6,882	6,999	(117)	(1.67)%		1,138	100						6,982	8,137	(1,155)
l Revenue	1,203,765	1,149,387	54,378	4.73%	21,902	125,966	49,040	8,244	32,313	24,117	27,199	20,402	1,334,219	1,328,116	6,103
Operating	419,054	389,872	29,182	7.49%	6,369	35,439	14,964	2,239	7,995	4,731	7,458	5,424	455,840	437,705	18,135
ng Income, otel	784,711	759,515	25,196	3.32%	15,533	90,527	34,076	6,005	24,318	19,386	19,741	14,978	878,379	890,411	(12,032)
Operating	10,046	8,048	1,998	24.83%									10,046	8,048	1,998
ed Net ncome(1)	794,757	767,563	27,194	3.54%	15,533	90,527	34,076	6,005	24,318	19,386	19,741	14,978	888,425	898,459	(10,034)
nue:															
nt and nt Services													20,553	19,820	733
Other													89,706	36,677	53,029
Revenue													110,259	56,497	53,762
nses:															
d ive expense													69,882	59,375	10,507
pense													285,887	298,260	(12,373)
n and n	246,016	238,585	7,431	3.11%	2,767	18,049	24,155	3,531	8,731	7,365	4,361	3,032	286,030	270,562	15,468
early nents of													3,417	32,143	(28,726)
Expenses	246,016	238,585	7,431	3.11%	2,767	18,049	24,155	3,531	8,731	7,365	4,361	3,032	645,216	660,340	(15,124)
ore erests	$ 548,741	$ 528,978	$ 19,763	3.74%	$ 12,766	$ 72,478	$ 9,921	$ 2,474	$ 15,587	$ 12,021	$ 15,380	$ 11,946	$ 353,468	$ 294,616	$ 58,852
m ated joint	$ 5,799	$ 7,230	$ (1,431)	(19.79)%	$ 15,125	$ 17,455	$ (496)	$ (178)	$	$	$	$	20,428	24,507	(4,079)
m d net of erest	$	$	$		$ 6,206	$ 16,104	$	$	$	$	$	$	6,206	16,104	(9,898)
terests in rtnerships													(84)	2,013	(2,097)
terest in Partnership													(64,916)	(69,999)	5,083
les of real f minority													789,238	606,394	182,844
les of real d net of erest													220,350		220,350

available			
s	$ 1,324,690	$ 873,635	$ 451,055

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 53. Hotel Net Operating Income for the years ended December 31, 2007 and 2006 is comprised of Hotel Revenue of $37,811 and $33,014, respectively, less Hotel Expenses of $27,765 and $24,966, respectively, per the Consolidated Income Statement.

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Rental Revenue

The increase of approximately $7.3 million in the Total Property Portfolio Rental Revenue is comprised of increases and decreases within the five categories that comprise our Total Property Portfolio. Rental revenue from the Same Property Portfolio increased approximately $54.5 million, Properties Sold decreased approximately $102.9 million, Properties Acquired increased approximately $40.7 million, Properties Placed In-Service increased approximately $8.2 million and Properties Repositioned increased approximately $6.8 million for the year ended December 31, 2007 compared to the year ended December 31, 2006.

We incur certain tenant specific property costs for which we are reimbursed from our tenants. Starting in 2007, we have included these reimbursements in rental revenue and included the tenant specific operating cost within real estate operating expenses. This income and expense classification in 2007 results in a presented increase to comparable rental revenue and real estate operating expenses, however does not impact our consolidated net operating income. For the year ended December 31, 2007 and 2006, the rental income and real estate operating expense gross up was approximately $8.9 million and $12.0 million, respectively.

Rental revenue from the Same Property Portfolio increased approximately $54.5 million for the year ended December 31, 2007 compared to 2006. Included in the Same Property Portfolio rental revenue is an overall increase in contractual rental revenue of approximately $39.1 million, offset by a decrease of approximately $7.3 million in straight-line rents. Approximately $18.8 million of the increase from the Same Property Portfolio was due to an increase in recoveries from tenants which correlates with the increase in operating expenses. Approximately $3.9 million of the increase from the Same Property Portfolio was due to an increase in parking and other income.

The increase in rental revenue from Properties Placed In-Service relates to partially placing in-service our 505 9th Street development project in the fourth quarter of 2007, our Seven Cambridge Center development project in the first quarter of 2006 and our 12290 Sunrise Valley development project in the second quarter of 2006. Rental revenue from Properties Placed In-Service increased approximately $8.2 million, as detailed below:

Property	Date Placed In-Service	Rental Revenue for the year ended December 31 2007	2006	Change
			(in thousands)	
Seven Cambridge Center	First Quarter, 2006	$ 22,138	$ 19,939	$ 2,199
12290 Sunrise Valley	Second Quarter, 2006	6,338	4,178	2,160
505 9th Street	Fourth Quarter, 2007	3,837		3,837
Total		$ 32,313	$ 24,117	$ 8,196

The acquisitions of 6601 & 6605 Springfield Center Drive, 103 Fourth Avenue, Kingstowne Towne Center, the Mountain View Properties, North First Business Park and Springfield Metro Center in 2007, and 303 Almaden Boulevard, 3200 Zanker Road and Four and Five Cambridge Center in 2006, increased revenue from Properties Acquired by approximately $40.7 million for the year ended December 31, 2007 as detailed below:

Property	Date Acquired	Rental Revenue for the year ended December 31

		2007	2006	Change
			(in thousands)	
Four and Five Cambridge Center	November 30, 2006	$ 18,605	$ 1,265	$ 17,340
Kingstowne Towne Center	March 30, 2007	10,631		10,631
3200 Zanker Road	August 10, 2006	10,520	3,839	6,681
303 Almaden Boulevard	June 30, 2006	6,402	3,140	3,262
Mountain View Properties	November 27, 2007	1,275		1,275
103 Fourth Avenue	January 29, 2007	720		720
6601 & 6605 Springfield Center Drive	January 18, 2007	685		685
North First Business Park	December 13, 2007	102		102
Springfield Metro Center	April 11, 2007			
Total		$ 48,940	$ 8,244	$ 40,696

Rental revenue from Properties Repositioned for the year ended December 31, 2007 increased approximately $6.8 million over the year ended December 31, 2006. Our Capital Gallery expansion project is included in Properties Repositioned for the year ended December 31, 2007 and December 31, 2006. In April 2006, tenants began to take occupancy and we placed our Capital Gallery expansion project in-service in July 2006.

The aggregate increase in rental revenue was offset by the sales of Democracy Center and 5 Times Square in 2007 and 280 Park Avenue in 2006. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property through agreements entered into at the time of sale. Rental Revenue from Properties Sold decreased by approximately $102.9 million, as detailed below:

		Rental Revenue for the year ended December 31		
Property	**Date Sold**	**2007**	**2006**	**Change**
			(in thousands)	
Democracy Center	August 7, 2007	$ 12,016	$ 17,825	$ (5,809)
5 Times Square	February 15, 2007	9,886	74,795	(64,909)
280 Park Avenue	June 6, 2006		32,208	(32,208)
Total		$ 21,902	$ 124,828	$ (102,926)

Termination Income

Termination income for the year ended December 31, 2007 was related to multiple tenants across the Total Property Portfolio that terminated their leases, and we recognized termination income totaling approximately $7.0 million. This compared to termination income of $8.1 million for the year ended December 31, 2006.

Real Estate Operating Expenses

The $18.1 million increase in property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Total Property Portfolio is comprised of increases and decreases within five categories that comprise our Total Property Portfolio. Operating expenses for the Same Property Portfolio increased approximately $29.2 million, Properties Sold decreased approximately $29.1 million, Properties Acquired increased approximately $12.7 million, Properties Placed In-Service increased approximately $3.3 million and Properties Repositioned increased approximately $2.0 million.

Operating expenses from the Same Property Portfolio increased approximately $29.2 million for the year ended December 31, 2007 compared to 2006. Included in Same Property Portfolio operating expenses is an increase in utility expenses of approximately $2.5 million, which represents an increase of approximately 3% over the prior year. In addition, real estate taxes increased approximately $10.7 million due to increased real estate tax assessments and repairs and maintenance increased approximately $8.4 million. The remaining $7.6 million increase in the Same Property Portfolio operating expenses is related to an increase in cleaning contracts and other general and administrative items.

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The acquisitions of 6601 & 6605 Springfield Center Drive, 103 Fourth Avenue, Kingstowne Towne Center, the Mountain View Properties, North First Business Park and Springfield Metro Center in 2007, and 303 Almaden Boulevard, 3200 Zanker Road and Four and Five Cambridge Center in 2006, increased operating expenses from Properties Acquired by approximately $12.7 million for the year ended December 31, 2007 as detailed below:

Property	Date Acquired	Real Estate Operating Expense for the year ended December 31 2007	2006	Change
			(in thousands)	
Four and Five Cambridge Center	November 30, 2006	$ 6,871	$ 519	$ 6,352
Kingstowne Towne Center	March 30, 2007	2,591		2,591
303 Almaden Boulevard	June 30, 2006	2,345	1,223	1,122
3200 Zanker Road	August 10, 2006	1,837	497	1,340
103 Fourth Avenue	January 29, 2007	606		606
Mountain View Properties	November 27, 2007	412		412
6601 & 6605 Springfield Center Drive	January 18, 2007	167		167
Springfield Metro Center	April 11, 2007	89		89
North First Business Park	December 13, 2007	46		46
Total		$ 14,964	$ 2,239	$ 12,725

The increase in operating expenses from Properties Placed In-Service relates to partially placing in-service our 505 9th Street development project in the fourth quarter of 2007, our Seven Cambridge Center development project in the first quarter of 2006 and our 12290 Sunrise Valley development project in the second quarter of 2006. Operating expenses from Properties Placed In-Service increased approximately $3.3 million, as detailed below:

Property	Date Placed In-Service	Real Estate Operating Expenses for the year ended December 31 2007	2006	Change
			(in thousands)	
Seven Cambridge Center	First Quarter, 2006	$ 5,521	$ 4,277	$ 1,244
12290 Sunrise Valley	Second Quarter, 2006	1,278	454	824
505 9th Street	Fourth Quarter, 2007	1,196		1,196
Total		$ 7,995	$ 4,731	$ 3,264

Operating expenses from Properties Repositioned for the year ended December 31, 2007 increased approximately $2.0 million over the year ended December 31, 2006. Our Capital Gallery expansion project is included in Properties Repositioned for the year ended December 31, 2007 and December 31, 2006. In April 2006, tenants began to take occupancy and during July 2006, we placed our Capital Gallery expansion project in-service.

A decrease of approximately $29.1 million in the Total Property Portfolio operating expenses was due to the sales of Democracy Center and 5 Times Square in 2007 and 280 Park Avenue in 2006, as detailed below:

Property	Date Sold

		Real Estate Operating Expenses for the year ended December 31		
		2007	2006	Change
			(in thousands)	
Democracy Center	August 7, 2007	$ 4,204	$ 6,144	$ (1,940)
5 Times Square	February 15, 2007	2,165	14,988	(12,823)
280 Park Avenue	June 6, 2006		14,307	(14,307)
Total		$ 6,369	$ 35,439	$ (29,070)

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Hotel Net Operating Income

Net operating income for our hotel property increased approximately $2.0 million, a 24.8% increase for the year ended December 31, 2007 as compared to 2006. For the year ended December 31, 2006, the operations of the Long Wharf Marriott was included as part of discontinued operations due to its sale on March 23, 2007.

The following reflects our occupancy and rate information for our Cambridge Center Marriott hotel property for the year ended December 31, 2007 and 2006:

	2007	2006	Percentage Change
Occupancy	80.0%	75.1%	6.5%
Average daily rate	$ 217.23	$ 194.52	11.7%
Revenue per available room, REVPAR	$ 173.80	$ 146.15	18.9%

Development and Management Services

Development and Management Services income increased approximately $0.7 million for the year ended December 31, 2007 compared to 2006. We have maintained management contracts following the sales of Democracy Center and 5 Times Square in 2007, as well as the sale of 280 Park Avenue on June 6, 2006, which in the aggregate contributed to an increase of approximately $1.1 million in management fees. A decrease of approximately $0.4 million was attributed to reduced work order income.

