Annual Report 2000

Boston Properties

On the cover are four major 2000 projects featured in this Annual Report (clockwise from top left): Embarcadero Center, San Francisco, CA; Times Square Tower, New York, NY; 111 Huntington Avenue at the Prudential Center, Boston, MA and Two Freedom Square, Reston, VA.

COMPANY DESCRIPTION

Boston Properties, Inc., a self-administered and self-managed real estate investment trust (REIT), is one of the largest owners, managers and developers of first-class office properties in the United States, with a significant presence in four core markets: Boston, Washington, D.C., Midtown Manhattan and San Francisco.

Boston Properties was founded in 1970 in Boston, where it maintains its headquarters. The Company acquires, develops and manages its properties through full-service regional offices in Boston, New York City, Washington, D.C., Princeton, New Jersey, and San Francisco. Its property portfolio primarily comprises first-class office space and also includes hotels and industrial buildings. Boston Properties became a public company in June 1997, and its common stock is traded on the New York Stock Exchange under the symbol BXP.

CONTENTS

This Annual Report contains “forward-looking statements” within the meaning of the federal securities laws. See the discussion under “Forward-Looking Statements” in this report for matters to be considered in this regard.

Highlights

2000

46% Total Return.

The Company paid $2.04 per share in dividends and its stock price appreciated 40%, providing a total return of 46% for the year.

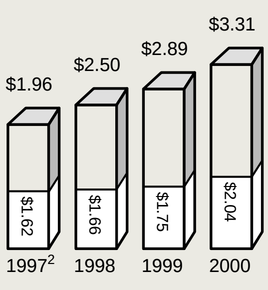
47% Increase in Rental Rates.

New and renewed leases on 3.8 million square feet of space in existing properties increased net rental rates an average of 47% over expiring leases, reflecting the exceptionally strong demand for office space in the Company's four core markets.

$2 Billion of Office Properties Under Construction.

The Company has 16 projects under construction representing $2 billion in value and 5.7 million square feet of area. These projects are 66% pre-leased to high quality tenants.

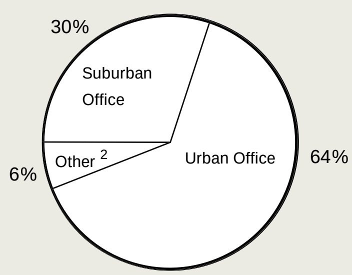
FFO PER SHARE[1] AND DIVIDENDS PER SHARE



- FFO Per Share
- Dividends Per Share

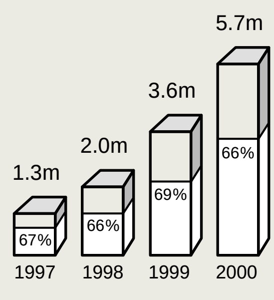
[1] Diluted
[2] For 1997, Pro Forma Funds From Operations are presented as if the Company's initial offering of common stock and related formation transactions (which were completed on June 23, 1997) had occurred on January 1, 1997, and the dividend is annualized

INCOME DISTRIBUTION[1] BY PROPERTY CATEGORY
(IN PERCENT)



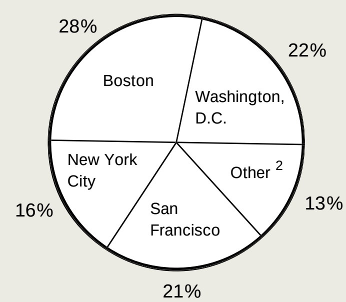
[1] GAAP Net Operating Income for 2000
[2] Includes NOI from hotels, industrial buildings and parking

DEVELOPMENT PROJECTS IN CONSTRUCTION
(IN MILLIONS OF SQUARE FEET)



- Percent of space under signed leases

INCOME DISTRIBUTION[1] BY REGION
(IN PERCENT)



[1] GAAP Net Operating Income for 2000
[2] Baltimore, Richmond, NJ and PA

To Our Shareholders:

The Year 2000 was one of the most successful in Boston Properties' history, as both a private company since our founding in 1970 and during our years as a public company since June of 1997. We began the year with a total in-service portfolio measuring 32.0 million square feet with an additional 3.6 million square feet under development. Today that portfolio of in-service properties has grown to 33.3 million square feet and we have an additional 5.7 million square feet under development. Funds From Operations (FFO) grew to $3.31 per share, an increase of 15% over our results a year earlier. Most noteworthy has been the strength of the core markets in which we have chosen to concentrate. This past year rental rates in Class A office buildings in our San Francisco, Midtown Manhattan, Washington, DC and Boston area markets climbed by 20% to more than 50%. In our own portfolio we re-leased 3.8 million square feet of space at rates an average of 47% above expiring net rents. The result of our decision to concentrate in the strongest U.S. markets and to specialize in high quality office space attractive to America's most important and successful companies allowed us to deliver a total return to our investors of 46% for the year ending December 31, 2000.

The Year 2000 also set the stage for our ability to increase earnings in the future. While we do not expect 2001 to repeat last year's torrid rate of rental increase, we believe that our decision to focus on assets in markets with very high barriers to entry helps protect against erosion in rental rates in our assets and maximizes their upside opportunity. In fact, there is still a very limited supply of available first class office space in the areas in which we operate and, despite a general slowdown in the economy, we fully expect rental rates to continue to increase albeit at a more moderate pace. At the same time, Boston Properties has always followed the conservative strategy of entering into long-term leases with tenants of strong financial standing, so that in any single year the turnover within our existing portfolio is moderate. More specifically, leases on only 7.5% of the space in our existing buildings will terminate in 2001 and only 8.3% in 2002. Despite some indications that a weakening economy at year-end caused tenant demand to abate, we continue to commit space at record rent levels. While changes in REIT regulations will make it easier to earn ancillary income, operation of high quality office buildings will continue to be the overwhelming source of Boston Properties' income. We remain in the forefront of those firms seeking to increase their revenues by selling additional services within our buildings and to our tenants, but our primary motivation for these activities is tenant satisfaction.

We are also extremely pleased with the status of our development pipeline since, as we have demonstrated, superior real estate returns can be produced by leveraging the talents of our professional organization to accomplish the more intense value-

MORTIMER B. ZUCKERMAN

Chairman of the Board (left)

EDWARD H. LINDE

President and Chief Executive Officer

added process required by development. As we write we have 16 projects under construction representing a total of 5.7 million square feet of space scheduled for completion by the end of 2003. Most noteworthy is the leasing status of those projects, since more than 72% of the space being created has already been committed at rents at or above our pro forma projections. These projects will represent approximately $2.0 billion of total budgeted investment and are expected to be significant engines for the future earnings growth of Boston Properties. The three largest, totaling $1.5 billion, are our 900,000 square foot building at the Prudential Center in Boston, which is over 90% committed and which tenants will begin to occupy during the Fall 2001; 5 Times Square in Midtown Manhattan, which has been leased in its entirety to Ernst & Young; and Times Square Tower, in which Arthur Andersen, initially committed to 525,000 square feet, has now expanded its leased area to more than 636,000 square feet, leaving only 564,000 square feet for other tenants in a market where there is almost no comparable space available.

Beyond the developments currently underway, Boston Properties owns or controls sites which would support an additional 9.6 million square feet of development that can begin as early as mid-2001. Our attention will continue to be focused on supply-constrained CBD markets and unique suburban locations in environments where our organizational and financial strengths allow us to achieve a competitive advantage. We have always been conservative about initiating new projects on a speculative basis and have structured this future development portfolio so we are under no pressure to commence construction unless and until the time is right. Nevertheless, having this inventory of potential new projects in the very best locations in the strongest markets in the country puts us in an enviable position to respond to build-to-suit and pre-leasing opportunities and strong indications of market demand as we look forward to the years to come.

We also began the Year 2001 with a significantly enhanced balance sheet. The most dramatic capital event of last year was our very successful 17.1 million share equity offering in October which generated a net $634 million, allowing us to completely pay down our outstanding line of credit balance and reduce our debt to 39% of our total capitalization. With strong cash and line of credit availability in hand, we are well positioned to take advantage of any opportunity that may arise if weaker property owners are disadvantaged by slackening market demand. Equally noteworthy are the property-specific refinancings accomplished during 2000. These totaled more than $976 million generating a net increment in financing proceeds of $488 million. We also were able to keep our average interest rate on total long-term debt to 7.2%, benefiting from a favorable interest rate climate at the end of 2000. We continue to place debt financing on our projects on a property-specific basis. While we may, at some time, explore the possibility of accessing unsecured corporate debt, we see no advantage of moving in that direction at this time, especially given the magnitude of our development activities and the support provided to us by construction lenders in financing those projects. Our debt service coverage ratio of 2.56 and fixed charge coverage ratio of 2.07, including principal, interest and capitalized interest, remain well above the conservative levels we have set for ourselves.

During the Year 2000 Boston Properties celebrated its 30th anniversary. While we look back with a great deal of satisfaction, and even amazement, at our growth as a company over that period, we also remain confident that the next 30 years can be even better. Our success is a direct result of continued adherence to our core strategy of owning the best office properties in the strongest markets, and of the support we have received from our tenants and the real estate brokers, design firms, lawyers, accountants, contractors and other professionals serving our needs. Most of all, it is the employees of Boston Properties, the best in the business, who demonstrate day in and day out their talent, dedication and ability to move our company forward and to create value for our shareholders.

MORTIMER B. ZUCKERMAN
Chairman of the Board

EDWARD H. LINDE
President and Chief Executive Officer

Boston Properties continues to concentrate its real estate skills and resources in select strong core markets that offer superior opportunities to develop, acquire and enhance its portfolio of first class office buildings. These properties are managed by the Company's talented staff supported by the latest technology to best serve its tenants and create and increase value.

295,000 square feet of Class A office space under construction at the Company's Waltham Weston Corporate Center in Waltham, Massachusetts.

The Best Markets

Boston Properties' portfolio of Class A office space is concentrated in Manhattan and the metropolitan regions of Boston, Washington, DC and San Francisco. These thriving centers of commerce, government, education and science are consistently ranked among the top office markets in the country.

Historically, office space in these cities has commanded higher rental rates and had lower vacancy rates than virtually all other markets in the United States. The Year 2000 was no exception and Boston Properties benefited significantly from this strength. During the past 12 months, 3.8 million square feet of leases expiring in the Company's portfolio were released at an average net rental rate 47% higher than the rental rate at time of expiration. The strength of the Company's markets produced an occupancy rate at the end of 2000 of 98.9%.

Since Boston Properties' founding 30 years ago, the Company's strategy has been to develop and own the finest office properties in select areas where underlying conditions support the best real estate markets in the country, believing that deep penetration of a few key markets is far more profitable than more superficial representation in many markets. By being in the right locations, Boston Properties' buildings have outperformed the business cycle both in good times and in bad.

> "The Company's strategy remains focused on developing and owning the finest office properties in the best real estate markets in the country."

Accomplishments 2000

1. (left) Embarcadero Center, San Francisco, CA
Asset Enhancement: This 4 million square foot project achieved unprecedented rental rates in 2000, far exceeding the Company's expectations when it acquired this asset in 1998.

2. Market Square North, Washington, DC
Project Completion: This 12-story, 401,255 square foot office building located in Washington's thriving East End is fully leased to prestigious tenants.

3. 875 Third Avenue, New York, NY
Repositioning: This 29-story, 690,126 square foot office building underwent a dramatic renovation, transforming the entrances, lobby and retail spaces.

4. 140 Kendrick Street, Needham, MA
Project Completion: This 3-building, 381,000 square foot project demonstrated the Company's skill in quickly executing a build-to-suit project for a rapidly growing tenant.

5. One and Two Discovery Square, Reston, VA
Construction Start: This 362,868 square foot 2-building project is located at the gateway to Reston Town Center in the heart of the Dulles-Reston-Herndon high technology corridor.

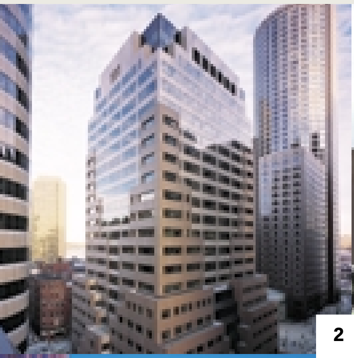
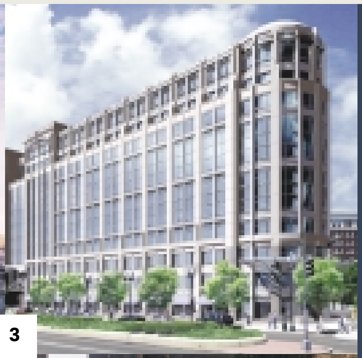
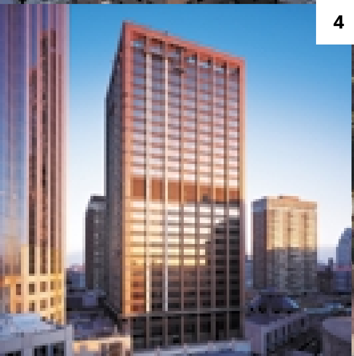
Back to the City

Major cities continue to thrive as centers for high quality office space. Key knowledge-based businesses recognize that their workforces will be drawn to urban locations that have vibrant commercial and residential environments. An active cultural life, convenient transportation, highly developed service industries and state of the art communications infrastructure all combine to create the ideal setting for those tenants, generating office space demand as the country enters the New Millennium.

64% of Boston Properties' net operating income is generated from office properties located in the central business districts of Boston and Cambridge, Midtown Manhattan, Washington, DC and San Francisco. The physical constraints of these particular cities, the stringent approval process which each of them has in place and the complexity of the building process limits the growth of office building supply even as demand continues to increase. The result, as dramatically demonstrated in 2000, is accelerating rental rates, high occupancies and the ability to secure tenants either before a project is even begun or well before it is completed. Boston Properties has 3.2 million square feet of office space under development in these CBD markets with more than 80% of that space already committed.

Limits on growth and development also protect the value of Boston Properties' existing assets by reducing the risk of over-building. With enhancements whenever necessary to maintain their Class A quality, their superior locations in tight markets produce outstanding incremental returns on investment through increased rents.

> "64% of Boston Properties' net operating income is generated from office properties located in the central business districts of Boston and Cambridge, Midtown Manhattan, Washington, DC and San Francisco."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4 5

Accomplishments 2000

1. (right) Times Square Tower, New York, NY
Construction Start: This 47-story 1.2 million square foot landmark office tower, already more than 50% leased to a "Big Five" accounting firm, is one of the Company's two development projects in Times Square.

2. 265 Franklin Street, Boston, MA
Acquisition/Repositioning: The lobby and elevators of this 21-story 325,699 square foot building in the heart of the Financial District are being totally renovated as part of an overall repositioning strategy.

3. 901 New York Avenue, Washington, DC
Major Site Acquisition: This key development site located near Washington's new convention center in the East End will support a 550,000 square foot Class A building.

4. 101 Huntington Avenue, Boston, MA
Repositioning: Part of the Prudential Center, this 25-story 500,888 square foot tower is undergoing over $10 million in exterior renovations that will dramatically update its 1970s facade.

5. Embarcadero Center Retail Shops, San Francisco, CA
Repositioning: This 3-level 358,000 square foot retail area is being renovated to improve access, revitalize storefront designs and create a dynamic shopping experience.


TIMES SQUARE TOWER
DISCOVER CARD
Helping families link the present with the past
NYC 2000
CHASE
NO TURN
NO TURN

Knowledge-Based Economy

Rapid advances and innovations in technology and communications are fundamentally restructuring the US economy, and Boston Properties is well positioned to benefit from these changes. Knowledge-based companies in the business services sector, including accounting, law, financial services, consulting and technology, are growing faster than any other sector of the economy, with above-average growth expected in both employment and output in this sector of the economy. These types of companies currently account for approximately 68% of Boston Properties' tenancies and are an important part of the Company's marketing focus.

Demand for office space by knowledge-based users was especially strong in 2000, and of the 3.5 million square feet already leased in Boston Properties' new development projects now underway, over 90% is leased to these types of tenants. These are primarily established companies committing to long-term leases who make significant communications and information technology investments in their space to improve productivity and efficiency. And because they have a higher concentration of income-generating professional staff and fewer support staff, these tenants compete aggressively for the best space available and can support the higher rents necessary for this.

By concentrating on providing office space to established companies, Boston Properties participates in the rapid growth of the knowledge-based sector of the nation's economy while limiting its exposure to the uncertainties of newly-formed companies.

> "By concentrating on providing office space to established companies, Boston Properties participates in the rapid growth of the knowledge-based sector of the nation's economy while limiting its exposure to the uncertainties of newly-formed companies."

Accomplishments 2000

1. (left) Two Freedom Square, Reston, VA

Construction Start: This 16-story 417,113 square foot building is located in Reston Town Center, the "new downtown" for Northern Virginia and brings to 2.5 million square feet the Company's holdings in Reston.

2. Quorum Office Park, Chelmsford, MA

Construction Start: This 2-building 259,918 square foot build-to-suit project for an expanding telecommunications company is conveniently located just off Route 3. Initial occupancy is expected in the third quarter 2001.

3. 2600 Tower Oaks Boulevard, Rockville, MD

Construction Start: Located in the heart of the Maryland technology corridor, this project is a 7-story 178,216 square foot building located off Route I-270 adjacent to a 12-acre park.

4. Plaza at Almaden, San Jose, CA

Major Site Acquisition: This 3.6-acre site is strategically located at the interchange of Interstate 280 and Highway 87 and can support 841,000 square feet in three office buildings.

5. 302 Carnegie Center, Princeton, NJ

Project Completion: This 3-story 64,565 square foot building is located at the entrance to the Company's award-winning 560-acre master-planned office complex.

The Development Advantage

Boston Properties has long been recognized for the expertise that allows it to create value through development. While notable acquisitions have been an important part of its impressive growth since becoming a REIT in June of 1997, the Company has demonstrated that impressively high returns can be achieved by employing its team of skilled professionals to create projects from the ground up. Boston Properties has fully staffed development and construction operations in each of its regions that handle more development underway than at any other office REIT.

In early 2001, Boston Properties had 16 projects under development totaling 5.7 million square feet and owned or controlled additional sites that could support the development of another 9.6 million square feet. None of these projects will proceed without adequate market support. Of the 5.7 million square feet already under construction more than 72% of the space has been committed to companies with strong balance sheets and good operating histories.

High quality developments continue to drive growth and distinguish Boston Properties from other office REITs. The Company has a demonstrated skill for acquiring development sites, a successful track record in obtaining entitlements and zoning approval and the ability to complete multiple construction projects on time and on budget. The Company continues to benefit from its reputation and relationships it has established over its 30-year history as a real estate developer.

"High quality developments continue to drive growth and distinguish Boston Properties from other office REITs."

2 3
4 5

Accomplishments 2000

1. (right) 111 Huntington Avenue at the Prudential Center, Boston, MA
Construction Ongoing: Work on this 36-story, 900,000 square foot office tower and the adjacent Wintergarden, park and retail space, is proceeding on schedule and on budget. The building is almost fully leased with initial occupancy expected in September 2001.

2. 611 Gateway Boulevard, South San Francisco, CA
Construction Start: Part of the Company's existing 22-acre Gateway project, an 11-story 249,732 square foot building and a 1,850-car parking garage are planned with initial occupancy expected in the second quarter of 2002.

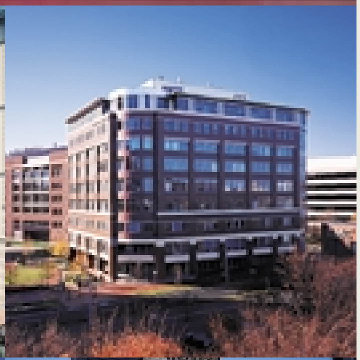
3. 5 Times Square, New York, NY
Construction Start: Work on this 1.1 million square foot tower, fully leased to Ernst & Young, one of two projects the Company currently has underway in Times Square, is proceeding on schedule.

4. Orbital Sciences, Dulles, VA
Construction Ongoing: This 3-building, 345,530 square foot build-to-suit office complex is located just minutes from Dulles Airport and near the headquarters of other prominent technology companies.

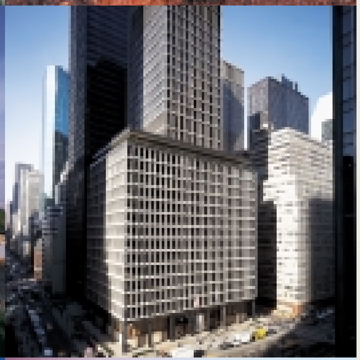
5. Waltham Weston Corporate Center, Waltham, MA
Construction Start: This 295,000 square foot project adds to the Company's strategic holdings along Route 128. Initial occupancy is expected in the fourth quarter of 2001.


FROM LEFT:
181 SPRING STREET, LEXINGTON, MA
ONE AND TWO RESTON OVERLOOK, RESTON, VA





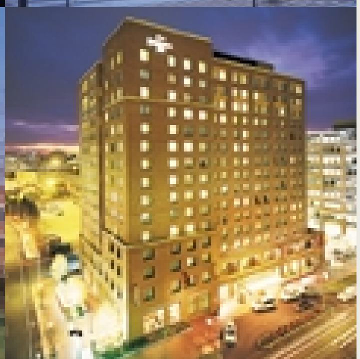
FROM LEFT:
510 CARNEGIE CENTER, PRINCETON, NJ
SUMNER SQUARE, WASHINGTON, DC
EIGHT CAMBRIDGE CENTER, CAMBRIDGE, MA

FROM LEFT:
RESERVOIR PLACE, WALTHAM, MA
280 PARK AVENUE, NEW YORK, NY


FROM LEFT:
METROPOLITAN SQUARE, WASHINGTON, DC
2300 N STREET N.W., WASHINGTON, DC

EMBARCADERO CENTER, SAN FRANCISCO, CA

FROM LEFT:
502 CARNEGIE CENTER, PRINCETON, NJ
RESIDENCE INN, CAMBRIDGE, MA

Technology at Work

Boston Properties employs the latest advances in technology and Internet-based services to enhance the quality and profitability of all its operations and improve the work environment of its tenants.

During 2000 Boston Properties deployed new tenant amenities to enhance the competitive position of the Company's properties, expanding the number of telecommunications and broadband service options available to tenants and installing flat panel displays delivering news, information and targeted advertising in building elevators.

Throughout the Company, an advanced networked infrastructure provides streamlined internal communications, operations and control. A powerful set of databases and integrated systems, significantly augmented during 2000, delivers real-time information to both employees and tenants and serves as a platform for improving services, with more and more business with tenants, suppliers and service providers now conducted over the Internet.

This past year Boston Properties also joined with twelve of North America's leading commercial real estate companies to establish the Office Technology Consortium. This organization focuses on reducing costs and improving business processes for its members by capitalizing on their collective scale and purchasing power, Internet-enabled technologies and the creation of industry standards for procurement of goods and services. The Company remains committed to exploiting advances in technology in all aspects of its operations.

Property Portfolio (please lift)

Property Portfolio

PROPERTY	LOCATION	NET RENTABLE SQUARE FEET
OFFICE PROPERTIES:		
599 Lexington Avenue	New York, NY	1,000,497
280 Park Avenue	New York, NY	1,160,622
875 Third Avenue	New York, NY	690,126
Carnegie Center	Princeton, NJ	1,856,018
One Tower Center	East Brunswick, NJ	417,903
The Prudential Center	Boston, MA	2,140,832 (1)
265 Franklin Street	Boston, MA	325,699 (2)
One Cambridge Center	Cambridge, MA	215,385
Three Cambridge Center	Cambridge, MA	107,484
Eight Cambridge Center	Cambridge, MA	177,226
Ten Cambridge Center	Cambridge, MA	152,664
Eleven Cambridge Center	Cambridge, MA	79,616
University Place	Cambridge, MA	195,282
Bedford Business Park	Bedford, MA	90,000
10 and 20 Burlington Mall Road	Burlington, MA	156,416
181 Spring Street	Lexington, MA	53,595
191 Spring Street	Lexington, MA	162,700
201 Spring Street	Lexington, MA	102,500
32 Hartwell Avenue	Lexington, MA	69,154
91 Hartwell Avenue	Lexington, MA	122,135
33 Hayden Avenue	Lexington, MA	79,564
92 Hayden Avenue	Lexington, MA	30,980
100 Hayden Avenue	Lexington, MA	55,924
Lexington Office Park	Lexington, MA	167,293
140 Kendrick Street	Needham, MA	381,000 (2)
170 Tracer Lane	Waltham, MA	73,203
195 West Street	Waltham, MA	63,500
200 West Street	Waltham, MA	248,341
204 Second Avenue	Waltham, MA	40,974
Waltham Office Center	Waltham, MA	131,479
Reservoir Place	Waltham, MA	529,991
Newport Office Park	Quincy, MA	168,829
Embarcadero Center	San Francisco, CA	3,931,381 (3)
The Gateway	South San Francisco, CA	506,395

PROPERTY	LOCATION	NET RENTABLE SQUARE FEET
OFFICE PROPERTIES:		
1301 New York Avenue, N.W.	Washington, DC	168,371
500 E Street, S.W.	Washington, DC	242,769
Capital Gallery	Washington, DC	396,776
Market Square North	Washington, DC	401,255 (2)
One Independence Square	Washington, DC	337,794
Two Independence Square	Washington, DC	579,665
Metropolitan Square	Washington, DC	578,340 (2)
2300 N Street, N.W.	Washington, DC	276,930
Sumner Square	Washington, DC	209,507
Orbital Sciences Phase 1	Dulles, VA	174,832
Reston Corporate Center	Reston, VA	261,046
Lockheed Martin Building	Reston, VA	255,244
NIMA Building	Reston, VA	263,870
The Arboretum	Reston, VA	95,584
One Freedom Square	Reston, VA	408,773 (2)
One and Two Reston Overlook	Reston, VA	444,279
Democracy Center	Bethesda, MD	680,475
Montvale Center	Gaithersburg, MD	120,815
Decoverly Two	Rockville, MD	77,747
Decoverly Three	Rockville, MD	77,040
Riverfront Plaza	Richmond, VA	894,015
100 East Pratt Street	Baltimore, MD	635,323
Candler Building	Baltimore, MD	537,363

PROPERTY	LOCATION	NET RENTABLE SQUARE FEET
OFFICE R&D PROPERTIES:		
Fourteen Cambridge Center	Cambridge, MA	67,362
Bedford Business Park	Bedford, MA	383,704
164 Lexington Road	Billerica, MA	64,140
17 Hartwell Avenue	Lexington, MA	30,000
Fullerton Square	Springfield, VA	178,294
Virginia 95 Business Park	Springfield, VA	852,023
Sugarland Business Park	Herndon, VA	112,012
Hilltop Business Center	South San Francisco, CA	144,366 (2)

PROPERTY	LOCATION	NET RENTABLE SQUARE FEET
INDUSTRIAL PROPERTIES:		
40-46 Harvard Street	Westwood, MA	169,273
25-33 Dartmouth Street	Westwood, MA	78,045
2391 West Winton Avenue	Hayward, CA	220,213
560 Forbes Boulevard	South San Francisco, CA	40,000 (2)
430 Rozzi Place	South San Francisco, CA	20,000 (2)
38 Cabot Boulevard	Langhorne, PA	161,000
Maryland 50 Business Park	Landover, MD	183,945

PROPERTY	LOCATION	NUMBER OF ROOMS
HOTEL PROPERTIES:		
Long Wharf Marriott	Boston, MA	402
Cambridge Center Marriott	Cambridge, MA	431
Residence Inn by Marriott	Cambridge, MA	221

PROPERTY	LOCATION	NET RENTABLE SQUARE FEET
DEVELOPMENT PROPERTIES:		
111 Huntington Avenue	Boston, MA	890,000
Quorum Office Park	Chelmsford, MA	259,918
Waltham Weston Corporate Center	Waltham, MA	295,000
Andover Office Park, Building One	Andover, MA	120,000
5 Times Square	New York, NY	1,099,154
Times Square Tower	New York, NY	1,200,000
Orbital Sciences Phase II	Dulles, VA	160,502
One and Two Discovery Square	Reston, VA	362,868 (2)
Two Freedom Square	Reston, VA	417,113 (2)
New Dominion Technology Park	Herndon, VA	235,201
Broad Run Business Park, Building E	Dulles, VA	124,650
2600 Tower Oaks Boulevard	Rockville, MD	178,216
302 Carnegie Center	Princeton, NJ	64,565
611 Gateway Boulevard	South San Francisco, CA	249,732

PROPERTY	LOCATION	NUMBER OF SPACES
GARAGE PROPERTY:		
Cambridge Center North Garage	Cambridge, MA	1,170

Note: The office properties contain an additional 6.0 million square feet of structured parking for 17,179 vehicles.