Interest and Other Income

Interest and other income increased by approximately $53.0 million for the year ended December 31, 2007 compared to 2006 as a result of higher overall interest rates and increased cash balances. In February 2007, our Operating Partnership issued $862.5 million of 2.875% unsecured exchangeable senior notes. On February 15, 2007, we completed the sale of our long-term leasehold interest in 5 Times Square in New York City for approximately $1.23 billion in cash. On March 23, 2007, we completed the sale of the Long Wharf Marriott for approximately $225.6 million in cash. On April 5, 2007, we completed the sale of Newport Office Park for approximately $33.7 million in cash. On August 7, 2007, we completed the sale of Democracy Center for approximately $184.5 million in cash and on November 20, 2007, we completed the sale of Orbital Sciences Campus and Broad Run Business Park Building E properties for an aggregate of approximately $125.4 million in cash.

Other Expenses

General and Administrative

General and administrative expenses increased approximately $10.5 million for the year ended December 31, 2007 compared to 2006. An overall increase of approximately $2.6 million was attributed to bonuses and salaries for the year ended December 31, 2007 compared to 2006 as well as an increase in long-term compensation expense of approximately $3.5 million. For the year ended December 31, 2007, we recognized additional expenses related to abandoned project costs of approximately $4.5 million.

Commencing in 2003, we began issuing restricted stock and/or LTIP Units, as opposed to granting stock options and restricted stock, under the 1997 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 vest in restricted stock and LTIP Units over a four- or five-year term (for awards granted between 2003 and November 2006, vesting is over a five-year term with annual vesting of 0%, 0%, 25%, 35% and 40%; and for awards granted after

November 2006, vesting occurs in equal annual installments over a four-year term). 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 that were issued in January 2005 and any 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 associated with approximately $27.6 million of restricted stock and LTIP Units granted in February 2008 and approximately $18.5 million of restricted stock and LTIP Units granted in January 2007 will be incurred ratably over the four-year vesting period. Stock-based compensation associated with approximately $11.3 million of restricted stock and LTIP Units granted in April 2006 will be incurred ratably over the five-year vesting period.

Interest Expense

Interest expense for the Total Property Portfolio decreased approximately $12.4 million for the year ended December 31, 2007 compared to 2006. The decrease is due to (1) the repayment of outstanding mortgage debt in connection with the sale of Democracy Center in August 2007 and 280 Park Avenue in June 2006, which decreased interest expense by $11.2 million, (2) the repayment of our mortgage loans collateralized by Capital Gallery, 191 Spring Street, 101 Carnegie Center, Seven Cambridge Center, Embarcadero Center Three and Embarcadero Center Four, and our 504, 506, 508 and 510 Carnegie Center properties, which decreased interest expense by approximately $15.9 million, and (3) an increase in capitalized interest costs which results in a decrease of interest expense of approximately $18.5 million. These decreases were offset by (1) an increase of approximately $4.4 million related to interest paid on the $450 million unsecured exchangeable senior notes issued in the second quarter of 2006 by our Operating Partnership at a per annum interest rate of 3.75%, (2) an increase of approximately $26.2 million related to interest paid on the $862.5 million unsecured exchangeable senior notes issued in the first quarter of 2007 by our Operating Partnership at an effective per annum interest rate of 3.438% and (3) an increase of approximately $4.3 million related to the acquisition of Kingstowne Towne Center on March 30, 2007 as well as the consolidation of our 505 9th joint venture property due to the involvement we now have because the property is operational. The remaining decrease is attributed to scheduled loan amortization on our outstanding debt.

At December 31, 2007, our variable rate debt consisted of our construction loan at South of Market. The following summarizes our outstanding debt as of December 31, 2007 compared with December 31, 2006:

	December 31,	
	2007	**2006**
	(dollars in thousands)	
Debt Summary:		
Balance		
Fixed rate	$ 5,369,243	$ 3,889,447
Variable rate	122,923	711,490
Total	$ 5,492,166	$ 4,600,937
Percent of total debt:		
Fixed rate	97.76%	84.54%
Variable rate	2.24%	15.46%
Total	100.00%	100.00%
GAAP Weighted average interest rate at end of period:		
Fixed rate	5.58%	6.19%
Variable rate	6.11%	5.80%
Total	5.60%	6.13%

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Depreciation and Amortization

Depreciation and amortization expense for the Total Property Portfolio increased approximately $15.5 million for the year ended December 31, 2007 compared to 2006. The increase in depreciation and amortization consisted of approximately $20.6 million related to the 2007 acquisitions compared with the 2006 activity, approximately $0.7 million related to partially placing in-service 505 9th Street in the fourth quarter of 2007, approximately $1.3 million related to placing Capital Gallery into service during the third quarter of 2006, and approximately $0.7 million was due to the placing in-service of Seven Cambridge Center in the first quarter of 2006 and 12290 Sunrise Valley in the second quarter of 2006. The increase was offset by reductions in depreciation and amortization resulting from the sales of Democracy Center and 5 Times Square in 2007 compared with 280 Park Avenue in 2006, which resulted in an aggregate decrease of approximately $15.3 million. Depreciation and amortization in the Same Property Portfolio increased approximately $7.4 million for the year ended December 31, 2007 compared to 2006.

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 Sheets 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 year ended December 31, 2007 and 2006 were $11.0 million and $7.0 million, respectively. These costs are not included in the general and administrative expenses discussed above. Interest capitalized for the year ended December 31, 2007 and 2006 was $31.0 million and $5.9 million, respectively. These costs are not included in the interest expense referenced above.

Losses from Early Extinguishments of Debt

On February 12, 2007, we refinanced our mortgage loan collateralized by 599 Lexington Avenue located in New York City. The new mortgage financing totaling $750.0 million bears interest at a fixed interest rate of 5.57% per annum and matures on March 1, 2017. The net proceeds of the new loan were used to refinance the $225.0 million mortgage loan on 599 Lexington Avenue and the $475.0 million mortgage loan on Times Square Tower. In connection with the refinancing, the lien of the Times Square Tower mortgage was spread to 599 Lexington Avenue and released from Times Square Tower so that Times Square Tower is no longer encumbered by any mortgage debt. There was no prepayment penalty associated with the repayment. We recognized a loss from early extinguishment of debt totaling approximately $0.7 million consisting of the write-off of unamortized deferred financing costs.

In conjunction with the sale of Democracy Center in Bethesda, Maryland on August 7, 2007, we repaid the mortgage financing collateralized by the property totaling approximately $94.6 million. We paid a prepayment fee of approximately $2.6 million associated with the repayment. We recognized a loss from early extinguishment of debt totaling approximately $2.7 million consisting of the prepayment fee and the write-off of unamortized deferred financing costs.

For the year ended December 31, 2006, in connection with the sale of 280 Park Avenue, we legally defeased the mortgage indebtedness collateralized by the property, totaling approximately $254.4 million. In connection with the legal defeasance of the mortgage indebtedness at 280 Park Avenue, we recognized a loss from early extinguishment of debt totaling approximately $31.4 million consisting of the difference between the value of the U.S. Treasuries and the principal balance of the mortgage loan totaling approximately $28.2 million and the write-off of unamortized deferred financing costs totaling approximately $3.2 million. In addition, we repaid construction financing collateralized by our Seven Cambridge Center property. The construction financing at Seven Cambridge Center totaling approximately $112.5 million was repaid using approximately $7.5 million of available cash and $105.0 million drawn under our Unsecured Line of Credit. There was no prepayment penalty

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associated with the repayment for Seven Cambridge Center. We recognized losses from early extinguishments of debt totaling approximately $0.5 million consisting of the write-off of unamortized deferred financing costs. We repaid the construction and permanent financing at Capital Gallery totaling approximately $34.0 million and $49.7 million using available cash. We recognized a loss from early extinguishment of debt totaling approximately $0.2 million comprised of a prepayment penalty and the write-off of unamortized deferred finance costs.

Income from unconsolidated joint ventures

For the year ended December 31, 2007, income from unconsolidated joint ventures decreased approximately $4.1 million. On June 1, 2007, our Value-Added Fund sold Worldgate Plaza located in Herndon, Virginia for approximately $109.0 million. Worldgate Plaza is an office complex consisting of approximately 322,000 net rentable square feet. Net cash proceeds totaled approximately $50.5 million, of which our share was approximately $20.3 million, after the repayment of the mortgage indebtedness of $57.0 million. Our share of the gain, which is included as income from joint ventures, was approximately $15.5 million which amount reflects the achievement of certain return thresholds as provided for in the joint venture agreement. On October 1, 2007, our 505 9th Street joint venture project, a 323,000 net rentable square foot Class A office property located in Washington, D.C was partially placed in-service. In connection with partially placing this property in-service, we consolidated this entity as of October 1, 2007 due to the involvement we have in the venture once the property is operational.

On September 15, 2006, a joint venture in which we had a 35% interest sold 265 Franklin Street located in Boston, Massachusetts, at a sale price of approximately $170.0 million. Net cash proceeds totaled approximately $108.3 million, of which our share was approximately $37.9 million, after the repayment of mortgage indebtedness of approximately $60.8 million and unfunded tenant obligations and other closing costs of approximately $0.9 million. The venture recognized a gain on sale of real estate of approximately $51.4 million, of which our share was approximately $18.0 million, and a loss from early extinguishment of debt of approximately $0.2 million, of which our share was $0.1 million.

Income from discontinued operations, net of minority interest

For the years ended December 31, 2007 and 2006, Orbital Sciences Campus and Broad Run Business Park, Building E, Newport Office Park and Long Wharf Marriott were included as part of income from discontinued operations, net of minority interest.

Minority interests in property partnerships

Minority interests in property partnerships for the year ended December 31, 2007 consist of the outside equity interests in the venture that owns our Wisconsin Place Office Property as well as our 505 9th Street project. In connection with partially placing 505 9th Street in-service, we consolidated this entity as of October 1, 2007 due to the involvement we have in the venture once the property is operational.

For the year ended December 31, 2006, minority interest in property partnership includes our outside equity interest in Citigroup Center. This venture was consolidated with our financial results because we exercised control over the entity. Due to the redemption of the minority interest holder at Citigroup Center on May 31, 2006, minority interest in property partnership no longer reflects an allocation to the minority interest holder.

Minority interest in Operating Partnership

Minority interest in Operating Partnership decreased $5.1 million for the year ended December 31, 2007 compared to 2006. In connection with the special dividend declared on December 17, 2007 payable on January 30, 2008, holders of Series Two Preferred Units participated on an as-converted basis in connection with their regular May 2008 distribution payment as provided for in the Operating Partnership s partnership agreement. As a result, we accrued approximately $8.7 million for the year ended December 31, 2007 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 $8.7 million, which amount has been reflected in minority interest in Operating Partnership for the year ended December 31, 2007. In connection with the special dividend declared on December 15, 2006 and paid on January 30, 2007, we recognized an adjustment of approximately $3.1 million in 2007 to the special cash distribution accrual and allocation of earnings to the Series Two Preferred Units, as a result of conversions of Series Two Preferred Units. This decrease was offset by an increase related to the minority interest in our Operating Partnership s income allocation related to an underlying increase in allocable income.

In connection with the special dividend declared on December 15, 2006 payable on January 30, 2007, holders of Series Two Preferred Units participated on an as-converted basis in connection with their regular May 2007 distribution payment as provided for in the Operating Partnership s partnership agreement. As a result, we accrued approximately $12.2 million for the year ended December 31, 2006 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 $12.2 million, which amount has been reflected in minority interest in Operating Partnership for the year ended December 31, 2006.

Gains on sales of real estate, net of minority interest

On August 7, 2007, we sold Democracy Center in Bethesda, Maryland, for approximately $280.5 million. Net cash proceeds totaled approximately $184.5 million, after the repayment of the mortgage indebtedness of approximately $94.6 million and closing costs of approximately $1.4 million, resulting in a gain on sale of approximately $168.3 million (net of minority interest share of approximately $29.9 million). Due to our 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.

On February 15, 2007, we sold the long-term leasehold interest in 5 Times Square in New York City and related credits, for approximately $1.28 billion in cash. Net cash proceeds totaled approximately $1.23 billion, resulting in a gain on sale of approximately $605.4 million (net of minority interest share of approximately $108.1 million). Due to our 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.