(1) The Prudential Center includes 465,239 square feet of retail space.

(2) The Company has less than a 100% economic interest in this property. For more information, see Notes 5 and 9 in the Notes to Consolidated and Combined Financial Statements.

(3) Embarcadero Center includes 358,012 square feet of retail space.

Financial Contents

Selected Financial Data

The following sets forth selected financial and operating data for the Company on a historical consolidated basis and for the Predecessor Group on a historical combined basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

Historical operating results of the Company and the Predecessor Group, including net income may not be comparable to future operating results.

(In thousands, except per share data)	The Company: For the Year Ended December 31, 2000	1999	1998	The Company: Period from June 23, 1997 to December 31, 1997	The Predecessor Group: Period from January 1, 1997 to June 22, 1997	The Predecessor Group: Year Ended December 31, 1996
Statement of Operations Information						
Total revenues	$ 879,353	$ 786,564	$ 513,847	$ 145,643	$129,818	$ 269,933
Expenses:						
Property	264,701	249,268	150,490	40,093	27,032	58,195
Hotel	—	—	—	—	22,452	46,734
General and administrative	35,659	29,455	22,504	6,689	5,116	10,754
Interest	217,064	205,410	124,860	38,264	53,324	109,394
Depreciation and amortization	133,150	120,059	75,418	21,719	17,054	36,199
Income before minority interests and unconsolidated joint venture income	228,779	182,372	140,575	38,878	4,840	8,657
Income from unconsolidated joint ventures	1,758	468	—	—	—	—
Minority interests	(76,971)	(69,531)	(41,982)	(11,652)	(235)	(384)
Income before gain (loss) on sale of real estate	153,566	113,309	98,593	27,226	4,605	8,273
Gain (loss) on sale of real estate, net of minority interest	(234)	6,467	—	—	—	—
Income before extraordinary items	153,332	119,776	98,593	27,226	4,605	8,273
Extraordinary gain (loss), net of minority interest	(334)	—	(5,481)	7,925	—	(994)
Net income before preferred dividend	152,998	119,776	93,112	35,151	4,605	7,279
Preferred dividend	(6,572)	(5,829)	—	—	—	—
Net income available to common shareholders	$ 146,426	$ 113,947	$ 93,112	$ 35,151	$ 4,605	$ 7,279
Basic earnings per share:						
Income before extraordinary items	$ 2.05	$ 1.72	$ 1.62	$ .70	—	—
Extraordinary gain (loss), net of minority interest	—	—	(.09)	.21	—	—
Net income	$ 2.05	$ 1.72	$ 1.53	$ .91	—	—
Weighted average number of common shares outstanding	71,424	66,235	60,776	38,694	—	—
Diluted earnings per share:						
Income before extraordinary items	$ 2.01	$ 1.71	$ 1.61	$ .70	—	—
Extraordinary gain (loss), net of minority interest	—	—	(.09)	.20	—	—
Net income	$ 2.01	$ 1.71	$ 1.52	$ .90	—	—
Weighted average number of common and common equivalent shares outstanding	72,741	66,776	61,308	39,108	—	—
Balance Sheet Information:						
Real estate, gross	$6,112,779	$5,609,424	$4,917,193	$1,796,500	—	$1,035,571
Real estate, net	5,526,060	5,138,833	4,559,809	1,502,282	—	771,660
Cash	280,957	12,035	12,166	17,560	—	8,998
Total assets	6,226,470	5,434,772	5,235,087	1,672,521	—	896,511
Total indebtedness	3,414,891	3,321,584	3,088,724	1,332,253	—	1,442,476
Minority interests	877,715	781,962	1,079,234	100,636	—	—
Convertible Redeemable Preferred Stock	100,000	100,000	—	—	—	—
Shareholders' and owners' equity (deficit)	1,647,727	1,057,564	948,481	175,048	—	(576,632)
Other Information:						
Funds from Operations	$ 247,371	$ 196,101	$ 153,045	$ 42,258	—	—
Dividends per share	2.04	1.75	1.64	1.62(a)	—	—
Cash flow provided by operating activities	339,664	303,469	215,287	46,146	$ 25,090	$ 55,907
Cash flow used in investing activities	(573,363)	(654,996)	(2,179,215)	(519,743)	(32,844)	(34,315)
Cash flow provided by (used in) financing activities	502,621	351,396	1,958,534	491,157	9,266	(38,461)
Total square feet at end of year	37,926	35,621	31,077	16,101	—	10,424
Occupancy rate at end of year	98.9%	98.4%	97.1%	98.4%	—	94.2%

(a) Annualized.

Funds from Operations

(In thousands)	The Company: Ended December 31, 2000	1999	1998	Period from June 23, 1997 to December 31, 1997	The Predecessor Group: Period from January 1, 1997 to June 22, 1997	Year Ended December 31, 1996
Income before minority interests and unconsolidated joint venture income	$228,779	$182,372	$140,575	$38,878	$ 4,840	$ 8,657
Add:						
Real estate depreciation and amortization	134,386	119,583	74,649	21,417	16,808	35,643
Income from unconsolidated joint ventures	1,758	468	—	—	—	—
Less:						
Minority property partnership's share of funds from operations	(1,061)	(3,681)	(4,185)	(287)	(198)	(479)
Preferred dividends and distributions	(32,994)	(32,111)	(5,830)	—	—	—
Non-recurring item – significant lease termination fee	—	—	—	—	—	(7,503)
Funds from Operations	$330,868	$266,631	$205,209	$60,008	$21,450	$36,318
Funds from Operations available to common shareholders	$247,371	$196,101	$153,045	$42,258	—	—
Weighted average shares outstanding – basic	71,424	66,235	60,776	38,694	—	—

Reconciliation to Diluted Funds from Operations:

(In thousands)	For the Year Ended December 31, 2000 Income (Numerator)	Shares/Units (Denominator)	For the Year Ended December 31, 1999 Income (Numerator)	Shares/Units (Denominator)	For the Year Ended December 31, 1998 Income (Numerator)	Shares/Units (Denominator)	For the Period from June 23, 1997 to December 31, 1997 Income (Numerator)	Shares/Units (Denominator)
Basic Funds from Operations	$330,868	95,532	$266,631	90,058	$205,209	81,487	$60,008	54,950
Effect of Dilutive Securities:								
Convertible Preferred Units	26,422	10,394	26,428	10,360	2,819	1,135	—	—
Convertible Preferred Stock	6,572	2,625	5,834	2,337	—	—	—	—
Stock Options	—	1,280	—	541	—	532	—	414
Diluted Funds from Operations	$363,862	109,831	$298,893	103,296	$208,028	83,154	$60,008	55,364
Company's share of Diluted Funds from Operations	$283,994	85,723	$229,961	79,473	$156,215	62,443	$42,258	39,108

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the selected financial data and the historical consolidated financial statements and related notes thereto.

Overview

Boston Properties, Inc. (the "Company") is a fully integrated, self-administered and self-managed real estate investment trust or "REIT" and is one of the largest owners and developers of office and industrial properties in the United States. The Company's properties are concentrated in four core markets—Boston, Washington, D.C., midtown Manhattan and San Francisco. The term "Company" as used herein includes Boston Properties, Inc. and its subsidiaries on a consolidated basis (including Boston Properties Limited Partnership). The Company conducts substantially all of its business through Boston Properties Limited Partnership. At December 31, 2000, the Company owned 145 properties totaling 37.9 million net rentable square feet, including 15 properties currently under construction. The properties consisted of 134 office properties, including 103 Class A office buildings and 31 properties that support both office and technical uses; eight industrial properties; and three hotels.

In 2000, the Company continued to identify and complete attractive acquisitions and development transactions. During 2000, the Company added 2.1 million net rentable square feet to its portfolio by completing acquisitions totaling approximately $167.7 million and completing developments totaling approximately $108.5 million. In addition, as of December 31, 2000, the Company had construction in progress representing a total anticipated investment of approximately $1.3 billion and a total of approximately 4.5 million net rentable square feet.

The Company is focused on increasing the cash flow from its existing portfolio of properties by maintaining high occupancy levels and increasing effective rents. On the 3.8 million net-rentable square feet of second generation space renewed or released during the year, new net rents were on average approximately 47.1% higher than the expiring net rents. At December 31, 2000, the portfolio of office and industrial properties was 98.9% occupied.

The Company also continues to strengthen its balance sheet. In October 2000, the Company raised $633.8 million, net of expenses, in equity capital by completing a public offering of its common stock. In 2000 the Company also issued shares of its common stock and common and preferred units in Boston Properties Limited Partnership that were valued when issued at $62.9 million to acquire properties and development sites.

Forward-Looking Statements

This Annual Report contains "forward-looking statements" within the meaning of the securities laws. The words "anticipate," "assume," "believe," "expect," "intend," "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Forward-looking statements include, for example, statements relating to acquisitions and related financial information, development activities, business strategy and prospects, future capital expenditures, sources and availability of capital, environmental and other regulations and competition. Investors should be cautious in relying on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements are detailed in the risk factors listed in the Company's annual report on Form 10-K for the year ended December 31, 2000 and its other reports filed from time to time with the Securities and Exchange Commission, including, but not limited to (1) general risks affecting the real estate industry, such as the need to enter into new leases or renew leases on favorable terms to generate rental revenues, and dependence on the financial condition of tenants; (2) failure to identify, acquire, construct or develop additional properties that produce a desired yield on invested capital, or failure to effectively integrate acquisitions of properties or portfolios of properties; (3) financing not being available on favorable terms or at all; (4) local real estate and other economic conditions in the core markets where the Company's properties are located; (5) unanticipated environmental liabilities; (6) failure to comply with the complex regulations required; and (7) increases in market interest rates which could adversely affect the market prices for the Company's common stock, as well as the Company's performance and cash flow. The Company disclaims any obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Results of Operations

The following discussion is based on the Consolidated Financial Statements of the Company for the years ended December 31, 2000, 1999 and 1998.

From January 1, 1998 through December 31, 2000, the Company increased its total portfolio (the “Total Portfolio”) from 92 properties to 145 properties and from 16.1 million net rentable square feet to 37.9 million net rentable square feet. As a result of this rapid growth of the Total Portfolio, the financial data presented below shows significant changes in revenues and expenses from period to period and the Company does not believe its period to period financial data are comparable. Therefore, the comparison of operating results for the years ended December 31, 2000, 1999 and 1998 show changes resulting from properties that the Company owned for all of both periods compared (for which each comparison is referred to as the “Same Property Portfolio”) and the changes attributable to the Total Portfolio.

Comparison of the year ended December 31, 2000 to the year ended December 31, 1999

The table below shows selected operating information for the Total Portfolio and the 106 buildings acquired or placed in service on or prior to January 1, 1999 and that remained in the Total Portfolio through December 31, 2000 (which comprise the Same Property Portfolio for the years ended December 31, 2000 and 1999):

	Same Property Portfolio				Total Portfolio			
(Dollars in thousands)	2000	1999	Increase	% Change	2000	1999	Increase/ (Decrease)	% Change
Revenue:								
Rental revenue	$766,141	$717,654	$48,487	6.76%	$858,942	$765,417	$93,525	12.22%
Development and management services	—	—	—	—	11,837	14,708	(2,871)	–19.52%
Interest and other	—	—	—	—	8,574	6,439	2,135	33.16%
Total revenue	766,141	717,654	48,487	6.76%	879,353	786,564	92,789	11.80%
Expenses:								
Operating	237,107	230,178	6,929	3.01%	264,701	249,268	15,433	6.19%
General and administrative	—	—	—	—	35,659	29,455	6,204	21.06%
Interest	—	—	—	—	217,064	205,410	11,654	5.67%
Depreciation and amortization	117,863	112,463	5,400	4.80%	133,150	120,059	13,091	10.90%
Total expenses	354,970	342,641	12,329	3.60%	650,574	604,192	46,382	7.68%
Income before minority interests and unconsolidated joint venture income	$411,171	$375,013	$36,158	9.64%	$228,779	$182,372	$46,407	25.45%

The increase in rental revenues in the Same Property Portfolio for these years is a result of an overall increase in rental rates on new leases and rollovers, in addition to an increase in occupancy from year to year and an increase in termination fees from $2.3 million to $3.3 million. The occupancy for the Same Property Portfolio increased from 97.2% as of December 31, 1999 to 98.8% as of December 31, 2000. The increase in rental revenues in the Total Portfolio is primarily the result of properties the Company acquired or placed-in-service after January 1, 1999.

The decrease in development and management services income in the Total Portfolio is mainly due to contracts expiring during 1999 and 2000.

The increase in interest and other income in the Total Portfolio is a result of interest earned on proceeds received from the public offering of our common stock in October 2000.

Property operating expenses (real estate taxes, utilities, repairs and maintenance, cleaning and other property related expenses) in the Same Property Portfolio increased mainly due to an increase in real estate taxes of $4.0 million, or 4.2%. Small increases in other property-related expenses account for the remaining increase. Property operating expenses in the Total Portfolio increased due to properties the Company acquired or placed-in-service after January 1, 1999 as well as increases in other property-related expenses.

General and administrative expenses increased due to increases in the overall size of the Total Portfolio since January 1, 1999. In addition, the Company incurred a $3.0 million charge related to the departure of two senior employees, which included a non-cash charge of approximately $2.0 million.

Interest expense for the Total Portfolio increased due to a net increase in mortgage indebtedness and the Company's unsecured revolving line of credit with Fleet National Bank, as agent (the "Unsecured Line of Credit") from $3.3 billion to $3.4 billion.

Depreciation and amortization expense for the Same Property Portfolio increased as a result of capital and tenant improvements made during 2000. Depreciation and amortization expense for the Total Portfolio increased as a result of properties the Company acquired or placed-in-service after January 1, 2000 and that remained in the Total Portfolio through December 31, 2000 and related capital and tenant improvements.

Comparison of the year ended December 31, 1999 to the year ended December 31, 1998

The table below shows selected operating information for the Total Portfolio and the 76 buildings acquired or placed in service on or prior to January 1, 1998 and that remained in the Total Portfolio through December 31, 1999 (which comprise the Same Property Portfolio for the years ended December 31, 1999 and 1998):

	Same Property Portfolio				Total Portfolio			
(Dollars in thousands)	1999	1998	Increase	% Change	1999	1998	Increase/ (Decrease)	% Change
Revenue:								
Rental revenue	$353,470	$337,886	$15,584	4.61%	$765,417	$487,577	$277,840	56.98%
Development and management services	—	—	—	—	14,708	12,411	2,297	18.51%
Interest and other	—	—	—	—	6,439	13,859	(7,420)	–53.54%
Total revenue	353,470	337,886	15,584	4.61%	786,564	513,847	272,717	53.07%
Expenses:								
Operating	104,048	100,726	3,322	3.30%	249,268	150,490	98,778	65.64%
General and administrative	—	—	—	—	29,455	22,504	6,951	30.89%
Interest	—	—	—	—	205,410	124,860	80,550	64.51%
Depreciation and amortization	51,494	50,083	1,411	2.82%	120,059	75,418	44,641	59.19%
Total expenses	155,542	150,809	4,733	3.14%	604,192	373,272	230,920	61.86%
Income before minority interests and unconsolidated joint venture income	$197,928	$187,077	$10,851	5.80%	$182,372	$140,575	$41,797	29.73%

The increase in rental revenues in the Same Property Portfolio for these years is primarily a result of an overall increase in rental rates on new leases and rollovers as well as an increase in termination fees from $0.7 million to $2.3 million, offset by a small decrease in occupancy from year to year. The occupancy for the Same Property Portfolio decreased from 97.8% as of December 31, 1998 to 97.4% as of December 31, 1999. The increase in rental revenues in the Total Portfolio is primarily the result of properties the Company acquired or placed-in-service after January 1, 1998.

The increase in development and management services income in the Total Portfolio is a result of fees earned on new projects begun during the year, and increased fees on projects in progress.

The decrease in interest and other income in the Total Portfolio is a result of less cash and cash equivalents on deposit during 1999. During 1998, the Company's average cash balances were higher due to $765.0 million of net proceeds received from a public offering of the Company's common stock in January 1998.

Property operating expenses (real estate taxes, utilities, repairs and maintenance, cleaning and other property related expenses) in the Same Property increased mainly due to real estate taxes. Real estate taxes increased approximately $1.0 million due to higher property tax assessments. Small increases in other property-related expenses account for the remaining increase. Property operating expenses in the Total Portfolio increased mainly due to properties the Company acquired or placed-in service after January 1, 1998.

General and administrative expenses increased due to the significant increase in the size of the Total Portfolio since January 1, 1998. The Company hired additional employees as a result of acquisitions.

Interest expense for the Total Portfolio increased due to an increase in mortgage indebtedness and an increase in borrowing under the Unsecured Line of Credit.

Depreciation and amortization expense for the Same Property increased as a result of capital and tenant improvements made during 1999. Depreciation and amortization expense for the Total Portfolio increased primarily as a result of properties the Company acquired or placed-in-service after January 1, 1998 and related capital and tenant improvements.

Liquidity and Capital Resources

Cash and cash equivalents were $281.0 million and $12.0 million at December 31, 2000 and December 31, 1999, respectively. The increase is a result of the following increases and decreases in cash flows:

Year ended December 31,	2000	1999	$ Change
(in millions)			
Cash provided by operating activities	$339.7	$303.5	$ 36.2
Cash used for investing activities	($573.4)	($655.0)	$ 81.6
Cash provided by financing activities	$502.6	$351.4	$151.2

The increase in cash provided by operating activities is primarily due to the increase in net income resulting from the 1999 and 2000 property acquisitions and developments placed-in-service and the 2000 Same Property Portfolio.

Net cash used for investing activities decreased from $655.0 million for the year ended December 31, 1999 to $573.4 million for the year ended December 31, 2000 mainly due to fewer property acquisitions during 2000. The cash and capital used in the 2000 investing activities was primarily for the following acquisitions of real estate assets:

Acquisitions, Dispositions and Development

- On January 12, 2000, the Company acquired a joint venture partner's 75% interest in One and Two Reston Overlook, for cash of approximately $15.2 million.
- On March 1, 2000, the Company acquired three Class A office buildings totaling approximately 408,163 square feet at Carnegie Center in Princeton, New Jersey, under the terms of the original Carnegie Center Portfolio acquisition entered into in June 1998. The properties were acquired from a related party for approximately $66.5 million, which was funded through the assumption of debt of approximately $49.0 million at a rate of 7.39% and the issuance of 577,817 common units of partnership interest in Boston Properties Limited Partnership ("OP Units") valued at approximately $17.5 million. The acquisition was reviewed and approved by a vote of the independent directors of the Company.
- On May 12, 2000, an unrelated third party acquired partial interests in two properties that were previously wholly-owned by the Company. The Company retained a 51% interest in the first property, Metropolitan Square, a 582,194-square foot office property in Washington, D.C., and a 25% interest in the second property, 140 Kendrick Street, a 381,000-square foot build-to-suit development property in Needham, Massachusetts. The interests in the properties were acquired for cash of approximately $46.7 million and the assumption of debt of approximately $88.2 million and resulted in a gain to the Company of $0.4 million.
- On August 22, 2000, the Company acquired the remaining 50% interest in the development rights at the Prudential Center in Boston, Massachusetts for approximately $18.2 million, which was funded through the issuance of 439,059 shares of the Company's common stock.
- On September 13, 2000, the Company acquired a 35% interest in 265 Franklin Street, a 325,699 square foot office property in Boston, Massachusetts through a joint venture. The Company's interest in this property was acquired with cash of approximately $10.6 million and new debt financing of approximately $23.8 million.
- On September 29, 2000, the Company sold 910 and 930 Clopper Road, two office/technical use properties totaling 240,596 square feet in Gaithersburg, Maryland for approximately $24.1 million. This sale resulted in a loss of approximately $0.8 million.
- On October 13, 2000, the Company sold 1950 Stanford Court, a single story industrial building totaling 53,250 square feet, and an adjacent parcel of land totaling approximately 2 acres in Landover, Maryland, for approximately $2.2 million. This sale resulted in a gain of approximately $0.1 million.
- On December 1, 2000, the Company acquired the leasehold interest and ground rent credits at the site of the future Times Square Tower in midtown Manhattan, for approximately $165.1 million in cash. This development will consist of a 47-floor, 1.2 million square foot office tower.
- The Company acquired additional land parcels in Greater Boston, Greater Washington, D.C. and Greater San Francisco for potential future developments for an aggregate amount of approximately $39.7 million, of which approximately $12.5 million was funded with cash and approximately $27.2 million was funded through the issuance of common and preferred units of Boston Properties Limited Partnership.

• The Company placed six Class A office buildings in service which resulted in a total investment during 2000 of approximately $43.4 million. The Company began or continued construction on additional Class A office buildings and incurred approximately $319.6 million of development costs during 2000. The properties under construction as of December 31, 2000 were as follows:

Properties Under Construction

Office Buildings	Location	# of Buildings	Square Feet	Investment to Date	Anticipated Total Investment
302 Carnegie Center	Princeton, NJ	1	64,565	$ 10,085,110	$ 13,435,000
New Dominion Tech Park — Building 1	Hemdon, VA	1	235,201	41,870,052	48,770,000
2600 Tower Oaks Boulevard	Rockville, MD	1	178,216	26,314,660	38,295,000
Broad Run Business Park — Building E	Dulles, VA	1	124,650	6,531,465	14,696,000
Orbital Sciences Phase II — Building 2	Dulles, VA	1	160,502	13,641,517	27,618,000
Quorum Office Park	Chelmsford, MA	2	259,918	16,164,660	41,747,000
111 Huntington Avenue — Prudential Center	Boston, MA	1	890,000	164,195,234	291,637,000
5 Times Square	New York, NY	1	1,099,154	281,044,727	536,115,000
One and Two Discovery Square (50% Ownership)	Reston, VA	2	362,868	10,609,713	42,587,000(1)
Waltham Weston Corporate Center	Waltham, MA	1	295,000	20,533,037	95,446,000
Andover Office Park, Building 1	Andover, MA	1	120,000	8,380,612	17,381,000
611 Gateway Boulevard	S. San Francisco, CA	1	249,732	8,664,576	77,523,000
Two Freedom Square (50% Ownership)	Reston, VA	1	417,113	8,896,757	49,336,000(1)
Total Properties Under Construction		15	4,456,919	$616,932,120	$1,294,586,000

(1) Represents the Company's share of the investment.

In addition, the Company incurred costs of approximately $37.0 million on properties in the pre-construction phase of the development process.

Cash provided by financing activities increased by $151.2 million for 2000, compared to the year ended 1999. During 2000, the Company received proceeds from new debt totaling approximately $976.4 million. This was offset by $525.2 million of paydowns and principal payments during 2000. The remaining increase is mainly due to the increase in proceeds received from the public offering described below.

Recent Equity Financing

On October 31, 2000, the Company completed a public offering of 17,110,000 shares of its common stock (including 2,110,000 shares issued pursuant to the exercise of the underwriters' overallotment option) at a price per share of $39.0625. The Company's proceeds from this public offering, net of underwriters' discount and offering costs, were approximately $633.8 million.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. The Company's future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. The primary market risk facing the Company is long-term indebtedness, which bears interest at fixed and variable rates. The fair value of its long-term debt obligation is affected by changes in the market interest rates. The Company manages its market risk by matching long-term leases with long-term fixed rate non-recourse debt of similar durations. In addition, the Company maintains a major unencumbered portion of its portfolio. The Company continues to follow a conservative strategy of pre-leasing development projects on a long-term basis to strong tenants in order to achieve the most favorable construction and permanent financing terms. Approximately 85% of the Company's outstanding debt has fixed interest rates, which minimizes the interest rate risk until the maturity of such outstanding debt.

The Company has entered into hedging arrangements with financial institutions. The Company's primary objective when undertaking hedging transactions and derivative positions is to reduce its floating rate exposure, which, in turn, reduces the risks that the variability of cash flows imposes on variable rate debt. The Company's strategy protects it against future increases in interest rates. At December 31, 2000, the Company had hedge contracts totaling $450.0 million. The hedging agreements provide for a fixed interest rate when London Interbank Offered Rate ("LIBOR") is less than 5.76% and when LIBOR is greater than 6.35% or 7.95% for terms remaining of two to four years per the individual hedging agreements. The Company will consider entering into additional hedging agreements with respect to all or a portion of its variable rate debt. The Company may borrow additional money with variable rates in the future. Increases in interest rates could increase interest expense, which in turn, could affect cash flows and the Company's ability to service its debt. As a result of the hedging agreements, decreases in interest rates could increase interest expense as compared to the underlying variable rate debt and could result in the Company making payments to unwind such agreements.

At December 31, 2000, the Company's variable rate debt outstanding was approximately $404.1 million. At December 31, 2000, the average interest rate on variable rate debt was approximately 8.56%. Taking the hedging contracts into consideration, if market interest rates on the Company's variable rate debt were to increase by ten percent (approximately 86 basis points), total interest would increase approximately $1.7 million.

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

Capitalization

At December 31, 2000, the Company's total consolidated debt was approximately $3.4 billion. The weighted average rate of the Company's consolidated indebtedness was 7.37% and the weighted average maturity was approximately 6.2 years.

The Company's total market capitalization was approximately $8.8 billion at December 31, 2000. Total market capitalization was calculated using the December 31, 2000 closing stock price of $43.50 per share and includes the following: (1) 86,630,089 shares of the Company's Common Stock, (2) 23,862,206 OP Units (excluding OP Units held by Boston Properties, Inc.), (3) an aggregate of 11,021,064 OP Units issuable upon the conversion of Series One, Two, Three and Z Preferred Units, (4) 2,624,672 shares of Common Stock issuable upon conversion of Preferred Stock (assuming all shares of Preferred Stock are converted into shares of the Company's Common Stock), and (5) the Company's consolidated debt. The Company's total consolidated debt represented approximately 38.7% of its total market capitalization as of December 31, 2000.

Debt Financing

The table below summarizes the mortgage debt and Unsecured Line of Credit indebtedness at December 31, 2000 and 1999:

Debt Summary:

	December 31,	
(Dollars in thousands)	2000	1999
Balance		
Fixed rate	$3,010,760	$2,820,650
Variable rate	404,131	500,934
Total	$3,414,891	$3,321,584
Percent of total debt:		
Fixed rate	88.17%	84.92%
Variable rate	11.83%	15.08%
Total	100.00%	100.00%
Weighted average interest rate:		
Fixed rate	7.21%	7.06%
Variable rate	8.56%	7.61%
Total	7.37%	7.14%

The variable rate debt shown above bears interest based on various spreads over LIBOR or Eurodollar rates.

The Company utilizes its $605.0 million Unsecured Line of Credit principally to fund development of properties, other land and property acquisitions and for working capital purposes. The Unsecured Line of Credit is a recourse obligation of Boston Properties Limited Partnership. The Company's ability to borrow under the Unsecured Line of Credit is subject to its compliance with a number of customary financial and other covenants on an ongoing basis, including: (1) loan-to-value ratio against the total borrowing base not to exceed 55%, unless the leverage ratio exceeds 60%, in which case it is not to exceed 50%, (2) a loan-to-value ratio against the total secured borrowing base not to exceed 55%, (3) debt service coverage ratio of 1.40 for the borrowing base, or 1.50 if the Company's leverage ratio equals or exceeds 60%, and 1.30 for the Company as a whole for full fixed charges, (4) a total leverage ratio not to exceed 60%, however five consecutive quarters (not including the two quarters prior to expiration) can go to 65% (5) an interest rate applicable to any amounts drawn under the Unsecured Line of Credit for variable rate loans shall be equal to a floating rate based on a spread over Eurodollar equal to 105 to 170 basis points, (6) limitations on additional indebtedness and stockholder distributions, and (7) a minimum net worth requirement.

At December 31, 2000, the Company had issued letters of credit totaling $3.3 million and had the ability to borrow an additional $601.7 million under the Unsecured Line of Credit. As of March 3, 2001 there was zero outstanding under the Unsecured Line of Credit.