On June 6, 2006, we sold 280 Park Avenue, a 1,179,000 net rentable square foot Class A office property located in midtown Manhattan, New York, for approximately $1.2 billion. Net proceeds totaled approximately $875 million after legal defeasance of indebtedness secured by the property (consisting of approximately $254.4 million of principal indebtedness and approximately $28.2 million of related defeasance costs) and the payment of transfer taxes, brokers fees and other customary closing costs. We recognized at closing a gain on sale of approximately $583.3 million (net of minority interest share of approximately $109.2 million). Due to our 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 January 2006, we recognized a $4.8 million gain (net of minority interest share of approximately $0.9 million) on the sale of a parcel of land at the Prudential Center located in Boston, Massachusetts which had been accounted for previously as a financing transaction. During January 2006, the transaction qualified as a sale for financial reporting purposes.

Gains on sales of real estate from discontinued operations, net of minority interest

Gains on sales of real estate from discontinued operations for the year ended December 31, 2007 in the Total Property Portfolio relate to the sales of Orbital Sciences Campus and Broad Run Business Park, Building E, Newport Office Park resulting in a gain of approximately $46.5 million and Long Wharf Marriott during 2007 resulting in a gain of approximately $162.4 million.

Liquidity and Capital Resources

General

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

- fund normal recurring expenses;
- meet debt service and principal repayment obligations, including balloon payments on maturing debt;
- fund capital expenditures, including major renovations, tenant improvements and leasing costs;
- fund development costs;
- fund possible property acquisitions; and
- make the minimum distribution required to maintain our REIT qualification under the Internal Revenue Code of 1986, as amended.

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

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

our Unsecured Line of Credit or other short-term bridge facilities.

We believe that our liquidity needs will be satisfied using our cash on hand, cash flows generated by operations, availability under our Unsecured Line of Credit and cash flows provided by other financing activities. 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, to refinance outstanding indebtedness and to meet short-term development and working capital needs. We generally fund our development projects with construction loans, which may be partially guaranteed by our Operating Partnership, until project completion or lease-up thresholds are achieved.

Contractual 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 permit increases in rental rates while reducing tenant turnover and controlling operating expenses. Our sources of revenue also include third-party fees generated by our 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.

Material changes in these factors may adversely affect our net cash flows. Such changes, in turn, could 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 our ability to comply with the financial performance covenants under our Unsecured Line of Credit and unsecured senior notes.

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The credit markets continue to be extremely constrained in the real estate sector, as lenders are primarily focusing on refinancing or restructuring existing loans. Lenders are taking relatively little underwriting risk, the amount of capital they are willing to commit has decreased and the underwriting standards that they are employing have become increasingly conservative.

We have approximately $251 million of debt maturities in 2009. The largest is approximately $183 million where we have two one-year extension options and expect to exercise the first extension option in 2009. The other two loans are with life insurance companies, at conservative loan to value ratios and we expect to refinance or replace them at maturity. In 2010, we have debt maturities totaling approximately $238 million and our unconsolidated joint ventures have debt maturities totaling approximately $670 million (of which our share is approximately $397 million). All of these loans are secured mortgages. The two largest maturities are loans on 125 West 55th Street and Two Grand Central Tower, and we anticipate a reduced loan amount as part of the refinancing of these assets. The remaining loans are moderately leveraged mortgages on stabilized properties where we expect to be able to refinance the existing loan amounts. We intend to be proactive requesting financing bids on these and other stable assets and anticipate completing additional financings during 2009. The remainder of our capital commitments over the next few years are to fund our development program.

In total our remaining capital requirements, net of interest and anticipated fundings from existing construction loans, to complete our ongoing developments is $822.9 million, through the end of 2012. With our cash, availability under our Unsecured Line of Credit, and the anticipated cash flow generated by the operating portfolio, we believe we have sufficient capacity to fund the entire program. In addition, we expect to arrange supplementary construction facilities on a number of these projects as we move through 2009 to create additional liquidity. For more details on properties under construction, see page 5.

Finally, in recent years, we have been an active seller of real estate assets and, although we will consider additional asset sales, we do not expect our sales volume to be comparable to that of prior years.

REIT Tax Distribution Considerations

Dividend

Because capital may continue to be constrained, we are also evaluating the appropriate amount and form of payment of distributions for 2009. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual taxable income. Our policy is to distribute at least 100% of our taxable income to avoid paying federal tax. Our last four regular quarterly distributions (including distributions paid to third-party OP unitholders) totaled an aggregate of approximately $385 million. Under the applicable REIT regulations, we can apply the fourth quarter 2008 dividend (which was declared on December 31, 2008 and paid on January 31, 2009), in whole or in part, to satisfy our 2009 minimum REIT distribution requirements. If we choose to apply the entire amount, we could reduce our required 2009 distributions by approximately $97 million. In addition, as a result of a temporary Revenue Procedure recently issued by the Internal Revenue Service, we are, like many other REITs, also evaluating the financial, legal and tax implications (on both stockholders and holders of partnership interests in BPLP) of issuing equity in lieu of a portion of our regular cash dividend. We continue to consider the advantages and disadvantages of reducing our cash distributions and/or issuing equity in lieu of a portion of our cash distributions in light of the current state of the capital markets, our current stock price and other factors.

Sales

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

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On December 17, 2007, our Board of Directors declared a special cash dividend of $5.98 per common share that was paid on January 30, 2008 to shareholders of record as of the close of business on December 31, 2007. The decision to declare a special dividend was the result of the sales of assets in 2007, including 5 Times Square, Orbital Sciences Campus, Broad Run Business Park Building E, Worldgate Plaza and Newport Office Park.

Cash Flow Summary

The following summary discussion of our cash flows is based on the consolidated statements of cash flows in Item 8. Financial Statements and Supplementary Data and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Cash and cash equivalents were $0.2 billion and $1.5 billion at December 31, 2008 and December 31, 2007, respectively, representing a decrease of $1.3 billion. The cash and cash equivalents balance as of February 23, 2009 was approximately $51 million. The decrease was a result of the following decreases in cash flows:

	Years ended December 31,		
	2008	2007	Increase (Decrease)
		(in thousands)	
Net cash provided by operating activities	$ 560,908	$ 629,378	$ (68,470)
Net cash provided by (used in) investing activities	$ (1,315,676)	$ 576,931	$ (1,892,607)
Net cash used in financing activities	$ (510,643)	$ (425,176)	$ (85,467)

Our principal source of cash flow is related to the operation of our office properties. The average term of our tenant leases is approximately 7.2 years with portfolio 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. In addition, over the past three years, we have raised capital through the sale of some of our properties and raised capital from secured and unsecured borrowings.

In 2008, our total dividends exceeded our cash flow from operating activities due to the special dividend which was declared in December 2007 and paid to common stockholders and common unitholders of BPLP in January 2008. The cash flows distributed were generated from sales of real estate assets and proceeds from the sales are included as part of cash flows from investment activities. Dividends will generally exceed cash flows from operating activities during periods in which we sell significant real estate assets and distribute gains on sale that would otherwise be taxable.

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 used in investing activities for the year ended December 31, 2008 consisted of the following:

	(in thousands)
Net proceeds from the sales of real estate and other assets	$ 127,307
Proceeds from note receivable	123,000

Proceeds from redemptions of investments in securities	14,697
Net proceeds from the sale/financing of real estate released from escrow	161,321
The cash provided by these investing activities is offset by:	
Net investments in unconsolidated joint ventures	(896,027)
Issuance of note receivable	(270,000)
Acquisitions/additions to real estate	(575,974)
Net cash used in investing activities	$ (1,315,676)

Cash used in financing activities for the year ended December 31, 2008 totaled approximately $510.6 million. This consisted primarily of the dividends and distribution to shareholders and the unitholders of our Operating Partnership, including the special cash dividend of $5.98 per share paid in January 2008, net repayment of mortgage notes payable, offset by the borrowings under our Unsecured Line of Credit and the offering of our 3.625% exchangeable senior notes due 2014. Future debt payments are discussed below under the heading Debt Financing.

Capitalization

At December 31, 2008, our total consolidated debt was approximately $6.3 billion. The GAAP weighted-average annual interest rate on our consolidated indebtedness was 5.25% and the weighted-average maturity was approximately 5.1 years.

Consolidated debt to total consolidated market capitalization ratio, defined as total consolidated debt as a percentage of the market value of our outstanding equity securities plus our total consolidated debt, is a measure of leverage commonly used by analysts in the REIT sector. Our total consolidated market capitalization was approximately $14.2 billion at December 31, 2008. Total consolidated market capitalization was calculated using the December 31, 2008 closing stock price of $55.00 per common share and the following: (1) 121,180,655 shares of our common stock, (2) 19,909,070 outstanding common units of limited partnership interest in Boston Properties Limited Partnership (excluding common units held by Boston Properties, Inc.), (3) an aggregate of 1,460,688 common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in Boston Properties Limited Partnership, (4) an aggregate of 946,509 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 $6.3 billion. The calculation of total consolidated market capitalization does not include 1,080,938 2008 OPP Awards because, unlike other LTIP Units, they are not earned until certain return thresholds are achieved. Our total consolidated debt, which excludes debt collateralized by our unconsolidated joint ventures, at December 31, 2008 represented approximately 44.28% of our total consolidated market capitalization. This percentage will fluctuate with changes in the market price of our common stock and does not necessarily reflect our capacity to incur additional debt to finance our activities or our ability to manage our existing debt obligations. However, for a company like ours, whose assets are primarily income-producing real estate, the consolidated debt to total consolidated market capitalization ratio may provide investors with an alternate indication of leverage, so long as it is evaluated along with other financial ratios and the various components of our outstanding indebtedness.

For a discussion of our unconsolidated joint venture indebtedness, see Off Balance Sheet Arrangements Joint Venture Indebtedness.

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Debt Financing

As of December 31, 2008, we had approximately $6.3 billion of outstanding consolidated indebtedness, representing 44.28% of our total consolidated market capitalization as calculated above consisting of (1) $1.472 billion (net of discount) in publicly traded unsecured debt having a weighted-average interest rate of 6.03% per annum and maturities in 2013 and 2015; (2) $450 million of exchangeable senior notes having an interest rate of 3.75% per annum (an effective rate of 3.787% per annum), an initial optional redemption date in 2013 and maturity in 2036; (3) $848.4 million (net of discount) of exchangeable senior notes having an interest rate of 2.875% per annum (an effective rate of 3.462% per annum) having an initial optional redemption in 2012 and maturing in 2037; (4) $740.5 million (net of discount) of exchangeable senior notes having an interest rate of 3.625% per annum (an effective rate of 4.037%) having an initial optional redemption and maturity in 2014; (5) $2.7 billion of property-specific mortgage debt having a GAAP weighted-average interest rate of 6.33% per annum and weighted-average term of 5.1 years; and (6) $100.0 million drawn on our Unsecured Line of Credit. The table below summarizes our outstanding consolidated indebtedness at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
	(dollars in thousands)	
DEBT SUMMARY:		
Balance		
Fixed rate	$ 5,886,424	$ 5,369,243
Variable rate	385,492	122,923
Total	$ 6,271,916	$ 5,492,166
Percent of total debt:		
Fixed rate	93.85%	97.76%
Variable rate	6.15%	2.24%
Total	100.00%	100.00%
GAAP Weighted average interest rate at end of period:		
Fixed rate	5.36%	5.58%
Variable rate	3.62%	6.11%
Total	5.25%	5.60%

The variable rate debt shown above bears interest based on various spreads over the London Interbank Offered Rate (LIBOR) or Eurodollar rates. As of December 31, 2008, the weighted average interest rate on our variable rate debt was LIBOR/Eurodollar plus 0.97% per annum. During 2007, we entered into an interest rate swap contract to fix the one-month LIBOR index rate at 4.57% per annum on a notional amount of $96.7 million. The swap contract went into effect on October 22, 2007 and expired on October 29, 2008.