The following table sets forth certain information regarding the Company's mortgage notes and bonds payable at December 31, 2000:

Properties	Interest Rate	Principal Amount	Maturity Date
(in thousands)			
Embarcadero Center One, Two and Federal Reserve	6.70%	$312,876	December 12, 2008
Prudential Center	6.72%	291,896	July 1, 2008
280 Park Avenue	7.65%	270,000	December 31, 2009
599 Lexington Avenue(1)	7.00%	225,000	July 19, 2005
5 Times Square(2)	8.66%	184,157	January 26, 2003
Embarcadero Center Four	6.79%	154,549	February 1, 2008
875 Third Avenue(3)	8.00%	150,959	December 31, 2002
Embarcadero Center Three	6.40%	146,313	January 1, 2007
Two Independence Square(4)	8.09%	116,377	February 27, 2003
Riverfront Plaza	6.61%	115,647	February 1, 2008
Democracy Center	7.05%	107,717	April 1, 2009
New Dominion Technology Park, Building 1	(5)	98,142	(5)
Embarcadero Center West Tower	6.50%	97,587	January 1, 2006
100 East Pratt Street	6.73%	91,851	November 1, 2008
601 and 651 Gateway Boulevard	8.40%	89,888	October 1, 2010
111 Huntington Avenue(6)	8.69%	76,041	January 26, 2003
One Independence Square(4)	8.12%	74,114	August 21, 2001
Reservoir Place(7)	6.88%	73,858	November 1, 2006
One & Two Reston Overlook	7.45%	68,190	September 1, 2004
2300 N Street	6.88%	66,000	August 3, 2003
202, 206, 214 Carnegie Center	8.13%	62,917	October 1, 2001
Capital Gallery	8.24%	57,161	August 15, 2006
504, 506, 508 Carnegie Center	7.39%	48,312	January 1, 2008
10 and 20 Burlington Mall Road(8)	8.33%	37,000	October 1, 2001
10 Cambridge Center	8.27%	35,741	May 1, 2010
1301 New York Avenue	(9)	32,710	August 15, 2009
Eight Cambridge Center	7.73%	28,412	July 15, 2010
Sumner Square(10)	8.38%	28,298	April 22, 2004
510 Carnegie Center	7.39%	27,653	January 1, 2008
Lockheed Martin Building	6.61%	26,289	June 1, 2008
Orbital Sciences—Buildings One and Three(11)	8.35%	25,761	August 9, 2002
University Place	6.94%	25,253	August 1, 2021
Reston Corporate Center	6.56%	24,809	May 1, 2008
191 Spring Street	8.50%	22,797	September 1, 2006
Bedford Business Park	8.50%	21,717	December 10, 2008
NIMA Building	6.51%	21,495	June 1, 2008
2600 Tower Oaks Boulevard(12)	8.59%	18,083	October 10, 2002
Quorum Office Park(13)	8.34%	11,111	August 30, 2003
101 Carnegie Center	7.66%	8,348	April 1, 2006
Orbital Sciences—Phase 2(14)	8.35%	8,032	June 13, 2003
Montvale Center	8.59%	7,564	December 1, 2006
40 Shattuck Road(15)	8.53%	6,224	December 4, 2003
Newport Office Park	8.13%	5,923	July 1, 2001
302 Carnegie Center(16)	8.61%	5,893	March 15, 2003
Hilltop Business Center	6.81%	5,738	March 1, 2019
201 Carnegie Center	7.08%	488	February 1, 2010
Total		$3,414,891	

(1) At maturity the lender has the option to purchase a 33.33% interest in this property in exchange for the cancellation of the principal balance of $225.0 million.

(2) Total construction loan in the amount of $420.0 million at a variable rate of Eurodollar +2.00%.

(3) The principal amount and interest rate shown have been adjusted to reflect the fair value of the note. The stated principal balance at December 31, 2000 was $150.0 million and the interest rate was 8.75%.

(4) The principal amount and interest rate shown have been adjusted to reflect the effective rates on the loans. The stated principal balances at December 31, 2000 were $116.8 million and $74.4 million, respectively. The stated interest rates are 8.50% and continue at such rates through the loan expiration.

(5) Includes construction loan in the amount of $48.6 million which was paid off on January 31, 2001 and $57.61 million of bond financing which was being held in escrow at December 31, 2000 until the New Dominion project was completed in January 2001. The bond financing bears interest at a rate of 7.70% and matures in January 2021.

(6) Total construction loan in the amount of $203.0 million at a variable rate of LIBOR +2.00%.

(7) The principal amount and interest rate shown have been adjusted to reflect the fair value of the note. The stated principal balance at December 31, 2000 was $65.5 million and the interest rate was 9.09%.

(8) Includes outstanding indebtedness secured by 91 Hartwell Avenue and 92 and 100 Hayden Avenue.

(9) Includes outstanding principal in the amounts of $19.9 million, $8.4 million and $4.4 million which bear interest at fixed rates of 6.70%, 8.54% and 6.75%, respectively.

(10) Outstanding principal bears interest at a floating rate equal to Eurodollar +1.50%

(11) Total construction loan in the amount of $27.0 million at a variable rate of Eurodollar +1.65%.

(12) Total construction loan in the amount of $32.0 million at a variable rate of LIBOR +1.90%.

(13) Total construction loan in the amount of $16.0 million at a variable rate of LIBOR +1.75%.

(14) Total construction loan in the amount of $25.1 million at a variable rate of Eurodollar +1.65%.

(15) Total construction loan in the amount of $16.0 million at a variable rate of LIBOR +1.75%.

(16) Total construction loan in the amount of $10.0 million at a variable rate of LIBOR +1.90%.

Note: LIBOR and Eurodollar rate contracts in effect on December 31, 2000 ranged from 6.56% to 6.82%. The LIBOR and Eurodollar rates at December 31, 2000 were 6.57% and 6.58%, respectively.

The Company has determined that its estimated cash flows and available sources of liquidity are adequate to meet liquidity needs for the next twelve months. The Company believes that its principal liquidity needs for the next twelve months are to fund normal recurring expenses, debt service requirements, current development costs not covered under construction loans and the minimum distribution required to maintain its REIT qualifications under the Internal Revenue Code of 1986, as amended. The Company believes that these needs will be fully funded from cash flows provided by operating and financing activities.

The Company expects to meet liquidity requirements for periods beyond twelve months for the costs of development, property acquisitions, scheduled debt maturities, major renovations, expansions and other non-recurring capital improvements through construction loans, the incurrence of long-term secured and unsecured indebtedness, income from operations and sales of real estate and possibly the issuance of additional common and preferred units of Boston Properties Limited Partnership and equity securities of Boston Properties, Inc. In addition, the Company may finance the development, redevelopment or acquisition of additional properties by using the Unsecured Line of Credit.

Rental revenues, operating expense reimbursement income from tenants, and income from the operations of the Company are its principal sources of capital used to pay operating expenses, debt service and recurring capital expenditures. The Company seeks to increase income from its existing properties by maintaining quality standards for its properties that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. The Company's sources of revenue included third party fees generated by its office and industrial real estate management, leasing, development and construction businesses. Consequently, the Company believes its revenues will continue to provide the necessary funds for operating expenses, debt service and recurring capital expenditures.

During the year ended December 31, 2000, the Company paid or declared quarterly dividends totaling $2.04 per common share (consisting of $.45 related to the quarter ended March 31, 2000 and $.53 related to each of the quarters ended June 30, 2000, September 30, 2000 and December 31, 2000). The Company intends to continue paying dividends quarterly.

Funds from Operations

In accordance with the National Association of Real Estate Investment Trusts ("NAREIT") revised definition of Funds from Operations ("FFO"), the Company calculates FFO by adjusting net income (loss) (computed in accordance with accounting principles generally accepted in the United States, including non-recurring items), for gains (or losses) from debt restructuring and sales of properties (except gains and losses from sales of depreciable operating properties), real estate related depreciation and amortization and unconsolidated partnerships and joint ventures. The Company believes that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flow from operating activities, financing activities and investing activities, it provides investors with an indication of the Company's ability to incur and service debt, to make capital expenditures, and to fund other cash needs. The Company's FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with accounting principles generally accepted in the United States and should not be considered as an alternative to net income (determined in accordance with accounting principles generally accepted in the United States) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

Environmental Matters

The Company believes, based on its internal reviews and other factors, that the future costs relating to environmental remediation and compliance will not have a material effect on the financial position, results of operations or liquidity of the Company. For a discussion of certain environmental matters regarding the Properties, see the Company's Consolidated Financial Statements and Notes thereto included elsewhere herein.

Newly Issued Accounting Standard

As of January 1, 2001, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137 and No. 138 ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments as assets or liabilities in the Company's consolidated balance sheets at fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the hedge accounting criteria in SFAS No. 133 are required to be reported in earnings. For derivatives designated as hedging instruments in qualifying cash flow hedges, the effective portion of changes in fair value of the derivatives are recognized in accumulated other comprehensive loss until the forecasted transactions occur and the ineffective portions are recognized in earnings.

The nature of the Company's derivatives includes investments in warrants to purchase shares of common stock of other companies and interest rate agreements to protect against changes in interest rates for variable rate debt. Based on the terms of the warrant agreements, the warrants meet the definition of a derivative and accordingly must be marked to fair value through earnings. The Company had been recording the warrants at fair value through other comprehensive loss as available for sale securities under SFAS No. 115. The Company estimates that, upon adoption of SFAS No. 133, it will reclass approximately $6.8 million, the fair value of the warrants, from accumulated other comprehensive loss to a cumulative effect of a change in accounting principle. The Company's interest rate protection agreements will be designated as hedging instruments in qualifying cash flow hedges. As such, the Company estimates that upon adoption of SFAS No. 133, it will record an asset of approximately $0.2 million and record a liability of approximately $11.4 million for the fair values of these agreements. The offset for these entries will be to a cumulative effect of a change in accounting principle and accumulated other comprehensive loss, respectively. Finally, the Company estimates it will write-off deferred charges of approximately $1.6 million as a cumulative effect of a change in accounting principle.

Inflation

Substantially all of the Company's leases provide for separate real estate tax and operating expense escalations over a base amount. In addition, many of its leases provide for fixed base rent increases or indexed increases. The Company believes that inflationary increases may be at least partially offset by the contractual rent increases described above.

Consolidated Balance Sheets

(In thousands, except for share amounts)	December 31, 2000	1999
Assets		
Real estate:	$6,112,779	$5,609,424
Less: accumulated depreciation	(586,719)	(470,591)
Total real estate	5,526,060	5,138,833
Cash and cash equivalents	280,957	12,035
Escrows	85,561	40,254
Investments in securities	7,012	14,460
Tenant and other receivables (net of allowance for doubtful accounts of $2,112 and $3,254, respectively)	26,852	28,259
Accrued rental income (net of allowance of $3,300 and $3,300, respectively)	91,684	82,228
Deferred charges, net	77,319	53,733
Prepaid expenses and other assets	41,154	28,452
Investments in unconsolidated joint ventures	89,871	36,518
Total assets	$6,226,470	$5,434,772
Liabilities and Stockholders' Equity		
Liabilities:		
Mortgage notes and bonds payable	$3,414,891	$2,955,584
Unsecured line of credit	—	366,000
Accounts payable and accrued expenses	57,338	66,780
Dividends and distributions payable	71,274	50,114
Accrued interest payable	5,599	8,486
Other liabilities	51,926	48,282
Total liabilities	3,601,028	3,495,246
Commitments and contingencies	—	—
Minority interests	877,715	781,962
Series A Convertible Redeemable Preferred Stock, liquidation preference $50.00 per share, 2,000,000 shares issued and outstanding	100,000	100,000
Stockholders' Equity:		
Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 250,000,000 shares authorized, 86,630,089 and 67,910,434 issued and outstanding in 2000 and 1999, respectively	866	679
Additional paid-in capital	1,673,349	1,067,778
Dividends in excess of earnings	(13,895)	(10,893)
Unearned compensation	(848)	—
Accumulated other comprehensive loss	(11,745)	—
Total stockholders' equity	1,647,727	1,057,564
Total liabilities and stockholders' equity	$6,226,470	$5,434,772

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

Consolidated Statements of Operations

(In thousands, except for per share amounts)	Year Ended December 31, 2000	1999	1998
Revenue			
Rental:			
Base rent	$715,358	$646,924	$419,756
Recoveries from tenants	92,692	72,742	48,718
Parking and other	50,892	45,751	19,103
Total rental revenue	858,942	765,417	487,577
Development and management services	11,837	14,708	12,411
Interest and other	8,574	6,439	13,859
Total revenue	879,353	786,564	513,847
Expenses			
Operating	264,701	249,268	150,490
General and administrative	35,659	29,455	22,504
Interest	217,064	205,410	124,860
Depreciation and amortization	133,150	120,059	75,418
Total expenses	650,574	604,192	373,272
Income before minority interests and unconsolidated joint venture income	228,779	182,372	140,575
Minority interest in property partnerships	(932)	(4,614)	(2,554)
Income from unconsolidated joint ventures	1,758	468	—
Income before minority interest in Operating Partnership	229,605	178,226	138,021
Minority interest in Operating Partnership	(76,039)	(64,917)	(39,428)
Income before gain (loss) on sale of real estate	153,566	113,309	98,593
Gain (loss) on sale of real estate, net of minority interest	(234)	6,467	—
Income before extraordinary items	153,332	119,776	98,593
Extraordinary loss, net of minority interest	(334)	—	(5,481)
Net income before preferred dividend	152,998	119,776	93,112
Preferred dividend	(6,572)	(5,829)	—
Net income available to common shareholders	$146,426	$113,947	$ 93,112
Basic earnings per share:			
Income before extraordinary items	$ 2.05	$ 1.72	$ 1.62
Extraordinary loss, net of minority interest	—	—	(0.09)
Net income available to common shareholders	$ 2.05	$ 1.72	$ 1.53
Weighted average number of common shares outstanding	71,424	66,235	60,776
Diluted earnings per share:			
Income before extraordinary items	$ 2.01	$ 1.71	$ 1.61
Extraordinary loss, net of minority interest	—	—	(0.09)
Net income available to common shareholders	$ 2.01	$ 1.71	$ 1.52
Weighted average number of common and common equivalent shares outstanding	72,741	66,776	61,308

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

Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Dividends in Excess of Earnings	Unearned Compensation	Accumulated Other Comprehensive Loss	Total
Stockholders' Equity, December 31, 1997	38,694	$387	$ 172,347	$ 2,314			$ 175,048
Sale of Common Stock net of offering costs	23,000	230	764,760				764,990
Unregistered Common Stock issued	1,823	18	58,819				58,837
Conversion of operating partnership units to Common Stock	10	—	250				250
Allocation of minority interest			(40,490)				(40,490)
Net income for the year				93,112			93,112
Dividends declared				(103,291)			(103,291)
Stock options exercised	1	—	25				25
Stockholders' Equity, December 31, 1998	63,528	635	955,711	(7,865)			948,481
Sale of Common Stock net of offering costs	4,000	40	140,648				140,688
Unregistered Common Stock issued	343	4	12,321				12,325
Conversion of operating partnership units to Common Stock	10	—	260				260
Allocation of minority interest			(41,965)				(41,965)
Net income for the year				113,947			113,947
Dividends declared				(116,975)			(116,975)
Shares issued pursuant to stock purchase plan	5	—	181				181
Stock options exercised	24	—	622				622
Stockholders' Equity, December 31, 1999	67,910	679	1,067,778	(10,893)			1,057,564
Sale of Common Stock net of offering costs	17,110	171	633,591				633,762
Unregistered Common Stock issued	439	4	18,156				18,160
Conversion of operating partnership units to Common Stock	614	6	20,239				20,245
Allocation of minority interest			(85,809)				(85,809)
Net income for the year				146,426			146,426
Dividends declared				(149,428)			(149,428)
Shares issued pursuant to stock purchase plan	11	—	374				374
Stock options exercised	511	5	17,961				17,966
Issuance of restricted stock	35	1	1,059		$(1,060)		—
Amortization of restricted stock award					212		212
Unrealized holding losses						$(11,745)	(11,745)
Stockholders' Equity, December 31, 2000	86,630	$866	$1,673,349	$ (13,895)	$ (848)	$(11,745)	$1,647,727