Unsecured Line of Credit

On June 6, 2008, our Operating Partnership utilized an accordion feature under its Unsecured Line of Credit with a consortium of lenders to increase the total commitment under the Unsecured Line of Credit from $605.0 million to $923.3 million. On July 21, 2008, our Operating Partnership further increased the total commitment to $1.0 billion. All other material terms under the facility remain unchanged. Our Unsecured Line of Credit bears interest at a variable interest rate equal to Eurodollar plus 0.475% per annum and matures on August 3, 2010, with a provision for a one-year extension at our option, subject to certain conditions. There can be no assurance that we will be able to renew and or replace the Unsecured Line of Credit upon maturity on favorable terms (including the lenders total commitment) or at all. The Unsecured Line of Credit is a recourse obligation of our Operating Partnership. Under the Unsecured Line of Credit, a facility fee equal to 0.125% per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in our 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 us at a negotiated LIBOR-based rate.

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 the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days;
- a secured debt leverage ratio not to exceed 55%;
- a fixed charge coverage ratio of at least 1.40;
- an unsecured leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days;
- a minimum net worth requirement;
- an unsecured debt interest coverage ratio of at least 1.75; and
- limitations on permitted investments.

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

As of December 31, 2008, we had borrowings of $100.0 million and letters of credit totaling $15.6 million outstanding under the Unsecured Line of Credit, with the ability to borrow $884.4 million. As of February 23, 2009, we had borrowings of $100.0 million and letters of credit totaling $15.7 million outstanding under the Unsecured Line of Credit, with the ability to borrow $884.3 million.

Unsecured Senior Notes

The following summarizes the unsecured senior notes outstanding as of December 31, 2008 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
10 Year Unsecured Senior Notes	6.250%	6.381%	$ 750,000	January 15, 2013

10 Year Unsecured Senior Notes	6.250%	6.291%	175,000	January 15, 2013
12 Year Unsecured Senior Notes	5.625%	5.693%	300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.194%	250,000	June 1, 2015
Total principal			1,475,000	
Net discount			(2,625)	
Total			$ 1,472,375	

(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 (1) 100% of their principal amount or (2) 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 (or 25 basis points in the case of the $250 million 12 Year Unsecured Senior Notes that mature on June 1, 2015), 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 December 31, 2008, we were in compliance with each of these financial restrictions and requirements.

BPLP s investment grade ratings on its senior unsecured notes are as follows:

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

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.

Unsecured exchangeable senior notes

The following summarizes the unsecured exchangeable senior notes outstanding as of December 31, 2008 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Exchange Rate	Principal Amount	First Optional Redemption Date by Company	Maturity Date
3.625% Exchangeable Senior Notes	3.625%	4.037%	8.5051(2)	$ 747,500	N/A	February 15, 2014
2.875% Exchangeable Senior Notes	2.875%	3.462%	7.0430(3)	862,500	February 20, 2012	February 15, 2037
3.750% Exchangeable Senior Notes	3.750%	3.787%	10.0066(4)	450,000	May 18, 2013	May 15, 2036
Total principal				2,060,000		
Net discount				(21,101)		
Total				$ 2,038,899		

(1) Yield on issuance date including the effects of discounts on the notes.

(2) The initial exchange rate is 8.5051 shares per $1,000 principal amount of the notes (or an initial exchange price of approximately $117.58 per share of our common stock). In addition, we entered into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes. The capped call transactions are expected to have the effect of increasing the effective exchange price to us of the notes from $117.58 to approximately $137.17 per share, representing an overall effective premium of approximately 40% over the closing price on August 13, 2008 of $97.98 per share of our common stock. The net cost of the capped call transactions was approximately $44.4 million.

(3) In connection with the special dividend of $5.98 per share of common stock declared on December 17, 2007, the exchange rate was adjusted from 6.6090 to 7.0430 shares per $1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately $141.98 per share of our common stock.

(4)

In connection with the special dividend of $5.98 per share of common stock declared on December 17, 2007, the exchange rate was adjusted from 9.3900 to 10.0066 shares per $1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately $99.93 per share of our common stock.

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3.625% Exchangeable Senior Notes due 2014

On August 19, 2008, our Operating Partnership completed an offering of $747.5 million in aggregate principal amount (including $97.5 million as a result of the exercise by the initial purchasers of their over-allotment option) of its 3.625% exchangeable senior notes due 2014. The notes were priced at 99.0% of their face amount, resulting in aggregate net proceeds to us, after deducting the initial purchasers discounts and offering expenses, of approximately $731.6 million, resulting in an effective interest rate of approximately 4.037% per annum. The notes mature on February 15, 2014, unless earlier repurchased, exchanged or redeemed.

On and after January 1, 2014, the notes will be exchangeable at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date at the option of the holders into cash up to their principal amount and, at the Operating Partnership s option, cash or shares of our common stock for the remainder, if any, of the exchange value in excess of such principal amount at the applicable exchange rate, which initially equals 8.5051 shares of our common stock per $1,000 principal amount of the notes (equivalent to an exchange price of approximately $117.58 per share of our common stock) and is subject to adjustment in certain circumstances. The initial exchange price of approximately $117.58 per share of our common stock represents an approximately 20% premium to the closing price of our common stock on the New York Stock Exchange on August 13, 2008 of $97.98 per share. Prior to the close of business on the scheduled trading day immediately preceding January 1, 2014, holders of the notes may only exchange their notes at their option under the following circumstances: (1) during the five business day period after any 10 consecutive trading day period (the measurement period) in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the exchange rate on each such day; (2) during any fiscal quarter beginning after the fiscal quarter ended September 30, 2008 if the last reported sale price of our common stock for each of at least 20 trading days in the 30 consecutive trading days ending on, and including, the last day of the preceding fiscal quarter is more than 130% of the applicable exchange price for the notes on the last day of such preceding fiscal quarter; (3) if the Operating Partnership has called such notes for redemption to preserve our status as a real estate investment trust and the redemption has not yet occurred; (4) in connection with specified corporate transactions, including a fundamental change; or (5) if our common stock is delisted. The notes may be accelerated upon an event of default as described in Supplemental Indenture No. 7.

If we undergo a fundamental change, holders of the notes will have the option to require the Operating Partnership to purchase all or any portion of the notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The Operating Partnership will pay cash for all notes so repurchased. The holders of the notes will have the right to exchange their notes at their option in connection with a fundamental change, and, if a fundamental change occurs, the exchange rate may be increased by up to 1.7011 shares of our common stock per $1,000 principal amount of the notes, subject to adjustment in certain circumstances, for a holder who elects to exchange its notes in connection with the fundamental change. The number of additional shares by which the exchange rate will be increased will be determined by reference to a table included in the Operating Partnership s Supplemental Indenture No. 7, based on the date on which the fundamental change occurs or becomes effective and the price paid per share of our common stock in the transaction or event that constitutes such fundamental change. A fundamental change will be deemed to occur upon the consummation of any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in connection with which more than 50% of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration which is not at least 90% common stock (or American Depositary Shares representing shares of common stock) that is either (1) listed on, or immediately after consummation of such transaction or event will be listed on, a United States national securities exchange; or (2) approved, or immediately after the transaction or event will be approved, for listing or quotation on any United States system of automated dissemination of quotations of securities prices similar to a United States national securities exchange.

The notes are senior unsecured obligations of the Operating Partnership and rank equally in right of payment to all existing and future senior unsecured indebtedness and senior in right of payment to any future subordinated indebtedness of the Operating Partnership. The notes effectively rank junior in right of payment to all existing and future secured indebtedness of the Operating Partnership to the extent of the value of the collateral securing such indebtedness. The notes are structurally subordinated to all liabilities of the subsidiaries of the Operating Partnership.

In connection with the closing, we and the Operating Partnership entered into a Registration Rights Agreement with the initial purchasers. Under the Registration Rights Agreement, we and the Operating Partnership have agreed, for the benefit of the holders of the notes, to register the resale of the Common Stock, if any, issued upon exchange of the notes on a shelf registration statement filed with the Securities and Exchange Commission. We and the Operating Partnership may be required to pay liquidated damages of up to 0.50% per annum of additional interest to the holders of the notes if we and the Operating Partnership fail to meet certain deadlines or take certain actions relating to the registration of our common stock issuable upon exchange of the notes. Neither us nor the Operating Partnership will be required to pay liquidated damages with respect to any note after it has been exchanged. Additionally, pursuant to Supplemental Indenture No. 7, to the extent that any shares of our common stock issued upon exchange of the notes are not covered by a resale registration statement that is effective on the date of the exchange and certain other conditions have been met, we must deliver 0.03 additional shares of our common stock upon exchange of the notes for each of such shares.

In connection with the sale of the notes, we and the Operating Partnership also entered into capped call transactions (together, the Capped Call Transaction) with affiliates of certain of the initial purchasers (Bank of America, N.A., Deutsche Bank AG, JPMorgan and Morgan Stanley) (the Option Counterparties). Pursuant to the Capped Call Transaction, the Operating Partnership will have the right to cause the Option Counterparties to deliver shares of our common stock to the Operating Partnership upon exchange of the notes if the value per share of our common stock, as measured under the terms of the Capped Call Transaction, at the time of settlement exceeds an initial strike price of approximately $117.58 per share, subject to certain adjustments similar to those contained in the notes. The Capped Call Transaction is intended to reduce the potential dilution upon future exchange of the notes in the event that the market value per share of our common stock, as measured under the terms of the Capped Call Transaction, at the time of settlement is greater than the strike price of the Capped Call Transaction. If the market value per share of our common stock, as measured under the terms of the Capped Call Transaction, at the time of settlement exceeds the cap price of the Capped Call Transaction (which is initially equal to approximately $137.17 per share), the dilution mitigation will be limited and there would be dilution to the extent that the market value per share of our common stock exceeds the cap price. The Capped Call Transaction is expected to have the effect of increasing the effective exchange price to the Operating Partnership of the notes to the cap price of the Capped Call Transaction, which represents an initial effective premium of approximately 40% over the closing price of our common stock on the New York Stock Exchange on August 13, 2008 of $97.98 per share. The Capped Call Transaction comprises separate contracts entered into by us and the Operating Partnership and with the Option Counterparties and is not part of the terms of the notes and will not affect the holders rights under the notes. The net cost of the Capped Call Transaction was approximately $44.4 million, which was recorded as a reduction to stockholders equity.

2.875% Exchangeable Senior Notes due 2037

On February 6, 2007, our Operating Partnership completed an offering of $862.5 million in aggregate principal amount (including $112.5 million as a result of the exercise by the initial purchasers of their over-allotment option) of its 2.875% exchangeable senior notes due 2037. The notes were priced at 97.433333% of their face amount, resulting in an effective interest rate of approximately 3.438% per annum and net proceeds to us of approximately $840.0 million. The notes mature on February 15, 2037, unless earlier repurchased, exchanged or redeemed.

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Upon the occurrence of specified events, holders of the notes may exchange their notes prior to the close of business on the scheduled trading day immediately preceding February 20, 2012 into cash and, at the Operating Partnership s option, shares of our common stock at an exchange rate of 7.0430 shares per $1,000 principal amount of notes (or an exchange price of approximately $141.98 per share of our common stock). In connection with the special dividend declared on December 17, 2007, the initial exchange rate of 6.6090 was adjusted to 7.0430 shares per $1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately $141.98 per share of our common stock. On and after February 20, 2012, the notes will be exchangeable at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date at the option of the holder at the applicable exchange rate. The initial exchange rate is subject to adjustment in certain circumstances.

Prior to February 20, 2012, the Operating Partnership may not redeem the notes except to preserve our status as a REIT. On or after February 20, 2012, the Operating Partnership may redeem all or a portion of the notes for cash at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Note holders may require the Operating Partnership to repurchase all or a portion of the notes on February 15 of 2012, 2017, 2022, 2027 and 2032 at a purchase price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the repurchase date. The Operating Partnership will pay cash for all notes so repurchased.

If we undergo a fundamental change, note holders will have the option to require the Operating Partnership to purchase all or any portion of the notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change purchase date. The Operating Partnership will pay cash for all notes so purchased. In addition, if a fundamental change occurs prior to February 20, 2012, the Operating Partnership will increase the exchange rate for a holder who elects to exchange its notes in connection with such a fundamental change under certain circumstances.

In connection with the closing, we and our Operating Partnership entered into a Registration Rights Agreement with the initial purchasers, under which we and our Operating Partnership agreed, for the benefit of the holders of the notes, to file with the Securities and Exchange Commission and maintain a shelf registration statement providing for the sale by the holders of the notes and our common stock, if any, issuable upon exchange of the notes. The Operating Partnership will be required to pay liquidated damages in the form of specified additional interest to the holders of the notes if we fail to comply with these obligations; provided that we will not be required to pay liquidated damages with respect to any note after it has been exchanged for any of our common stock. On March 13, 2007, we filed with the SEC a registration statement covering the resale of the notes and shares of common stock issuable upon exchange of the notes. The registration statement was declared effective by the SEC on April 20, 2007.

3.75% Exchangeable Senior Notes due 2036

On April 6, 2006, our Operating Partnership completed a public offering of $400 million in aggregate principal amount of its 3.75% exchangeable senior notes due 2036. On May 2, 2006, the Operating Partnership issued an additional $50 million aggregate principal amount of the notes as a result of the exercise by the underwriter of its over-allotment option. The notes mature on May 15, 2036, unless earlier repurchased, exchanged or redeemed.

Upon the occurrence of specified events, holders of the notes may exchange their notes prior to the close of business on the scheduled trading day immediately preceding May 18, 2013 into cash and, at the Operating Partnership s option, shares of our common stock at an exchange rate of 10.0066 shares per $1,000 principal amount of notes (or an exchange price of approximately $99.93 per share of common stock). The initial exchange rate of 8.9461 shares per $1,000 principal amount of notes and the initial exchange price of approximately $111.78 per share of our common stock were adjusted to 9.3900 and $106.50, respectively, effective as of December 29, 2006 in connection with the special dividend declared on December 15, 2006. In connection with

the special dividend declared on December 17, 2007, the exchange rate was further adjusted from 9.3900 to 10.0066 shares per $1,000 principal amount of notes effective as of December 31, 2007, resulting in the current exchange price of approximately $99.93 per share of our common stock. On and after May 18, 2013, the notes will be exchangeable at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date at the option of the holder at the applicable exchange rate. The exchange rate is subject to adjustment in certain circumstances.

Prior to May 18, 2013, the Operating Partnership may not redeem the notes except to preserve our status as a REIT. On or after May 18, 2013, the Operating Partnership may redeem all or a portion of the notes for cash at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. The Operating Partnership must make at least 12 semi-annual interest payments (including interest payments on November 15, 2006 and May 15, 2013) before redeeming any notes at the option of the Operating Partnership. Note holders may require the Operating Partnership to repurchase all or a portion of the notes on May 18, 2013 and May 15 of 2016, 2021, 2026 and 2031 at a purchase price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the repurchase date. The Operating Partnership will pay cash for all notes so repurchased.

If we undergo a fundamental change, note holders will have the option to require the Operating Partnership to purchase all or any portion of the notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change purchase date. The Operating Partnership will pay cash for all notes so purchased. In addition, if a fundamental change occurs prior to May 18, 2013, the Operating Partnership will increase the exchange rate for a holder who elects to exchange its notes in connection with such a fundamental change under certain circumstances.

Mortgage Debt

The following represents the outstanding principal balances due under the mortgages notes payable at December 31, 2008:

Properties	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Fair Value Adjustment	Carrying Amount	Maturity Date
			(Dollars in thousands)			
599 Lexington Avenue	5.57%	5.41%	$ 750,000	$	$ 750,000(2)(3)	March 1, 2017
Citigroup Center	7.19%	7.24%	475,008	1,480	476,488(4)	May 11, 2011
Embarcadero Center Four	6.10%	7.02%	375,000		375,000(5)	December 1, 2016
South of Market	2.70%	2.93%	183,125		183,125(3)(6)	November 21, 2009
505 9th Street	5.73%	5.87%	130,000		130,000	November 1, 2017
Wisconsin Place Office	3.39%	3.63%	71,693		71,693(3)(7)	January 29, 2011
One Freedom Square	7.75%	5.34%	69,742	3,899	73,641(4)	June 30, 2012
New Dominion Tech Park, Bldg. Two	5.55%	5.58%	63,000		63,000(3)	October 1, 2014
202, 206 & 214 Carnegie Center	8.13%	8.22%	57,300		57,300	October 1, 2010
New Dominion Tech. Park, Bldg. One	7.69%	7.84%	52,561		52,561(3)	January 15, 2021
140 Kendrick Street	7.51%	5.25%	51,992	3,494	55,486(4)	July 1, 2013
Reservoir Place	7.00%	5.84%	48,411	278	48,689(8)	July 1, 2009
1330 Connecticut Avenue	7.58%	4.74%	47,473	2,825	50,298(8)	February 26, 2011
Kingstowne Two and Retail	5.99%	5.61%	40,767	933	41,700(8)	January 1, 2016
10 and 20 Burlington Mall Road	7.25%	7.31%	34,589		34,589(9)	October 1, 2011
Democracy Tower	3.14%	3.33%	30,674		30,674(3)(10)	December 19, 2010
Ten Cambridge Center	8.27%	8.35%	30,593		30,593	May 1, 2010

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Properties	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Fair Value Adjustment	Carrying Principal Amount	Maturity Date
			(Dollars in thousands)			
Sumner Square	7.35%	7.54%	26,242		26,242	September 1, 2013
Montvale Center	5.93%	6.07%	25,000		25,000(3)	June 6, 2012
Eight Cambridge Center	7.73%	7.74%	23,729		23,729	July 15, 2010
1301 New York Avenue	7.14%	7.24%	21,627		21,627(11)	August 15, 2009
Kingstowne One	5.96%	5.68%	19,468	325	19,793(8)	May 5, 2013
University Place	6.94%	6.99%	19,414		19,414	August 1, 2021
Total			$ 2,647,408	$ 13,234	$ 2,660,642	

(1) GAAP interest rate differs from the stated interest rate due to the inclusion of the amortization of financing charges, effects of hedging transactions and adjustments required by EITF 98-1. All adjustments related to EITF 98-1 are noted above.
(2) On December 19, 2006, we terminated the forward-starting interest rate swap contracts related to this financing and received approximately $10.9 million, which amount will reduce our interest expense for this mortgage over the term of the financing, resulting in an effective interest rate of 5.41% per annum for the financing. The stated interest rate is 5.57% per annum. The mortgage loan requires interest only payments with a balloon payment due at maturity.
(3) The mortgage loan requires interest only payments with a balloon payment due at maturity.
(4) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon redemption of the outside members equity interest in the limited liability company that owns the property to reflect the fair value of the note.
(5) On November 13, 2008, we closed on an eight-year, $375.0 million mortgage loan collateralized by Four Embarcadero Center located in San Francisco, California. The mortgage loan bears interest at a fixed rate of 6.10% per annum. Under our interest rate hedging program, we will reclassify into earnings over the eight-year term of the loan as an increase in interest expense approximately $26.4 million (approximately $3.3 million per year) of the amounts recorded on our Consolidated Balance Sheet within Accumulated Other Comprehensive Loss resulting in an effective interest rate of 7.02% per annum.
(6) The construction financing bears interest at a variable rate equal to LIBOR plus 1.00% per annum and matures on November 21, 2009 with two, one year extension options. In addition, we entered into an interest rate swap contract to fix the one-month LIBOR index rate at 4.57% per annum on a notional amount of $96.7 million. The swap contract went into effect on October 22, 2007 and expired on October 29, 2008.
(7) The construction financing bears interest at a variable rate equal to LIBOR plus 1.25% per annum and matures on January 29, 2011 with two, one-year extension options.
(8) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the assumed note.
(9) Includes outstanding indebtedness secured by 91 Hartwell Avenue.
(10) The construction financing bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on December 19, 2010 with two one-year extension options.
(11) Includes outstanding principal in the amounts of $17.7 million, $2.8 million and $1.1 million which bear interest at fixed rates of 6.70%, 8.54% and 6.75% per annum, respectively.

Contractual aggregate principal payments of mortgage notes payable at December 31, 2008 are as follows:

Year	Principal Payments (in thousands)
2009	$ 274,659
2010	161,489
2011	620,808
2012	105,059
2013	100,436
Thereafter	1,384,957

Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Our primary market risk results from our indebtedness, which bears interest at fixed and variable rates. The fair value of our debt obligations are affected by changes in the market interest rates. We manage our market risk by matching long-term leases with long-term, fixed-rate, non-recourse debt of similar duration. We continue to follow a conservative strategy of generally pre-leasing development projects on a long-term basis to creditworthy tenants in order to achieve the most favorable construction and permanent financing terms. Approximately 94% of our outstanding debt has fixed interest rates, which minimizes the interest rate risk through the maturity of such outstanding debt. We also manage our market risk by entering into hedging arrangements with financial institutions. Our primary objectives when undertaking hedging transactions and derivative positions is to reduce our floating rate exposure and to fix a portion of the interest rate for anticipated financing and refinancing transactions. This in turn, reduces the risks that the variability of cash flows imposes on variable rate debt. Our strategy mitigates us against future increases in interest rates.

During 2007, we commenced an interest rate hedging program for our expected financing activity in 2008 and entered into 11 treasury locks based on a weighted-average 10-year treasury rate of 4.68% per annum on notional amounts aggregating $375.0 million. Nine of the treasury locks with notional amounts aggregating $325.0 million matured on April 1, 2008, at which time we cash-settled the contracts and made cash payments to the counterparties totaling approximately $33.5 million. The remaining two treasury locks with notional amounts aggregating $50.0 million matured on July 31, 2008, at which time we cash-settled the contracts and made cash payments to the counterparties totaling approximately $1.3 million. In addition, we entered into five forward-starting interest rate swap contracts to lock the 10-year LIBOR swap rate on notional amounts aggregating $150.0 million at a weighted-average forward-starting 10-year swap rate of 5.19% per annum. The 10-year treasury rate is a component of the 10-year swap rate and the swap contracts effectively fixed the 10-year treasury rate at a weighted-average interest rate of 4.51% per annum. The swap contracts went into effect on July 31, 2008 and were to expire on July 31, 2018. On July 31, 2008 and September 2, 2008, we cash-settled our forward-starting interest rate swap contracts and made aggregate cash payments to the counterparties totaling approximately $8.6 million. Collectively, all of the foregoing contracts were intended to have effectively fixed the 10-year treasury rate at a weighted-average interest rate of 4.63% per annum on notional amounts aggregating $525.0 million. We entered into the treasury locks and interest rate swap contracts designated and qualifying as cash flow hedges to reduce our exposure to the variability in future cash flows attributable to changes in the hedged rate in contemplation of obtaining ten-year fixed-rate financings in 2008.

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. We have formally documented all of our relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking various hedge transactions. We also assess and document, 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 treasury locks and forward-starting interest rate swap contracts were included in the assessment of hedge effectiveness. During the year ended December 31, 2008, we modified the estimated dates with respect to our anticipated financings under the interest rate hedging program. As a result, in the aggregate during the first three quarters of 2008 we recognized a net derivative loss of approximately $3.3 million representing the partial ineffectiveness of the interest rate contracts. In addition, on September 9, 2008, we executed an interest rate lock agreement with lenders at an all-in fixed rate, inclusive of the credit spread, of 6.10% per annum for an eight-year, $375.0 million loan collateralized by our Four Embarcadero Center property located in San Francisco, California. Our interest rate hedging program contemplated a financing with a ten-year term and, as a result, under SFAS No. 133, during the third quarter of 2008 we recognized a net derivative loss of approximately $6.6 million representing the partial ineffectiveness of our interest rate contracts. We will reclassify into earnings over the eight-year term of the Four Embarcadero Center loan as an increase in interest expense approximately $26.4 million (approximately $3.3 million per year) of the amounts recorded on our Consolidated Balance Sheet within Accumulated Other Comprehensive Loss, which amounts represent the effective portion of the applicable interest rate hedging contracts. Our interest rate hedging program also contemplated obtaining additional financing of at least $150.0 million by the end of 2008. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, we determined that we would be unable to complete the financing by the required date under its hedging program. As a result, during the fourth quarter of 2008, we recognized a net derivative loss of approximately $7.2 million representing the ineffectiveness of our remaining interest rate hedging contracts.

On September 27, 2007, we entered into an interest rate swap contract to fix the one-month LIBOR index rate (including a 1.25% spread), at 5.82% per annum on a notional amount of $96.7 million. The swap contract went into effect on October 22, 2007 and expired on October 29, 2008.