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

Consolidated Statements of Cash Flows

(In thousands)	For the Year Ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net income before preferred dividend	$ 152,998	$ 119,776	$ 93,112
Adjustments to reconcile net income before preferred dividend to net cash provided by operating activities:			
Depreciation and amortization	133,150	120,059	75,418
Non-cash portion of interest expense	3,693	2,364	247
Loss (gain) on sale of real estate	314	(8,736)	—
Extraordinary loss	433	—	7,743
Distributions in excess of earnings from unconsolidated joint ventures	90	(468)	—
Compensation related to restricted shares	212	—	—
Non-cash compensation	1,958	—	—
Minority interests	75,860	67,186	38,760
Change in assets and liabilities:			
Escrows	12,303	(21,240)	(4,836)
Tenant and other receivables, net	1,407	12,571	(16,372)
Accrued rental income, net	(14,509)	(17,977)	(9,061)
Prepaid expenses and other assets	(12,702)	(10,354)	(5,833)
Accounts payable and accrued expenses	(14,300)	23,277	19,075
Accrued interest payable	(2,887)	1,179	726
Other liabilities	1,644	15,832	16,308
Total adjustments	186,666	183,693	122,175
Net cash provided by operating activities	339,664	303,469	215,287
Cash flows from investing activities:			
Acquisitions/additions to real estate	(604,164)	(661,007)	(1,697,449)
Tenant leasing costs	(21,032)	(11,329)	(17,979)
Investments in unconsolidated joint ventures	(16,582)	10,737	(43,644)
Net proceeds from sales of real estate	70,712	13,103	—
Investments in securities	(2,297)	(6,500)	—
Notes receivable	—	—	(420,143)
Net cash used in investing activities	(573,363)	(654,996)	(2,179,215)
Cash flows from financing activities:			
Net proceeds from issuance of common and preferred stock	633,762	240,688	819,103
Borrowings on unsecured line of credit	184,000	696,000	322,000
Repayments of unsecured line of credit	(550,000)	(345,000)	(540,000)
Repayments of mortgage notes	(525,241)	(33,362)	(159,714)
Proceeds from mortgage notes	976,390	307,525	1,226,717
Proceeds from (repayments of) notes payable	—	(328,143)	420,143
Dividends and distributions	(209,723)	(181,493)	(127,307)
Proceeds from exercise of stock options	16,008	622	—
Proceeds from employee stock purchase plan	374	181	—
Deferred financing costs	(22,949)	(5,622)	(2,408)
Net cash provided by financing activities	502,621	351,396	1,958,534
Net increase (decrease) in cash	268,922	(131)	(5,394)
Cash and cash equivalents, beginning of period	12,035	12,166	17,560
Cash and cash equivalents, end of period	$ 280,957	$ 12,035	$ 12,166
Supplemental disclosures:			
Cash paid for interest	$ 253,971	$ 218,820	$ 46,422
Interest capitalized	$ 37,713	$ 16,953	$ 6,933
Non-cash investing and financing activities:			
Additions to real estate included in accounts payable	$ 4,858	$ 606	$ 6,198
Mortgage notes payable assumed in connection with acquisitions of real estate	$ 117,831	$ 28,331	$ 496,926
Mortgage notes payable assigned in connection with the sale of real estate	$ 166,547	$ —	$ —
Bonds payable proceeds placed in escrow	$ 57,610	$ —	$ —
Issuance of minority interest in connection with acquisitions of real estate	$ 44,712	$ 2,063	$ 941,318
Dividends and distributions declared but not paid	$ 71,274	$ 50,114	$ 40,494
Notes receivable assigned in connection with an acquisition of real estate	$ —	$ 420,143	$ —
Notes payable assigned in connection with an acquisition of real estate	$ —	$ 92,000	$ —
Common Stock issued in connection with an acquisition of real estate	$ 2,660	$ 12,325	$ 5,000
Common Stock issued in connection with an acquisition of minority interest	$ 15,500	$ —	$ —
Conversion of Operating Partnership Units to Common Stock	$ 20,245	$ 260	$ 250
Real estate contributed to joint ventures	$ 36,999	$ —	$ —
Unrealized loss related to investments in securities	$ 11,745	$ —	$ —

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

(Dollars in thousands, except for per share amounts)

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ORGANIZATION AND BASIS OF PRESENTATION

Organization

Boston Properties, Inc. (the "Company"), a Delaware corporation, is a self-administered and self-managed real estate investment trust ("REIT"). Boston Properties, Inc. is the sole general partner of Boston Properties Limited Partnership (the "Operating Partnership") and at December 31, 2000, owned an approximate 71.9% general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as "common units of partnership interest" (also referred to as "OP Units") or "preferred units of partnership interest" (also referred to as "Preferred Units"). All references to OP Units and Preferred Units exclude such units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the issuance of OP Units to particular holders that may restrict such right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company ("Common Stock"), except that, the Company may, at its election, in lieu of a cash redemption, acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. Each series of Preferred Units bears a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be convertible into OP Units at the election of the holder thereof or the Company, subject to the terms of such Preferred Units.

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

Properties

At December 31, 2000, the Company owned a portfolio of 145 commercial real estate properties (136 properties at December 31, 1999) (the "Properties") aggregating more than 37.9 million net rentable square feet (including 15 properties currently under development totaling approximately 4.5 million net rentable square feet). The Properties consist of 134 office properties, including 103 Class A office properties and 31 Research and Development properties; eight industrial properties; three hotels; and structured parking for 17,179 vehicles containing approximately 6.0 million square feet. In addition, the Company owns or controls 49 parcels of land totaling 558.3 acres (which will support approximately 10.6 million net rentable square feet of development). The Company considers Class A office properties to be centrally located buildings that are professionally managed and maintained, that attract high-quality tenants and command upper-tier rental rates, and that are modern structures or have been modernized to compete with newer buildings. The Company considers Research and Development properties to be properties that support office, research and development and other technical uses.

Basis of Presentation

The consolidated financial statements of the Company include all the accounts of the Company, its majority-owned Operating Partnership, and subsidiaries. All significant intercompany balances and transactions have been eliminated.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Real Estate

Real estate is stated at depreciated cost. The Company periodically reviews its properties to determine if its carrying costs will be recovered from future operating cash flows. If the Company determines that an impairment has occurred, those assets shall be reduced to fair value. No such impairment losses have been recognized to date.

The cost of buildings and improvements include the purchase price of property, legal fees and acquisition costs. The costs of buildings under development include the capitalization of interest, property taxes and other costs incurred during the period of development.

Expenditures for repairs and maintenance are charged to operations as incurred. Significant betterments are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	25 to 40 years
Buildings and improvements	10 to 40 years
Tenant improvements	Shorter of useful life or terms of related lease
Furniture, fixtures, and equipment	3 to 7 years

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments with maturities of three months or less from the date of purchase. The majority of the Company's cash and cash equivalents are held at major commercial banks. The Company has not experienced any losses to date on its invested cash.

Escrows

Escrows include amounts established pursuant to various agreements for security deposits, property taxes, insurance and other costs. At December 31, 2000, proceeds of $57.6 million from the permanent financing of a development property have been deposited into an escrow account and recorded in mortgage notes and bonds payable until the completion of construction on the development property, at which time the construction loan will be repaid and the proceeds will be available to the Company.

Investments in Securities

The Company accounts for investments in securities of publicly traded companies in accordance with Statement of Financial Accounting Standard ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Investments" and has classified the securities as available-for-sale. Investments in securities of non-publicly traded companies are recorded at cost as they are not considered marketable under SFAS 115. As of December 31, 2000, the fair value of the investments in common stocks and warrants was approximately $7.0 million. The gross unrealized holding loss of approximately $11.7 million is included in accumulated other comprehensive loss on the consolidated balance sheets. At December 31, 1999, the investments in securities were reflected at cost in the consolidated balance sheets, as they were not considered marketable under SFAS No. 115.

Deferred Charges

Deferred charges include leasing costs and financing fees. Fees and costs incurred in the successful negotiation of leases, including brokerage, legal and other costs have been deferred and are being amortized on a straight-line basis over the terms of the respective leases. Fees and costs incurred to obtain long-term financing have been deferred and are being amortized over the terms of the respective loans on a basis that approximates the effective interest method and are included with interest expense. Unamortized financing and leasing costs are charged to expense upon the early repayment of financing or upon the early termination of the lease. Fully amortized deferred charges are removed from the books upon the expiration of the lease or maturity of the debt.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in joint ventures, which it does not control, using the equity method of accounting. Under the equity method of accounting, the net equity investment of the Company is reflected on the consolidated balance sheets, and the Company's share of net income or loss from the joint ventures is included on the consolidated statements of operations.

The Company serves as the development manager for the joint ventures currently under development. The profit on development fees received from joint ventures is recognized to the extent attributable to the outside interests in the joint ventures.

Offering Costs

Underwriting commissions and offering costs have been reflected as a reduction of additional paid-in capital.

Dividends

Earnings and profits, which determine the taxability of dividends to shareholders, will differ from income reported for financial reporting purposes due to the differences for federal income tax purposes primarily in the estimated useful lives used to compute depreciation. Dividends declared represented 100% ordinary income for federal income tax purposes for the years ended December 31, 2000, 1999 and 1998.

Revenue Recognition

Base rental revenue is reported on a straight-line basis over the terms of the respective leases. The impact of the straight-line rent adjustment increased revenue by $13,071, $17,044, and $18,510 for the years ended December 31, 2000, 1999 and 1998, respectively. Property operating cost reimbursements due from tenants for common area maintenance, real estate taxes and other recoverable costs are recognized in the period the expenses are incurred.

Accrued rental income represents rental income earned in excess of rent payments received pursuant to the terms of the individual lease agreements, net of an allowance for doubtful accounts.

Development fees are recognized ratably over the period of development. Management fees are recognized as revenue as they are earned.

The estimated fair value of warrants received in conjunction with communications license agreements are recognized over the ten-year effective terms of the license agreements.

Interest Expense and Interest Rate Protection Agreements

Interest expense on fixed rate debt with predetermined periodic rate increases is computed using the effective interest method over the terms of the respective loans.

The Company has entered into certain interest rate protection agreements to reduce the impact of changes in interest rates on its variable rate debt. Amounts paid for the agreements are amortized over the lives of the agreements on a basis that approximates the effective interest method.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares of Common Stock outstanding during the year. Diluted EPS reflects the potential dilution that could occur from shares issuable through stock-based compensation including stock options, conversion and/or exchange of the minority interests in the Operating Partnership and conversion of the preferred stock of the Company.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, escrows, receivables, accounts payable, accrued expenses and other assets and liabilities are reasonable estimates of their fair values because of the short maturities of these instruments. Mortgage notes payable have aggregate carrying values that approximate their estimated fair values based upon the remaining maturities for certain debt and interest rates for debt with similar terms and remaining maturities. The fair value of these financial instruments were not materially different from their carrying or contract values.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its taxable year ended December 31, 1997. As a result, the Company generally will not be subject to federal corporate income tax on its taxable income that is distributed to its shareholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 95% of its annual taxable income (90% effective January 1, 2001). The Company's policy is to distribute 100% of its taxable income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

To assist the Company in maintaining its status as a REIT, the Company leases its three in-service hotel properties, pursuant to leases with a participation in the gross receipts of such hotel properties, to a lessee in which Messrs. Zuckerman and Linde, the Chairman of the Board and Chief Executive Officer, respectively, are the sole member-managers. Marriott International, Inc. manages these hotel properties under the Marriott® name pursuant to management agreements with the lessee. Rental revenue from these leases totaled approximately $38.1 million, $32.1 million and $25.7 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The net difference between the tax basis and the reported amounts of the Company's assets and liabilities is approximately $1.2 billion as of December 31, 2000 and 1999.

Certain entities included in the Company's consolidated financial statements are subject to District of Columbia franchise taxes. Franchise taxes are recorded as operating expenses in the accompanying consolidated financial statements.

Reclassifications

Certain prior-year balances have been reclassified in order to conform to current-year presentation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include such items as depreciation, allowances for doubtful accounts and accrued rent. Actual results could differ from those estimates.

3

REAL ESTATE

Real estate consisted of the following at December 31:

	2000	1999
Land	$ 965,140	$ 956,222
Land held for future development	107,005	127,508
Buildings and improvements	3,939,857	3,962,789
Tenant improvements	225,305	186,878
Furniture, fixtures and equipment	57,994	38,537
Developments in process	817,478	337,490
Total	6,112,779	5,609,424
Less: Accumulated depreciation	(586,719)	(470,591)
	$5,526,060	$5,138,833

4

DEFERRED CHARGES

Deferred charges consisted of the following at December 31:

	2000	1999
Leasing costs	$ 88,681	$ 69,530
Financing costs	51,453	33,954
	140,134	103,484
Less: Accumulated amortization	(62,815)	(49,751)
	$ 77,319	$ 53,733

5

INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

The investments in unconsolidated joint ventures consists of the following:

Entity	Property	% Ownership
One Freedom Square LLC	One Freedom Square	25% (1)
Square 407 LP	Market Square North	50%
The Metropolitan Square Associates LLC	Metropolitan Square	51%
BP 140 Kendrick Street LLC	140 Kendrick Street	25% (1)
BP/CRF 265 Franklin Street Holdings LLC	265 Franklin Street	35%
Discovery Square LLC	Discovery Square(2)	50%
BP/CRF 901 New York Avenue LLC	901 New York Avenue(3)	25% (1)
Two Freedom Square LLC	Two Freedom Square(2)	50%

(1) Ownership can increase based on certain return hurdles

(2) Property is currently under construction

(3) Land held for development

The combined summarized financial information of the unconsolidated joint ventures are as follows:

Balance Sheets

December 31,	2000	1999
Real estate and development in process, net	$640,688	$236,995
Other assets	30,919	10,473
Total assets	$671,607	$247 ,468
Mortgage and construction loans payable	$446,520	$164,185
Other liabilities	10,904	6,770
Partners' equity	214,183	76,513
Total liabilities and partners' equity	$671,607	$247 ,468
Company's share of equity	$ 89,871	$ 36,518

Statements of Operations(1)

Year ended December 31,	2000	1999
Total revenue	$42,754	$12,836
Total expenses	37,978	10,383
Net income	$ 4,776	$ 2,453
Company's share of net income	$ 1,758	$ 468

(1) There were no in-service joint ventures during the year ended December 31, 1998.

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MORTGAGE NOTES AND BONDS PAYABLE

The Company had outstanding mortgage notes and bonds payable totaling $3,414,891 and $2,955,584 as of December 31, 2000 and 1999, respectively, each collateralized by one or more buildings and related land included in real estate assets. The mortgage notes and bonds payable are generally due in monthly installments and mature at various dates through August 1, 2021.

Fixed rate mortgage notes and bonds payable totaled approximately $3,010,760 and $2,820,650 at December 31, 2000 and 1999, respectively, with interest rates ranging from 6.40% to 8.59% (averaging 7.21% and 7.06% at December 31, 2000 and 1999, respectively).

Variable rate mortgage notes payable (including construction loans payable) totaled approximately $404,131 and $134,934 at December 31, 2000 and 1999, respectively, with interest rates ranging from 1.00% above the London Interbank Offered Rate ("LIBOR") (6.56% and 5.82% at December 31, 2000 and 1999, respectively) to 2.00% above LIBOR.

At December 31, 2000, the Company had hedge contracts totaling $450.0 million. The hedging agreements provide for a fixed interest rate when LIBOR is less than 5.76% and when LIBOR is greater than 6.35 or 7.95% for terms remaining of two to four years per the individual agreements.

Mortgage notes payable aggregating approximately $190,492 and $207,132 at December 31, 2000 and 1999, respectively, are subject to periodic scheduled interest rate increases. Interest expense for these mortgage notes payable is computed using the effective interest method. Mortgage notes payable aggregating approximately $224,818 and $320,110 at December 31, 2000 and 1999, respectively, have been recorded at their fair value on the date the mortgage loans were assumed. The impact of using these accounting methods decreased interest expense by $3,579, $4,742 and $2,656 for the years ended December 31, 2000, 1999, and 1998, respectively. The cumulative liability related to these accounting methods was $9,642 and $13,575 at December 31, 2000 and 1999, respectively, and is included in mortgage notes and bonds payable.

Combined aggregate principal payments of mortgage notes and bonds payable at December 31, 2000 are as follows:

2001	$ 193,947
2002	306,223
2003	434,342
2004	134,964
2005	269,378
Thereafter	2,076,037

7

UNSECURED LINE OF CREDIT

As of December 31, 2000, the Company has an agreement for a $605,000 unsecured revolving credit facility (the "Unsecured Line of Credit") maturing in March 2003. Outstanding balances under the Unsecured Line of Credit currently bear interest at a floating rate based on an increase over Eurodollar from 105 to 170 basis points, depending upon the Company's applicable leverage ratio, or the lender's prime rate. The Unsecured Line of Credit requires monthly payments of interest only.

The outstanding balance of the Unsecured Line of Credit was $0 and $366,000 at December 31, 2000 and 1999, respectively. The weighted average balance outstanding was approximately $233,052 and $256,685 during the year ended December 31, 2000 and 1999, respectively. The weighted-average interest rate on amounts outstanding was approximately 7.65% and 6.50% during the year ended December 31, 2000 and 1999, respectively.

The Company's ability to borrow under the Unsecured Line of Credit is subject to the Company's ongoing compliance with a number of financial and other covenants, including, but not limited to, maintaining a certain ratio of secured indebtedness to total asset value, as defined.

8

COMMITMENTS AND CONTINGENCIES

Concentrations of Credit Risk

Management of the Company performs ongoing credit evaluations of tenants and may require tenants to provide some form of credit support such as corporate guarantees and/or other financial guarantees. Although the Company's properties are geographically diverse and the tenants operate in a variety of industries, to the extent the Company has a significant concentration of rental revenue from any single tenant, the inability of that tenant to make its lease payments could have an adverse effect on the Company.

Legal Matters

The Company is 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 the financial position, results of operations or liquidity of the Company.

Environmental Matters

Some of the Properties are located in urban and industrial areas where fill or current or historical industrial uses of the areas have caused site contamination. With respect to all of the Properties, independent environmental consultants have been retained in the past 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 on all of the Properties. These environmental assessments have not revealed any environmental conditions that the Company believes will have a material adverse effect on its business, assets or results of operations, and the Company is not aware of any other environmental condition with respect to any of the Properties which the Company believes would have such a material adverse effect.

On January 15, 1992, a property in Massachusetts was listed by the state regulatory authority as an unclassified Confirmed Disposal Site in connection with groundwater contamination. The Company engaged a specially licensed environmental consultant to perform the necessary investigation and assessment and to prepare submittals to the state regulatory authority. On August 1, 1997, such consultant submitted to the state regulatory authority a Phase I—Limited Site Investigation Report and Downgradient Property Status Opinion. This Opinion concluded that the property qualifies for Downgradient Property Status under the state regulatory program, which eliminates certain deadlines for conducting response actions at a site and may qualify the Company for liability relief under recent statutory amendments. Although the Company believes that the current or former owners of the upgradient source properties may ultimately be responsible for some or all of the costs of such response actions, the Company will take any necessary further response actions.

An investigation at an additional property in Massachusetts identified groundwater contamination. The Company engaged a specially licensed environmental consultant to perform the necessary investigation and assessment and to prepare submittals to the state regulatory authority. On March 11, 1998, the consultant submitted to the state regulatory authority a Release Notification and Downgradient Property Status Opinion. This Opinion concluded that the property qualifies for Downgradient Property Status under the state regulatory program, which eliminates certain deadlines for conducting response actions at a site and may qualify the Company for liability relief under recent statutory amendments. Although the Company believes that the current or former owners of the upgradient source properties may ultimately be responsible for some or all of the costs of such response actions, the Company will take any necessary further response actions.

In February 1999, an affiliate of the Company 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. The Company anticipates development of an office park on the property. Pursuant to the property acquisition agreement, Exxon has agreed to (1) bear the liability arising from releases or discharges of oil and hazardous substances which occurred at the site prior to the Company's ownership, (2) continue remediating such releases and discharges as necessary and appropriate to comply with applicable requirements, and (3) indemnify the purchaser for certain losses arising from preexisting site conditions, including up to $500,000 for the premium costs associated with construction-related management of contaminated soil not otherwise subject to remediation by Exxon. Any indemnity claim may be subject to various defenses. The affiliate has engaged a specially licensed environmental consultant to perform necessary pre-construction assessment activities and to oversee the management of contaminated soil that may be disturbed in the course of construction.

The Company expects that any resolution of the environmental matters relating to the above will not have a material impact on the financial position, results of operations or liquidity of the Company.

Development

The Company has entered into contracts for the construction and renovation of properties currently under development. Commitments under these arrangements totaled approximately $677,654 and $759,501 at December 31, 2000 and 1999, respectively.

Sale of Property

The Operating Partnership Agreement provides that, until June 23, 2007, the Operating Partnership may not sell or otherwise transfer four designated properties in a taxable transaction without the prior written consent of the Chairman and Chief Executive Officer. In connection with the acquisition or contribution of 31 other Properties, the Company entered into similar agreements for the benefit of the selling or contributing parties which specifically state the Company will not sell or otherwise transfer the Properties in a taxable transaction until a period ranging from June 2002 to November 2008. The Operating Partnership is not required to obtain the consent from a party protected thereby if such party does not continue to hold at least a specified percentage of such party's original OP Units.

9

MINORITY INTERESTS

Minority interests primarily relate to the interests of the Company in the Operating Partnership. As of December 31, 2000, the minority interest in the Operating Partnership consisted of 23,862,206 OP Units and 9,357,536 Preferred Units held by parties other than the Company.

On March 1, 2000, the Operating Partnership issued 577,817 OP Units valued at approximately $17.5 million in connection with the acquisition of three office properties at Carnegie Center in Princeton, New Jersey.

On June 19, 2000, the Operating Partnership issued 82,215 OP Units valued at approximately $3.0 million in connection with the acquisition of a land parcel in Chelmsford, Massachusetts.

On December 11, 2000, the Operating Partnership issued 650,876 Series Z Preferred Units of limited partnership of the Operating Partnership (the "Series Z Preferred Units"), valued at approximately $24.2 million, in connection with the acquisition of a 3.7-acre site known as the Plaza at Almaden in San Jose, California.

The Preferred Units at December 31, 2000 consist of 2,493,529 Series One Preferred Units of limited partnership in the Operating Partnership (the "Series One Preferred Units"), which bear a preferred distribution of 7.25% per annum on a liquidation preference of $34.00 per unit and are convertible into OP Units at a rate of $38.25 per Preferred Unit; 6,213,131 Series Two and Three Preferred Units of limited partnership in the Operating Partnership (the "Series Two and Three Preferred Units"), which bear a preferred distribution at an increasing rate, ranging from 5.00% to 7.00% per annum on a liquidation preference of $50.00 per unit and are convertible into OP Units at a rate of $38.10 per Preferred Unit; and 650,876 Series Z Preferred Units, which bear distributions at a rate ranging from zero to the distribution rate of an OP Unit, with a liquidation preference of $37.25 per unit and are convertible into OP Units at a rate equal to the greater of (1) one for one or (2) $37.25 divided by the fair market value of an OP Unit. Distributions to holders of Preferred Units are recognized on a straight-line basis that approximates the effective interest method.

10

REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

On August 22, 2000, the Company issued 439,059 unregistered shares of Common Stock for approximately $18.2 million, in connection with its acquisition of the remaining 50% interest in the development rights associated with the Prudential Center in Boston, Massachusetts.

On October 31, 2000, the Company completed a public offering of 17,110,000 shares of Common Stock at a price per share to the public of $39.0625 (including 2,110,000 shares issued as a result of the exercise of an overallotment option by the underwriters on November 2, 2000), resulting in net proceeds to the Company, net of underwriter's discount and offering costs, of approximately $633.8 million.

As of December 31, 2000, the Company had 86,630,089 shares of Common Stock and 2,000,000 shares of Series A Convertible Redeemable Preferred Stock (the "Preferred Stock") outstanding. The Preferred Stock bears a preferred dividend at an increasing rate, ranging from 5.00% to 7.00% per annum on a liquidation preference of $50.00 per share and are convertible into Common Stock at a rate of $38.10 per share. The preferred dividend is recognized on a straight-line basis that approximates the effective interest method. These shares of Preferred Stock are not classified as equity in certain instances as they are convertible into shares of Common Stock at the election of the holder after December 31, 2002 or are redeemable for cash at the election of the holder in six annual tranches commencing on May 12, 2009.

11

FUTURE MINIMUM RENTS

The Properties are leased to tenants under net operating leases with initial term expiration dates ranging from 2001 to 2029. The future minimum lease payments to be received (excluding operating expense reimbursements) by the Company as of December 31, 2000, under non-cancelable operating leases, are as follows:

Years Ending December 31,	(In thousands)
2001	$ 706,952
2002	696,506
2003	679,060
2004	623,224
2005	547,914
Thereafter	2,509,988

The geographic concentration of the future minimum lease payments to be received is detailed as follows:

Location	(In thousands)
Greater Boston	$1,243,948
Greater Washington, DC	1,532,001
New Jersey and Pennsylvania	382,014
Midtown Manhattan	1,651,524
Greater San Francisco	954,157

No one tenant represented more than 10.0% of the Company's total rental income for the years ended December 31, 2000, 1999 and 1998.

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SEGMENT REPORTING

The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting, which classifies its operations by both geographic area and property type. The Company's reportable segments by geographic area are: Greater Boston, Greater Washington, DC, Midtown Manhattan, Greater San Francisco, and New Jersey and Pennsylvania. Segments by property type include: Class A Office, R&D, Industrial, Hotel and Garage.

Asset information by reportable segment is not reported, since the Company does not use this measure to assess performance; therefore, the depreciation and amortization expenses are not allocated among segments. Development and management services revenue, interest and other revenue, general and administrative expenses and interest expense are not included in operating income, as the internal reporting addresses these on a corporate level.