At December 31, 2008, our outstanding variable rate debt based on LIBOR totaled approximately $385.5 million. At December 31, 2008, the interest rate on our variable rate debt was approximately 3.62%. If market interest rates on our variable rate debt had been 100 basis points greater, total interest expense would have increased approximately $3.9 million for the year ended December 31, 2008.

These amounts were determined solely by considering the impact of hypothetical interest rates on our financial instruments. Due to the uncertainty of specific actions we may undertake to minimize possible effects of market interest rate increases, this analysis assumes no changes in our financial structure.

Funds from Operations

Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of NAREIT, we calculate Funds from Operations, or FFO, by adjusting net income (loss) (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, joint ventures and preferred distributions. FFO is a non-GAAP financial measure. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing our comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. Amount represents our share, which was 85.49%, 85.32%, 84.40%, 83.74% and 82.97% for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively, after allocation to the minority interest in the Operating Partnership.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO, as adjusted, which excludes the effects of the losses from early extinguishments of debt associated with the sales of real estate. Losses from early extinguishments of debt result when the sale of real estate encumbered by debt requires us to pay the extinguishment costs prior to the debt s stated maturity and to write-off unamortized loan costs at the date of the extinguishment. Such costs are excluded from the gains on sales of real estate reported in accordance with GAAP. However, we view the losses from early extinguishments of debt associated with the sales of real estate as an incremental cost of the sale transactions because we extinguished the debt in connection with the consummation of the sale transactions and we had no intent to extinguish the debt absent such transactions. We believe that adjusting FFO to exclude these losses more appropriately reflects the results of our operations exclusive of the impact of our sale transactions.

Although our FFO, as adjusted, clearly differs from NAREIT s definition of FFO, and may not be comparable to that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance because we believe that by excluding the effects of the losses from early extinguishments of debt associated with the sales of real estate, management and investors are presented with an indicator of our operating performance that more closely achieves the objectives of the real estate industry in presenting FFO.

Neither FFO, nor FFO as adjusted, should be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. Neither FFO nor FFO, as adjusted, represent cash generated from operating activities determined in accordance with GAAP and neither of these measures is a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO and FFO, as adjusted, 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.

The following table presents a reconciliation of net income available to common shareholders to FFO and FFO, as adjusted, for the years ended December 31, 2008, 2007, 2006, 2005 and 2004:

	Year ended December 31,				
	2008	**2007**	**2006** (in thousands)	**2005**	**2004**
Net income available to common shareholders	$ 125,232	$ 1,324,690	$ 873,635	$ 438,292	$ 284,017
Add:					
Cumulative effect of a change in accounting principle, net of minority interest				4,223	
Minority interest in Operating Partnership	22,006	64,916	69,999	71,498	65,086
Less:					
Gains on sales of real estate from discontinued operations, net of minority interest		220,350		47,656	27,338
Income from discontinued operations, net of minority interest		6,206	16,104	15,327	16,292
Gains on sales of real estate and other assets, net of minority interest	28,502	789,238	606,394	151,884	8,149
Income (loss) from unconsolidated joint ventures	(182,018)	20,428	24,507	4,829	3,380
Minority interests in property partnerships	(1,997)	(84)	2,013	6,017	4,685
Income before minority interests in property partnerships, income (loss) from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and other assets, discontinued operations and cumulative effect of a change in accounting principle	302,751	353,468	294,616	288,300	289,259
Add:					
Real estate depreciation and amortization(1)	382,600	295,635	283,350	274,476	257,319
Income from discontinued operations		7,274	19,081	18,303	19,843
Income (loss) from unconsolidated joint ventures(2)	(182,018)	4,975	6,590	4,829	3,380
Less:					
Minority interests in property partnerships share of Funds from Operations	3,949	437	479	113	922
Preferred distributions(3)	3,738	4,266	9,418	12,918	15,050
Funds from Operations	495,646	656,649	593,740	572,877	553,829
Add:					
Losses from early extinguishments of debt associated with the sales of real estate		2,675	31,444	11,041	
Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	495,646	659,324	625,184	583,918	553,829
Less:					
Minority interest in Operating Partnership s share of Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	71,895	96,808	97,519	94,946	94,332
Funds from Operations available to common shareholders after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	$ 423,751	$ 562,516	$ 527,665	$ 488,972	$ 459,497
Our percentage share of Funds from Operations basic	85.49%	85.32%	84.40%	83.74%	82.97%
Weighted average shares outstanding basic	119,980	118,839	114,721	111,274	106,458

(1) Real estate depreciation and amortization consists of depreciation and amortization from the Consolidated Statements of Operations of $304,147, $286,030, $270,562, $260,979 and $244,589, our share of unconsolidated joint venture real estate depreciation and amortization of $80,303, $8,247, $9,087, $8,554 and $6,814, and depreciation and amortization from discontinued operations of $0, $2,948, $6,197, $6,662 and $8,352, less corporate related depreciation and amortization of $1,850, $1,590, $1,584, $1,719 and $2,436 and adjustment of asset retirement obligations of $0, $0, $912, $0 and $0 for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

(2) Includes non-cash impairment losses aggregating approximately $168.0 million for the year ended December 31, 2008 in accordance with APB No. 18 The Equity Method of Accounting for Investments in Common Stock. Excludes approximately $15.5 million related to our share of the gain on sale and related loss from early extinguishment of debt associated with the sale of Worldgate Plaza for the year ended December 31, 2007. Excludes approximately $17.9 million related to our share of the gain on sale and related loss from early extinguishment of debt associated with the sale of 265 Franklin Street for the year ended December 31, 2006.

(3) Excludes approximately $5.6 million, $12.2 million and $12.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, 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 dividends that followed previously completed sales of real estate.

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Reconciliation to Diluted Funds from Operations:

	For the years ended December 31,									
	2008		2007		2006		2005		2004	
	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)
Basic Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	$ 495,646	140,336	$ 659,324	139,290	$ 625,184	135,923	$ 583,918	132,881	$ 553,829	128,313
Effect of Dilutive Securities:										
Convertible Preferred Units(1)	3,738	1,461	4,266	1,674	9,418	3,629	12,918	5,163	15,050	6,054
Stock Options and other		1,319		1,941		2,356		2,285		2,303
Diluted Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	$ 499,384	143,116	$ 663,590	142,905	$ 634,602	141,908	$ 596,836	140,329	$ 568,879	136,670
Less: Minority interest in Operating Partnership s share of diluted Funds from Operations	71,031	20,357	94,970	20,451	94,813	21,202	91,896	21,607	90,970	21,854
Diluted Funds from Operations available to common shareholders after supplemental adjustment to exclude losses	$ 428,353	122,759	$ 568,620	122,454	$ 539,789	120,706	$ 504,940	118,722	$ 477,909	114,816

from early extinguishments of debt associated with the sales of real estate(2)

(1) Excludes approximately $5.6 million, $12.2 million and $12.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, 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 dividends that followed previously completed sales of real estate.

(2) Our share of diluted Funds from Operations was 85.78%, 85.69%, 85.06%, 84.60% and 84.01% for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

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Net Operating Income

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, net derivative losses, losses from investment in securities, losses from early extinguishments of debt, cumulative effect of a change in accounting principle (net of minority interest), depreciation and amortization, interest expense and general and administrative expense, less gains on sales of real estate from discontinued operations (net of minority interest), income from discontinued operations (net of minority interest), gains on sales of real estate and other assets (net of minority interest), income (loss) from unconsolidated joint ventures, minority interests in property partnerships, interest and other income and development and management services revenue. We use NOI internally as a performance measure and believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets.

Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing 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 and real estate companies 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.

The following sets forth a reconciliation of NOI to net income available to common shareholders for the fiscal years 2004 through 2008.

	Years ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Net operating income	$ 923,384	$ 888,425	$ 898,459	$ 896,449	$ 869,138
Add:					
Development and management services	30,518	20,553	19,820	17,310	20,440
Interest and other	18,958	89,706	36,677	11,978	10,334
Minority interests in property partnerships	(1,997)	(84)	2,013	6,017	4,685
Income (loss) from unconsolidated joint ventures	(182,018)	20,428	24,507	4,829	3,380
Gains on sales of real estate and other assets, net of minority interest	28,502	789,238	606,394	151,884	8,149
Income from discontinued operations, net of minority interest		6,206	16,104	15,327	16,292
Gains on sales of real estate from discontinued operations, net of minority interest		220,350		47,656	27,338
Less:					
General and administrative	72,365	69,882	59,375	55,471	53,636
Interest expense	271,972	285,887	298,260	308,091	306,170
Depreciation and amortization	304,147	286,030	270,562	260,979	244,589
Net derivative losses	17,021				
Losses from investments in securities	4,604				
Losses from early extinguishments of debt		3,417	32,143	12,896	6,258
Minority interest in Operating Partnership	22,006	64,916	69,999	71,498	65,086
Cumulative effect of a change in accounting principle, net of minority interest				4,223	
Net income available to common shareholders	$ 125,232	$ 1,324,690	$ 873,635	$ 438,292	$ 284,017

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Contractual Obligations

As of December 31, 2008, we were subject to contractual payment obligations as described in the table below.

	Payments Due by Period						
	Total	2009	2010	2011	2012	2013	Thereafter
	(Dollars in thousands)						
Contractual Obligations:							
Long-term debt							
Mortgage debt(1)	$ 3,516,504	$ 429,263	$ 304,022	$ 732,326	$ 195,845	$ 184,449	$ 1,670,599
Unsecured senior notes(1)	1,926,096	87,188	87,188	87,188	87,188	983,281	594,063
Exchangeable senior notes(1)	2,356,729	68,769	68,769	68,769	912,671	483,477	754,274
Unsecured line of credit(1)	105,635		105,635				
Ground leases	140,543	9,174	11,471	11,496	11,522	11,548	85,332
Tenant obligations(2)	98,417	78,963	16,752	2,422		280	
Construction contracts on development projects	754,795	393,178	247,634	97,122	16,861		
Other Obligations(3)	27,180	25,116	116	977	116	116	739
Total Contractual Obligations	$ 8,925,899	$ 1,091,651	$ 841,587	$ 1,000,300	$ 1,224,203	$ 1,663,151	$ 3,105,007

(1) Amounts include principal and interest payments.
(2) Committed tenant-related obligations based on executed leases as of December 31, 2008 (tenant improvements and lease commissions).
(3) Primarily represents the remaining obligation related to our redemption of partnership interests in Citigroup Center.

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 that may extend beyond one year and that vary based on usage. These contracts are not included as part of our contractual obligations because they include terms that provide for cancellation with insignificant or no cancellation penalties. Contract terms are generally one year or less.