Information by Geographic Area and Property Type:
For the year ended December 31, 2000:

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey and Pennsylvania	Total
Rental Revenue:						
Class A	$187,426	$212,512	$141,400	$182,657	$59,442	$783,437
R&D	5,912	19,846	—	1,851	—	27,609
Industrial	1,921	1,348	—	1,736	714	5,719
Hotels	38,703	—	—	—	—	38,703
Garage	3,474	—	—	—	—	3,474
Total	237,436	233,706	141,400	186,244	60,156	858,942
% of Grand Totals	27.64%	27.21%	16.46%	21.68%	7.01%	100.00%
Rental Expenses:						
Class A	66,688	56,078	47,537	62,940	18,255	251,498
R&D	2,315	3,498	—	334	—	6,147
Industrial	553	452	—	224	117	1,346
Hotels	4,694	—	—	—	—	4,694
Garage	1,016	—	—	—	—	1,016
Total	75,266	60,028	47,537	63,498	18,372	264,701
% of Grand Totals	28.43%	22.68%	17.96%	23.99%	6.94%	100.00%
Net Operating Income	$162,170	$173,678	$ 93,863	$122,746	$41,784	$594,241
% of Grand Totals	27.29%	29.23%	15.79%	20.66%	7.03%	100.00%

For the year ended December 31, 1999:

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey and Pennsylvania	Total
Rental Revenue:						
Class A	$159,661	$202,323	$136,814	$158,127	$41,852	$698,777
R&D	5,892	18,727	—	1,672	—	26,291
Industrial	1,671	1,433	—	1,220	675	4,999
Hotels	32,902	—	—	—	—	32,902
Garage	2,448	—	—	—	—	2,448
Total	202,574	222,483	136,814	161,019	42,527	765,417
% of Grand Totals	26.47%	29.06%	17.87%	21.04%	5.56%	100.00%
Rental Expenses:						
Class A	62,676	55,346	46,938	59,076	12,695	236,731
R&D	1,744	3,568	—	381	—	5,693
Industrial	506	450	—	215	83	1,254
Hotels	4,773	—	—	—	—	4,773
Garage	817	—	—	—	—	817
Total	70,516	59,364	46,938	59,672	12,778	249,268
% of Grand Totals	28.28%	23.82%	18.83%	23.94%	5.13%	100.00%
Net Operating Income	$132,058	$163,119	$ 89,876	$101,347	$29,749	$516,149
% of Grand Totals	25.59%	31.60%	17.41%	19.64%	5.76%	100.00%

For the year ended December 31, 1998:

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey and Pennsylvania	Total
Rental Revenue:						
Class A	$ 94,284	$169,882	$129,644	$18,914	$17,407	$430,131
R&D	5,955	17,121	—	1,502	—	24,578
Industrial	1,611	1,431	—	1,349	789	5,180
Hotels	25,944	—	—	—	—	25,944
Garage	1,744	—	—	—	—	1,744
Total	129,538	188,434	129,644	21,765	18,196	487,577
% of Grand Totals	26.57%	38.65%	26.59%	4.46%	3.73%	100.00%
Rental Expenses:						
Class A	36,591	45,156	44,787	7,099	5,663	139,296
R&D	1,808	3,644	—	395	—	5,847
Industrial	525	316	—	305	107	1,253
Hotels	3,562	—	—	—	—	3,562
Garage	532	—	—	—	—	532
Total	43,018	49,116	44,787	7,799	5,770	150,490
% of Grand Totals	28.59%	32.64%	29.76%	5.18%	3.83%	100.00%
Net Operating Income	$ 86,520	$139,318	$ 84,857	$13,966	$12,426	$337,087
% of Grand Totals	25.67%	41.33%	25.17%	4.14%	3.69%	100.00%

The following is a reconciliation of net operating income to income before minority interests and joint venture income:

	2000	1999	1998
Net operating income	$594,241	$516,149	$337,087
Add:			
Development and management services	11,837	14,708	12,411
Interest and other	8,574	6,439	13,859
Less:			
General and administrative	35,659	29,455	22,504
Interest expense	217,064	205,410	124,860
Depreciation and amortization	133,150	120,059	75,418
Income before minority interests and joint venture income	$228,779	$182,372	$140,575

13

GAIN ON SALE OF REAL ESTATE AND EXTRAORDINARY ITEMS

The Company realized a loss of $0.2 million (net of minority interest share of $0.1 million) for the year ended December 31, 2000 related to the sales of various properties. The Company realized a gain of $6.5 million (net of minority interest share of $2.2 million) for the year ended December 31, 1999 from the sale of a property.

The Company incurred an extraordinary loss of $0.3 million (net of minority interest share of $0.1 million) for the year ended December 31, 2000 from the write-off of unamortized deferred financing costs related to the early extinguishment of a mortgage note payable. The Company incurred an extraordinary loss of $5.5 million (net of minority interest share of $2.2 million) for the year ended December 31, 1998 primarily related to fees incurred in connection with the repayment of certain mortgage notes payable in connection with a property acquisition.

14

EARNINGS PER SHARE

Earnings per share is computed as follows:

	For the Year Ended December 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings Per Share:			
Income available to common shareholders	$146,426	71,424	$2.05
Effect of Dilutive Securities:			
Stock Options and other	—	1,317	(.04)
Diluted Earnings Per Share:			
Income available to common shareholders	$146,426	72,741	$2.01

	For the Year Ended December 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings Per Share:			
Income available to common shareholders	$113,947	66,235	$1.72
Effect of Dilutive Securities:			
Stock Options	—	541	(.01)
Diluted Earnings Per Share:			
Income available to common shareholders	$113,947	66,776	$1.71

	For the Year Ended December 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings Per Share:			
Income available to common shareholders	$93,112	60,776	$1.53
Effect of Dilutive Securities:			
Stock Options	—	532	(.01)
Diluted Earnings Per Share:			
Income available to common shareholders	$93,112	61,308	$1.52

15

EMPLOYEE BENEFIT PLAN

Effective January 1, 1985, the predecessor to the Company adopted a 401(k) Savings Plan (the "Plan") for its employees. Under the Plan, as amended, employees as defined, are eligible to participate in the Plan after they have completed three months of service. In addition, participants may elect to make an after-tax contribution of up to 10% of their wages. Upon formation, the Company adopted the Plan and the terms of the Plan.

In November 1999, the Company amended the Plan by increasing the Company's matching contribution to 200% of the first 3% from 200% of the first 2% of participant's pay contributed (utilizing pay that is not in excess of $100) and by eliminating the vesting requirement. The effective date of these changes was January 1, 2000.

The Plan provides that matching employer contributions are to be determined at the discretion of the Company. The Company's matching contribution for the years ended December 31, 2000, 1999 and 1998 was $1,702, $889 and $583, respectively.

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STOCK OPTION AND INCENTIVE PLAN

The Company has established a stock option and incentive plan for the purpose of attracting and retaining qualified executives and rewarding them for superior performance in achieving the Company's business goals and enhancing stockholder value.

Under the plan, the number of shares available for option grant is 14,699,162 shares plus, as of the first day of each calendar quarter after January 1, 2000, 9.5% of any net increase since the first day of the preceeding calendar quarter in the total number of shares of Common Stock outstanding, on a fully converted basis (excluding Preferred Stock). The strike price on the shares granted is equal to the market price of the Company's Common Stock on the grant date. Shares granted under this plan vest over three or five years. The term of each option is ten years from the date of grant.

During the year ended December 31, 2000, the Company issued 34,822 shares of restricted stock valued at approximately $1.0 million ($30.4375 per share). The restricted stock vests over a five-year period, with one-fifth of the shares vesting each year and has been recognized net of amortization as unearned compensation on the consolidated balance sheets. There was no restricted stock issued prior to 2000.

A summary of the status of the Company's stock options as of December 31, 2000, 1999 and 1998, and changes during the years ended December 31, 2000, 1999 and 1998, are presented below:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 1998	2,284,100	$25.00
Granted	3,621,663	34.13
Exercised	(1,034)	25.00
Canceled	(66,779)	31.61
Outstanding at December 31, 1998	5,837,950	$30.58
Granted	1,777,408	$33.20
Exercised	(24,023)	25.87
Canceled	(35,877)	33.38
Outstanding at December 31, 1999	7,555,458	$31.20
Granted	1,072,750	$30.60
Exercised	(511,281)	30.59
Canceled	(15,245)	33.20
Outstanding at December 31, 2000	8,101,682	$31.15

The per share weighted average fair value of options granted was $3.79, $3.98 and $5.49 for the years ended December 31, 2000, 1999, and 1998, respectively. The per share fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 2000, 1999 and 1998.

	2000	1999	1998
Dividend yield	6.90%	6.08%	4.80%
Expected life of option	6 Years	6 Years	6 Years
Risk-free interest rate	6.51%	5.07%	5.58%
Expected stock price volatility	20%	20%	20%

The Company applies Accounting Practice Bulletin 25 and related interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized.

The following table summarizes information about stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/00	Weighted Average Exercise Price
$25.00 – $36.81	8,101,682	7.47	$31.15	3,397,714	$32.11

The compensation cost under SFAS 123 for the stock performance-based plan would have been $11,993, $10,443 and $6,847 for the years ended December 31, 2000, 1999 and 1998, respectively. Had compensation cost for the Company's grants for stock-based compensation plans been determined consistent with SFAS 123, the Company's net income, and net income per common share for 2000, 1999 and 1998 would approximate the pro forma amounts below:

	2000	1999	1998
Net income	$134,433	$103,504	$86,265
Net income per common share — basic	$ 1.88	$ 1.56	$ 1.42
Net income per common share — diluted	$ 1.85	$ 1.55	$ 1.41

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to future anticipated awards.

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EMPLOYEE STOCK PURCHASE PLAN

The Company adopted the 1999 Non-Qualified Employee Stock Purchase Plan (the "Stock Purchase Plan") to encourage the ownership of Common Stock by eligible employees. The Stock Purchase Plan became effective on January 1, 1999 with an aggregate maximum of 250,000 shares of Common Stock available for issuance. The Stock Purchase Plan provides for eligible employees to purchase at the end of the biannual purchase periods shares of Common Stock for 85% of the average closing price during the valuation period, as defined. The Company issued 11,105 and 5,115 shares under the Stock Purchase Plan as of December 31, 2000 and 1999, respectively. No shares were issued in 1998.

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SELECTED INTERIM FINANCIAL INFORMATION (UNAUDITED)

	2000 Quarter Ended			
	March 31	June 30	September 30	December 31
Total revenue	$210,254	$217,259	$223,313	$228,527
Income before minority interest in Operating Partnership	50,172	56,419	58,404	64,610
Income before gain on sale	32,620	37,030	38,777	45,139
Net income available to common shareholders	30,977	35,684	36,530	43,235
Income before gain on sale per share — basic	.46	.52	.54	.54
Income before gain on sale per share — diluted	.45	.51	.53	.52

	1999 Quarter Ended			
	March 31	June 30	September 30	December 31
Total revenue	$187,640	$191,640	$202,137	$205,147
Income before minority interest in Operating Partnership	41,485	45,410	45,270	46,061
Income before gain on sale	25,773	28,905	29,022	29,609
Net income available to common shareholders	24,934	27,223	27,418	34,372
Income before gain on sale per share — basic	.39	.42	.40	.41
Income before gain on sale per share — diluted	.39	.41	.40	.41

Report of Independent Accountants

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NEWLY ISSUED ACCOUNTING STANDARD

As of January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137 and No. 138 ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments as assets or liabilities in the Company's consolidated balance sheets at fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the hedge accounting criteria in SFAS No. 133 are required to be reported in earnings. For derivatives designated as hedging instruments in qualifying cash flow hedges, the effective portion of changes in fair value of the derivatives are recognized in accumulated other comprehensive loss until the forecasted transactions occur and the ineffective portions are recognized in earnings.

The nature of the Company's derivatives includes investments in warrants to purchase shares of common stock of other companies and interest rate agreements to protect against changes in interest rates for variable rate debt. Based on the terms of the warrant agreements, the warrants meet the definition of a derivative and accordingly must be marked to fair value through earnings. The Company had been recording the warrants at fair value through other comprehensive loss as available for sale securities under SFAS No. 115. The Company estimates that upon adoption of SFAS No. 133, it will reclass approximately \$6.8 million, the fair value of the warrants, from accumulated other comprehensive loss to a cumulative effect of a change in accounting principle. The Company's interest rate protection agreements will be designated as hedging instruments in qualifying cash flow hedges. As such, the Company estimates that, upon adoption of SFAS No. 133, it will record an asset of approximately \$0.2 million and record a liability of approximately \$11.4 million for the fair values of these agreements. The offset for these entries will be to a cumulative effect of a change in accounting principle and accumulated other comprehensive loss, respectively. Finally, the Company estimates it will write-off deferred charges of approximately \$1.6 million as a cumulative effect of a change in accounting principle.

To the Board of Directors and Stockholders of Boston Properties, Inc.:

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Boston Properties, Inc. (the "Company") at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Boston, Massachusetts
January 24, 2001

Directors and Officers

Directors

Mortimer B. Zuckerman
Chairman of the Board

Edward H. Linde
President and Chief Executive Officer
Director of the Company

Alan B. Landis
Director of the Company
Chief Executive Officer of The Landis Group

Alan J. Patricof
Director of the Company
Chairman of the Board of Directors
of Patricof & Co. Ventures, Inc.

Richard E. Salomon
Director of the Company
President of Mecox Ventures

Ivan G. Seidenberg
Director of the Company
President and Co-Chief Executive Officer
of Verizon Communications

Martin Turchin
Director of the Company
Vice Chairman of Insignia/ESG, Inc.

Executive Officers

Robert E. Burke
Executive Vice President
for Operations

Raymond A. Ritchey
Executive Vice President,
Head of the Washington, D.C. Office
and National Director of Acquisitions
and Development

Douglas T. Linde
Senior Vice President
and Chief Financial Officer

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Senior Vice President
and Manager of the Boston Office

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and Manager of the New York Office

E. Mitchell Norville
Senior Vice President
and Manager of the
Washington, D.C. Office

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Manager of the Princeton Office

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and Regional General Counsel
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c/o EquiServe
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Boston Properties is an
Equal Opportunity Employer.

Investor Relations
Investor inquiries may be directed to Boston Properties' Investor Relations at the Company's corporate headquarters or by calling 617-236-3300. You may also email us at: investor_relations@bostonproperties.com or visit our website at www.bostonproperties.com.

SEC Form 10-K
A copy of the Company's annual report on Form 10-K filed with the Securities and Exchange Commission may be obtained from the Company free of charge by calling Investor Relations at 617-236-3300.

Stock Listing
The common stock of Boston Properties, Inc. is traded on the New York Stock Exchange under the symbol BXP. The high and low closing sales prices and distributions for the periods indicated in the table below were:

Quarter Ended	High	Low	Distribution
March 31, 2000	$32.38	$29.81	$0.45
June 30, 2000	$37.13	$31.25	$0.53
September 30, 2000	$43.25	$37.56	$0.53
December 31, 2000	$44.75	$38.88	$0.53(1)

(1) Paid on January 29, 2001 to stockholders of record on December 29, 2000.

Quarter Ended	High	Low	Distribution
March 31, 1999	$34.69	$30.31	$0.425
June 30, 1999	$37.13	$31.25	$0.425
September 30, 1999	$35.63	$30.31	$0.450
December 31, 1999	$31.13	$27.50	$0.450(1)

(1) Paid on January 28, 2000 to stockholders of record on December 30, 1999.

Annual Meeting of Shareholders
The annual meeting of shareholders of Boston Properties, Inc. will be held May 2, 2001 at 11:00 a.m. at 599 Lexington Avenue, New York, NY.

Dividend Reinvestment and Stock Purchase Plan
The Company's Dividend Reinvestment and Stock Purchase Plan provides stock and unit holders with an opportunity to conveniently and economically acquire Boston Properties common stock. Stock and unit holders may have all or a portion of their dividends and distributions automatically reinvested, and may make optional cash payments toward the purchase of additional common shares. Information regarding the Plan may be obtained from the Company or from Boston Properties' transfer agent who administers the Plan:

Fleet National Bank
c/o EquiServe
P.O. Box 43010
Providence, RI 02940-3010
888-485-2389
Internet Address: http://www.equiserve.com

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