Off-Balance Sheet Arrangements

Joint Ventures

We have investments in twelve unconsolidated joint ventures (including our investment in the Value-Added Fund) with our effective ownership interests ranging from 23.89% to 60%, all of which have mortgage indebtedness. We exercise significant influence over, but do not control, these entities and therefore they are presently accounted for using the equity method of accounting. See also Note 5 to the Consolidated Financial Statements. At December 31, 2008, the debt related to these ventures was equal to approximately $3.2 billion. The table below summarizes the outstanding debt of these joint venture properties at December 31, 2008:

Properties	Maturity Date

	Venture Ownership %	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Fair Value Adjustment	Carrying Amount	
				(Dollars in thousands)			
General Motors Building:							
Secured 1st Mortgage	60%	5.95%	6.50%	$ 1,300,000	$ (53,834)	$ 1,246,166(2)	October 7, 2017
Mezzanine Loan	60%	6.02%	8.00%	306,000	(43,084)	262,916(2)(3)	October 7, 2017
Partner Loans	60%	11.00%	11.00%	450,000		450,000(4)	June 9, 2017

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Properties	Venture Ownership %	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Fair Value Adjustment	Carrying Amount	Maturity Date
				(Dollars in thousands)			
125 West 55th Street:							
Secured 1st Mortgage	60%	5.75%	6.07%	200,000	(1,696)	198,304(2)	March 1, 2010
Mezzanine Loan	60%	7.81%	10.82%	63,500	(1,037)	62,463(2)	March 1, 2010
Two Grand Central Tower	60%	5.10%	6.20%	190,000	(2,933)	187,067(2)	July 11 , 2010
540 Madison Avenue	60%	5.20%	6.75%	119,800	(6,813)	112,987(2)	July 11, 2013
Metropolitan Square	51%	6.23%	8.23%	126,645		126,645	May 1, 2010
Market Square North	50%	7.70%	7.74%	85,617		85,617	December 19, 2010
Eighth Avenue and 46th Street	50%	4.73%	5.23%	23,600		23,600(5)	May 8, 2009
Annapolis Junction	50%	2.83%	2.97%	38,826		38,826	September 12, 2010
Mountain View Tech. Park	39.5%	3.97%	4.31%	24,038		24,038(6)(7)	March 31, 2011
Mountain View Research Park	39.5%	3.13%	3.37%	106,350		106,350(6)(8)	May 31, 2011
901 New York Avenue	25%	5.19%	5.27%	167,784		167,784	January 1, 2015
One & Two Circle Star Way	25%	6.57%	6.67%	42,000		42,000(6)	September 1, 2013
300 Billerica Road	25%	5.69%	6.04%	7,500		7,500(6)	January 1, 2016
Wisconsin Place Retail	5%	4.28%	4.48%	47,286		47,286(9)	March 29, 2010
Total				$ 3,298,946	$ (109,397)	$ 3,189,549	

(1) GAAP interest rate differs from the stated interest rate due to the inclusion of the amortization of financing charges and adjustments required by EITF 98-1. All adjustments related to EITF 98-1 are noted above.
(2) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the assumed note.
(3) Principal amount does not include the assumed mezzanine loan with an aggregate principal amount of $294.0 million and a stated rate of 6.02% per annum, as the venture acquired the lenders interest in this loan for a purchase price of approximately $263.1 million in cash.
(4) In connection with the capitalization of the joint venture, loans in an aggregate of $450.0 million were funded by the venture s partners on a pro-rata basis. Our share of the partner loans totaling $270.0 million has been reflected in Related Party Note Receivable on our Consolidated Balance Sheets.
(5) The financing bears interest at a variable rate equal to LIBOR plus 2.25% per annum.
(6) This property is owned by the Value-Added Fund.
(7) Mortgage financing totals $26.0 million (of which approximately $24.0 million has been disbursed as of December 31, 2008). The mortgage bears interest at a variable rate of LIBOR plus 1.50% and matures on March 31, 2011 with two, one-year extension options. The Value-Added Fund has entered into an interest rate swap contract to fix the one-month LIBOR index rate at 4.085% per annum on a notional amount of $24 million. The swap contract went into effect on June 12, 2008 and expires on March 31, 2011.
(8) Mortgage financing totals $120.0 million (of which $103.0 million was drawn at closing, $3.3 million was drawn to fund tenant and capital costs, with the remaining $13.7 million available to fund future tenant and capital costs). The mortgage bears interest at a variable rate of LIBOR plus 1.75% and matures on May 31, 2011 with two, one-year extension options. The Value-Added Fund has entered into three interest rate swap contracts to fix the one-month LIBOR index rate at 3.63% per annum on an aggregate notional amount of $103 million. The swap contracts went into effect on June 2, 2008 and expire on April 1, 2011.
(9) Amount represents outstanding construction financing under a $66.0 million loan commitment collateralized by the retail entity of Wisconsin Place. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties located in Chevy Chase, Maryland. The construction financing bears interest at a variable rate equal to LIBOR plus 1.375% per annum and matures on March 29, 2010 with two, one-year extension options.

Environmental Matters

It is our policy to retain independent environmental consultants to conduct or update Phase I environmental assessments (which generally do not involve invasive techniques such as soil or ground water sampling) and asbestos surveys in connection with our acquisition of properties. These pre-purchase environmental assessments have not revealed environmental conditions that we believe will have a material adverse effect on our business, assets, financial condition, results of operations or liquidity, and we are not otherwise aware of environmental conditions with respect to our properties that we believe would have such a material adverse effect. However, from time to time environmental conditions at our properties have required and may in the future require environmental testing and/or regulatory filings, as well as remedial action.

In February 1999, we (through a joint venture) acquired from Exxon Corporation a property in Massachusetts that was formerly used as a petroleum bulk storage and distribution facility and was known by the state regulatory authority to contain soil and groundwater contamination. We developed an office park on the property. We engaged a specially licensed environmental consultant to oversee the management of contaminated soil and groundwater that was disturbed in the course of construction. Under the property acquisition agreement, Exxon agreed to (1) bear the liability arising from releases or discharges of oil and hazardous substances which occurred at the site prior to our ownership, (2) continue monitoring and/or remediating such releases and discharges as necessary and appropriate to comply with applicable requirements, and (3) indemnify us for certain losses arising from preexisting site conditions. Any indemnity claim may be subject to various defenses, and there can be no assurance that the amounts paid under the indemnity, if any, would be sufficient to cover the liabilities arising from any such releases and discharges.

Environmental investigations at some of our properties and certain properties owned by our affiliates have identified groundwater contamination migrating from off-site source properties. In each case we engaged a licensed environmental consultant to perform the necessary investigations and assessments, and to prepare any required submittals to the regulatory authorities. In each case the environmental consultant concluded that the properties qualify under the regulatory program or the regulatory practice for a status which eliminates certain deadlines for conducting response actions at a site. We also believe that these properties qualify for liability relief under certain statutory provisions or regulatory practices regarding upgradient releases. Although we believe that the current or former owners of the upgradient source properties may bear responsibility for some or all of the costs of addressing the identified groundwater contamination, we will take such further response actions (if any) that we deem necessary or advisable. Other than periodic testing at some of these properties, no such additional response actions are anticipated at this time.

Some of our properties and certain properties owned by our affiliates are located in urban, industrial and other previously developed areas where fill or current or historical uses of the areas have caused site contamination. Accordingly, it is sometimes necessary to institute special soil and/or groundwater handling procedures and/or include particular building design features in connection with development, construction and other property operations in order to achieve regulatory closure and/or ensure that contaminated materials are addressed in an appropriate manner. In these situations it is our practice to investigate the nature and extent of detected contamination and estimate the costs of required response actions and special handling procedures. We then use this information as part of our decision-making process with respect to the acquisition and/or development of the property. For example, we own a parcel in Massachusetts which was formerly used as a quarry/asphalt batching facility. Pre-purchase testing indicated that the site contained relatively low levels of certain contaminants. We have engaged a specially licensed environmental consultant to monitor environmental conditions at the site and prepare necessary regulatory submittals based on the results of an environmental risk characterization. A submittal has been made to the regulatory authorities in order to achieve regulatory closure at this site. The submittal included an environmental deed restriction that mandates compliance with certain protective measures in a portion of the site where low levels of residual soil contamination have been left in place in accordance with applicable laws. Development activities have commenced on the site and this work will be performed in accordance with the environmental deed restriction and other environmental requirements applicable to the site.

We expect that resolution of the environmental matters relating to the above will not have a material impact on our business, assets, financial condition, results of operations or liquidity. However, we cannot assure you that we have identified all environmental liabilities at our properties, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that such environmental liabilities arise.

Newly Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value and establishes a framework for measuring fair value, which includes a hierarchy based on the quality of inputs used to measure fair value. SFAS No. 157 also expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 requires the categorization of financial assets and liabilities, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs. SFAS No. 157 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. The levels of the SFAS No. 157 fair value hierarchy are described as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.

Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

SFAS No. 157 became effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB deferred the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also removed certain leasing transactions from the scope of SFAS No. 157. On January 1, 2008, we adopted SFAS No. 157. We have financial instruments consisting of investments in securities and interest rate contracts that are required to be measured under SFAS No. 157. We currently do not have any non-financial assets or non-financial liabilities that are required to be measured under SFAS No. 157. We do not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 became effective for fiscal years beginning after November 15, 2007. On January 1, 2008, we adopted SFAS No. 159 and have currently not elected to measure any financial instruments or other items (not currently required to be measured at fair value) at fair value.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)), which establishes principles and requirements for how the acquirer shall recognize and measure in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill acquired in a business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect the adoption of SFAS No. 141(R) to have a material impact on our financial position and results of operations

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 (SFAS No. 160), which establishes and expands accounting and reporting standards for minority interests, which will be recharacterized as noncontrolling interests, in a subsidiary and the deconsolidation of a subsidiary. SFAS No. 160 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after

December 15, 2008. This statement is effective for fiscal years beginning on or after December 15, 2008. We are currently assessing the potential impact that the adoption of SFAS No. 160 will have on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows. These disclosure requirements include a tabular summary of the fair values of derivative instruments and their gains and losses, disclosure of derivative features that are credit risk related to provide more information regarding an entity s liquidity and cross-referencing within footnotes to make it easier for financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. We do not expect the adoption of SFAS No. 161 to have a material impact to us.

On May 9, 2008, the FASB issued FASB Staff Position No. (FSP) APB 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP No. APB 14-1) that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. FSP No. APB 14-1 requires that the initial proceeds from the sale of Boston Properties Limited Partnership s $862.5 million of 2.875% exchangeable senior notes due 2037, $450.0 million of 3.75% exchangeable senior notes due 2036 and $747.5 million of 3.625% exchangeable senior notes due 2014 be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt. The resulting debt discount will be amortized over the period during which the debt is expected to be outstanding (i.e., through the first optional redemption dates) as additional non-cash interest expense. Based on our understanding of the application of FSP No. APB 14-1, this will result in an aggregate of approximately $0.15 $0.16 per share (net of incremental capitalized interest) of additional non-cash interest expense for fiscal 2008 and approximately $0.23 $0.24 per share for fiscal 2009. Excluding the impact of capitalized interest, the additional non-cash interest expense will be approximately $0.19 $0.20 per share for fiscal 2008 and approximately $0.27 $0.28 per share for fiscal 2009. The additional non-cash interest expense (before netting) will increase in subsequent reporting periods through the first optional redemption dates as the debt accretes to its par value over the same period. FSP No. APB 14-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. Upon adoption FSP No. APB 14-1 requires companies to retrospectively apply the requirements of the pronouncement to all periods presented. Our current estimate of the incremental interest expense excluding the impact of capitalized interest for each reporting period is as follows:

For the year ended December 31:	**Approximate Amount (in thousands)**
2006	$ 4,200
2007	19,300
2008	27,700
2009	38,600
2010	41,200
2011	43,900
2012	29,800
2013	23,000
2014	2,500

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162), which is intended to improve financing reporting by identifying a consistent framework or hierarchy for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the Securities and Exchange Commission s (SEC) approval of the Public Company Accounting Oversight Board amendment to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect the adoption of SFAS No. 162 to have a material impact on us.

In June 2008, the FASB issued FSP EITF 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-06-1). FSP EITF 03-06-1 clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FSP EITF 03-06-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of the FSP. Early application is not permitted. We do not expect the adoption of FSP EITF 03-06-1 to have a material impact on us.

Inflation

Substantially all of our leases provide for separate real estate tax and operating expense escalations over a base amount. In addition, many of our leases provide for fixed base rent increases or indexed increases. We believe that inflationary increases in costs may be at least partially offset by the contractual rent increases and operating expense escalations.

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Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

As of December 31, 2008, approximately $5.9 billion of our borrowings bore 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 as of December 31, 2008 with corresponding weighted-average interest rates sorted by maturity date and our aggregate variable rate debt obligations sorted by maturity date. The GAAP weighted average interest rate on the variable rate debt as of December 31, 2008 was 3.62% per annum.

	2009	2010	2011	2012	2013	2014+	Total	Fair Value
				(dollars in thousands)				
Secured debt								
Fixed Rate	$ 95,685	$ 134,803	$ 551,720	$ 106,642	$ 101,068	$ 1,385,232	$ 2,375,150	$ 2,239,309
Average Interest Rate	6.38%	7.83%	7.02%	5.68%	6.03%	5.97%	6.33%	
Variable Rate	183,125	30,674	71,693				$ 285,492	$ 282,263
Unsecured debt								
Fixed Rate					$ 923,580	$ 548,795	$ 1,472,375	$ 1,202,875
Average Interest Rate					6.36%	5.47%	5.95%	
Variable Rate		100,000					$ 100,000	$ 100,111
Unsecured exchangeable debt								
Fixed Rate				$ 848,410	$ 450,000	$ 740,489	$ 2,038,899	$ 1,571,536
Average Interest Rate				3.46%	3.79%	4.04%	3.65%	
Variable Rate								
Total Debt	**$ 278,810**	**$ 265,477**	**$ 623,413**	**$ 955,052**	**$ 1,474,648**	**$ 2,674,516**	**$ 6,271,916**	**$ 5,396,094**

Additional disclosure about market risk is incorporated herein by reference from Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Market Risk.

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Item 8. ***Financial Statements and Supplementary Data***

BOSTON PROPERTIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules for which a provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Management s Report on Internal Control over

Financial Reporting

Management of Boston Properties, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the Company s 2008 fiscal year, management conducted assessments of the effectiveness of the Company s internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on these assessments, management has determined that the Company s internal control over financial reporting as of December 31, 2008 was effective.

Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on our financial statements.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page 103, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2008.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

of Boston Properties, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Boston Properties, Inc. and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing on page 102. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts

March 2, 2009

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BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2008	December 31, 2007
ASSETS		
Real estate, at cost:	$ 10,618,344	$ 10,249,895
Less: accumulated depreciation	(1,768,785)	(1,531,707)
Total real estate	8,849,559	8,718,188
Cash and cash equivalents	241,510	1,506,921
Cash held in escrows	21,970	186,839
Investment in securities	11,590	22,584
Tenant and other receivables (net of allowance for doubtful accounts of $4,006 and $1,901, respectively)	68,743	58,074
Related party note receivable	270,000	
Accrued rental income (net of allowance of $15,440 and $829, respectively)	316,711	300,594
Deferred charges, net	326,401	287,199
Prepaid expenses and other assets	22,401	30,566
Investments in unconsolidated joint ventures	782,760	81,672
Total assets	$ 10,911,645	$ 11,192,637
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	$ 2,660,642	$ 2,726,127
Unsecured senior notes (net of discount of $2,625 and $3,087, respectively)	1,472,375	1,471,913
Unsecured exchangeable senior notes (net of discount of $21,101 and $18,374, respectively)	2,038,899	1,294,126
Unsecured line of credit	100,000	
Accounts payable and accrued expenses	171,791	145,692
Dividends and distributions payable	97,162	944,870
Accrued interest payable	67,132	54,487
Other liabilities	173,750	232,705
Total liabilities	6,781,751	6,869,920
Commitments and contingencies		
Minority interests	598,627	653,892
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, 121,259,555 and 119,581,385 issued and 121,180,655 and 119,502,485 outstanding in 2008 and 2007, respectively	1,212	1,195
Additional paid-in capital	3,369,850	3,305,219
Earnings in excess of dividends	192,843	394,324
Treasury common stock at cost, 78,900 shares in 2008 and 2007	(2,722)	(2,722)
Accumulated other comprehensive loss	(29,916)	(29,191)
Total stockholders' equity	3,531,267	3,668,825

Total liabilities and stockholders' equity	$ 10,911,645	$ 11,192,637

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2008	2007	2006
	(In thousands, except for per share amounts)		
Revenue			
Rental:			
Base rent	$ 1,129,215	$ 1,084,308	$ 1,092,545
Recoveries from tenants	204,732	184,929	178,491
Parking and other	68,105	64,982	57,080
Total rental revenue	1,402,052	1,334,219	1,328,116
Hotel revenue	36,872	37,811	33,014
Development and management services	30,518	20,553	19,820
Interest and other	18,958	89,706	36,677
Total revenue	1,488,400	1,482,289	1,417,627
Expenses			
Operating			
Rental	488,030	455,840	437,705
Hotel	27,510	27,765	24,966
General and administrative	72,365	69,882	59,375
Interest	271,972	285,887	298,260
Depreciation and amortization	304,147	286,030	270,562
Net derivative losses	17,021		
Losses from investments in securities	4,604		
Losses from early extinguishments of debt		3,417	32,143
Total expenses	1,185,649	1,128,821	1,123,011
Income before minority interests in property partnerships, income (loss) from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and other assets and discontinued operations	302,751	353,468	294,616
Minority interests in property partnerships	(1,997)	(84)	2,013
Income (loss) from unconsolidated joint ventures	(182,018)	20,428	24,507
Income before minority interest in Operating Partnership, gains on sales of real estate and other assets and discontinued operations	118,736	373,812	321,136
Minority interest in Operating Partnership	(22,006)	(64,916)	(69,999)
Income before gains on sales of real estate and other assets and discontinued operations	96,730	308,896	251,137
Gains on sales of real estate and other assets, net of minority interest	28,502	789,238	606,394
Income before discontinued operations	125,232	1,098,134	857,531
Discontinued operations:			
Income from discontinued operations, net of minority interest		6,206	16,104
Gains on sales of real estate from discontinued operations, net of minority interest		220,350	
Net income available to common shareholders	$ 125,232	$ 1,324,690	$ 873,635
Basic earnings per common share:			
Income available to common shareholders before discontinued operations	$ 1.04	$ 9.20	$ 7.48
Discontinued operations, net of minority interest		1.91	0.14

Net income available to common shareholders	$	1.04	$	11.11	$	7.62
Weighted average number of common shares outstanding		119,980		118,839		114,721
Diluted earnings per common share:						
Income available to common shareholders before discontinued operations	$	1.03	$	9.06	$	7.32
Discontinued operations, net of minority interest				1.88		0.14
Net income available to common shareholders	$	1.03	$	10.94	$	7.46
Weighted average number of common and common equivalent shares outstanding		121,299		120,780		117,077

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Additional	Earnings in	Treasury	Accumulated Other	
	Shares	Amount	Paid-in Capital	excess of Dividends	Stock, at cost	Comprehensive Loss	Total
Stockholders' Equity, December 31, 2005	112,542	$ 1,125	$ 2,745,719	$ 182,105	$ (2,722)	$ (8,881)	$ 2,917,346
Conversion of operating partnership units to Common Stock	3,162	32	287,321				287,353
Allocation of minority interest			20,020				20,020
Net income for the year				873,635			873,635
Dividends declared				(947,585)			(947,585)
Shares issued pursuant to stock purchase plan	8		526				526
Net activity from stock option and incentive plan	1,791	18	66,355				66,373
Effective portion of interest rate contracts						4,860	4,860
Amortization of interest rate contracts						698	698
Stockholders' Equity, December 31, 2006	117,503	1,175	3,119,941	108,155	(2,722)	(3,323)	3,223,226
Conversion of operating partnership units to Common Stock	1,342	13	143,297				143,310
Allocation of minority interest			15,844				15,844
Net income for the year				1,324,690			1,324,690
Dividends declared				(1,038,521)			(1,038,521)
Shares issued pursuant to stock purchase plan	6		1,241				1,241
Net activity from stock option and incentive plan	651	7	24,896				24,903
Effective portion of interest rate contracts						(25,656)	(25,656)
Amortization of interest rate contracts						(212)	(212)
Stockholders' Equity, December 31, 2007	119,502	1,195	3,305,219	394,324	(2,722)	(29,191)	3,668,825
Conversion of operating partnership units to Common Stock	630	7	32,540				32,547
Allocation of minority interest			37,582				37,582
Net income for the year				125,232			125,232
Dividends declared				(326,713)			(326,713)
Shares issued pursuant to stock purchase plan	8		713				713
Net activity from stock option and incentive plan	1,041	10	38,156				38,166
Capped call transaction costs			(44,360)				(44,360)
Effective portion of interest rate contracts						(727)	(727)
Amortization of interest rate contracts						2	2
Stockholders' Equity, December 31, 2008	121,181	$ 1,212	$ 3,369,850	$ 192,843	$ (2,722)	$ (29,916)	$ 3,531,267

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

	For the year ended December 31,		
	2008	2007	2006
		(in thousands)	
Net income available to common shareholders	$ 125,232	$ 1,324,690	$ 873,635
Other comprehensive income (loss):			
Net effective portion of interest rate contracts	(727)	(25,656)	4,860
Amortization of interest rate contracts	2	(212)	698
Other comprehensive income (loss)	(725)	(25,868)	5,558
Comprehensive income	$ 124,507	$ 1,298,822	$ 879,193

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2008	2007	2006
		(in thousands)	
Cash flows from operating activities:			
Net income available to common shareholders	$ 125,232	$ 1,324,690	$ 873,635
Adjustments to reconcile net income available to common shareholders to net cash provided by operating activities:			
Depreciation and amortization	304,147	288,978	276,759
Non-cash portion of interest expense	11,570	9,397	7,111
Non-cash compensation expense	23,106	12,358	8,578
Non-cash rental revenue	(2,023)		
Losses on investments in securities	4,604		
Net derivative losses	17,021		
Losses from early extinguishments of debt		838	31,877
Minority interests in property partnerships	1,997	84	(2,013)
(Income) loss from unconsolidated joint ventures	182,018	(20,428)	(24,507)
Distributions of net cash flow from operations of unconsolidated joint ventures	9,589	7,157	8,205
Minority interest in Operating Partnership	26,844	245,700	186,408
Gains on sales of real estate and other assets	(33,340)	(1,189,304)	(719,826)
Change in assets and liabilities:			
Cash held in escrows	3,548	(2,564)	(166)
Tenant and other receivables, net	2,663	(1,341)	(7,051)
Accrued rental income, net	(20,001)	(38,303)	(53,989)
Prepaid expenses and other assets	(2,642)	10,686	4,319
Accounts payable and accrued expenses	5,762	3,833	(2,502)
Accrued interest payable	12,645	7,046	(470)
Other liabilities	(54,023)	5,318	(9,735)
Tenant leasing costs	(57,809)	(34,767)	(48,654)
Total adjustments	435,676	(695,312)	(345,656)
Net cash provided by operating activities	560,908	629,378	527,979
Cash flows from investing activities:			
Acquisitions/additions to real estate	(575,974)	(1,132,594)	(642,024)
Investments in securities		(22,584)	(282,764)
Proceeds from redemptions of investments in securities	14,697		
Net investments in unconsolidated joint ventures	(896,027)	(7,790)	23,566
Cash recorded upon consolidation		3,232	
Net proceeds from the sale/financing of real estate placed in escrow		(161,321)	(872,063)
Net proceeds from the sale/financing of real estate released from escrow	161,321		872,063
Issuance of note receivable	(270,000)		
Proceeds from note receivable	123,000		
Net proceeds from the sales of real estate and other assets	127,307	1,897,988	1,130,978
Net cash provided by (used in) investing activities	(1,315,676)	576,931	229,756

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2008	2007	2006
		(in thousands)	
Cash flows from financing activities:			
Borrowings on unsecured line of credit	1,391,000	260,000	195,000
Repayments of unsecured line of credit	(1,291,000)	(260,000)	(253,000)
Repayments of mortgage notes payable	(603,054)	(1,196,618)	(408,139)
Proceeds from mortgage notes payable	537,569	1,097,369	41,887
Proceeds from unsecured exchangeable senior notes	740,025	840,363	450,000
Proceeds from real estate financing transactions		1,610	21,195
Payments on real estate financing transactions	(6,208)	(10,610)	(5,987)
Advance from joint venture partners	30,000		
Repayment of advance from joint venture partners	(30,000)		
Dividends and distributions	(1,235,767)	(1,143,470)	(391,613)
Proceeds from equity transactions	37,410	23,479	63,418
Capped call transaction costs	(44,360)		
Contributions from (distributions to) minority interest holders, net	(20,909)	4,304	11,404
Redemption of minority interest		(35,625)	(14,891)
Deferred financing costs	(15,349)	(5,978)	(2,717)
Net cash used in financing activities	(510,643)	(425,176)	(293,443)
Net increase (decrease) in cash and cash equivalents	(1,265,411)	781,133	464,292
Cash and cash equivalents, beginning of period	1,506,921	725,788	261,496
Cash and cash equivalents, end of period	$ 241,510	$ 1,506,921	$ 725,788
Supplemental disclosures:			
Cash paid for interest	$ 289,640	$ 300,490	$ 297,540
Interest capitalized	$ 41,883	$ 31,046	$ 5,921
Non-cash investing and financing activities:			
Additions to real estate included in accounts payable	$ 18,075	$ 3,827	$ 4,419
Mortgage notes payable assumed in connection with the acquisition of real estate	$	$ 65,224	$